Millstream Mines Ltd.

CONDENSED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

Management's Responsibility for Financial Reporting

The condensed financial statements are the responsibility of the management of Millstream Mines Ltd. and have been prepared in accordance with International Financial Reporting Standards.

Management is responsible for the reliability and integrity of the financial statements, the notes to the financial statements and other financial information presented elsewhere in this annual report.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable cost effective assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and for review and approving the financial statements. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board.

The Audit Committee meets periodically with management and the auditors to satisfy itself that each is properly discharging its responsibilities, to review significant accounting and reporting matters and to review the financial statements. The Audit Committee reports its findings and recommends the approval of the consolidated financial statements to the Board.

The financial statements have been audited on behalf of the shareholders by the independent auditor, ND LLP, in accordance with Canadian Generally Accepted Auditing Standards.

Ernest Harrison
Chief Executive Officer and President
Millstream Mines Ltd.
January 9, 2014

Independent Auditor's Report
To the Shareholders of Millstream Mines Ltd.

ND LLP

We have audited the accompanying condensed financial statements of Millstream Mines Ltd., which comprise of the condensed statement of operations and net loss, the condensed statement of financial position as of August 31, 2014, the condensed statements of changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters
The condensed financial statements of Millstream Mines Ltd. for the period ended August 31, 2013 were audited by another auditor who issued an unqualified opinion on December 29, 2013. We have not audited those statements and prior year figures are shown for comparative purposes only.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Millstream Mines Ltd. as at August 31, 2014 and its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

ND LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
January 9, 2015

Millstream Mines Ltd.

Condensed Statement of Operations and Net Loss
For the Year Ended August 31, 2014
(Expressed in Canadian dollars unless otherwise indicated)

	Twelve months ended August 31, 2014	Twelve months ended August 31, 2013
Results from operating activities		
Professional fees	$ (42,168)	$ (12,945)
Interest expense	(40,222)	(35,295)
Shareholders information	(21,234)	(35,520)
Corporate services	(7,200)	(7,200)
Transfer agent fees	(7,194)	(2,728)
General and administrative	(2,605)	(3,820)
Rent and occupancy expenses	(1,200)	-
Impairment of mining claims and deferred		-
exploration expenditures (Note 4)	(1,235,116)	-
Loss before income taxes	(1,356,939)	(97,508)
Future income tax provision (recovery) (Note 9)	(340,000)	(25,000)
Net loss	(1,016,939)	(72,508)
Net loss per share (basic and fully diluted)	$ (0.03)	$ (0.00)
Weighted average number of shares outstanding	30,763,196	78,741,701

The accompanying notes are an integral part of these condensed financial statements

Millstream Mines Ltd.

Condensed Statement of Financial Position
As at August 31, 2014
(Expressed in Canadian dollars unless otherwise indicated)

	August 31, 2014	August 31, 2013
Assets		
Current		
Cash	$ 1,700	$ 1,100
Sundry receivable	5,215	5,627
Prepaid expenses	11,576	16,076
	18,491	22,803
Mining claims and deferred exploration expenditures (Note 4)	12,732,917	13,966,033
Oil and natural gas interests (Note 5)	1	1
Future income taxes (Note 9)	168,000	-
	$12,919,409	$13,988,837
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 114,988	$ 76,764
Due to related parties (Note 6)	1,271,202	1,189,915
	1,386,190	1,266,679
Long-term		
Due to related parties (Note 7)	2,874,764	2,874,764
Future income taxes (Note 9)	-	172,000
	4,260,954	4,313,443
Shareholders' Equity		
Capital stock (Note 10)	15,174,053	15,174,053
Contributed surplus	1,935,097	1,935,097
Retained earnings (Deficit)	(8,450,695)	(7,433,756)
	8,658,455	9,675,394
	$12,919,409	$13,988,837

Approved by the Board:

Director "Ernest Harrison"   Director "E.F. Martinello"

The accompanying notes are an integral part of these condensed financial statements

Millstream Mines Ltd.

Condensed Statement of Changes in Shareholders' Equity
For the Years Ended August 31, 2014
(Expressed in Canadian dollars unless otherwise indicated)

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at August 31, 2012	78,741,701	$15,174,053	$ 1,935,097	$ (7,361,248)	$9,747,9902
Total net loss for the year	-	-	-	(72,508)	(72,508)
Balance at August 31, 2013	78,741,701	$15,174,053	$1,935,097	$(7,433,756)	$9,675,394
1 for 5 share consolidation	(62,993,361)				
Total net loss for the year	-	-	-	(1,016,939)	(1,016,939)
Balance at August 31, 2014	15,748,340	$15,174,053	$1,935,097	$(8,450,695)	$8,658,455

The accompanying notes are an integral part of these condensed financial statements

Millstream Mines Ltd.

Condensed Statement of Cash Flows
For the Year Ended August 31, 2014
(Expressed in Canadian dollars unless otherwise indicated)

	Twelve months ended August 31, 2014	Twelve months ended August 31, 2013
Cash provided by (used in) operating activities:		
Operating Activities:		
Net income (loss)	$ (1,016,939)	$ (72,508)
Adjustments for items not affecting cash:		
Future income tax recovery	(340,000)	(25,000)
Impairment of mining claims and deferred exploration expenditures	1,235,116	-
	(121,823)	(97,508)
Changes in non-cash components of working capital:		
Sundry receivables	412	3,263
Prepaid expenses	4,500	(4,462)
Accounts payable and accrued liabilities	38,224	17,788
	(78,687)	(80,919)
Cash provided by (used in) financing activities:		
Due to related parties	81,287	107,337
	81,287	107,337
Cash provided by (used in) investing activities:		
Mining claims and deferred exploration expenditures	(2,000)	(27,927)
Net change in cash	600	(1,509)
Cash balance, beginning of year	1,100	2,609
Cash balance, end of year	$ 1,700	$ 1,100

The accompanying notes are an integral part of these condensed financial statements

1. BASIS OF PREPARATION

Statement of Compliance:
These condensed financial statements are prepared in accordance with International Accounting Standards (IAS) 34.

2. NATURE OF OPERATIONS AND GOING CONCERN

Millstream Mines Ltd. is engaged in the acquisition and exploration of mining properties. The exploration and development of mineral deposits involves significant financial risks. The success of the Company will be influenced by a number of factors, including exploration and extraction risks, regulatory issues, environmental regulations and other regulations.

For the year ended August 31, 2014, the Company recorded a net loss of $1,016,939 (2013 - $72,508). Management periodically seeks additional forms of financing through the issuance of shares and the exercise of share purchase options and warrants to continue its operations. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these financial statements.

Although management has taken steps to verify titles of the mining properties in which the Company has interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's property title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Mining Claims and Deferred Exploration Expenditures

Mining claims are carried at cost until they are brought into production at which time they are depleted on a unit-of-production basis.

Exploration expenditures relating to mining claims are deferred until the properties are brought into production at which time they are amortized on a unit-of-production basis.

The cost of claims abandoned or sold and the deferred exploration costs relating to claims abandoned or sold are charged to operations in the current year.

Administrative Expenses

Administrative expenses are charged to operations in the year incurred.

Oil and Gas Interests

The Company follows the successful efforts method of accounting for oil and gas interests whereby all costs relating to the acquisition, exploration and development of petroleum and natural gas reserves are capitalized until their economic status has been evaluated.

All costs of successful wells are amortized over their useful lives.

Impairment of Long-Lived Assets

The Company evaluates the future recoverability of its long-lived assets to determine if events or change in circumstances have transpired which indicate that the carrying value of assets may not be recovered. An impairment loss would be recognized when the net book value of such assets exceeds the estimated undiscounted future cash flows attributable to such assets.

Use of Estimates

The preparation of the Company's financial statements in accordance with IFRS requires management to make estimates that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions include those related to the determination as to whether costs are expenses or capitalized; the establishment of accounts payable and accrued liabilities; estimates to account for the abandonment of long-lived assets; impairment of mineral properties; the use of Black-Scholes option pricing valuation model to record the fair value ascribed to warrants and stock options; the valuation allowance for future income tax assets and liabilities; and determining whether contingent assets or liabilities exist. Actual results could differ from those estimates

Income Taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between financial statement values and tax values of assets and liabilities using enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

Stock Based Compensation

The Company uses the Black-Scholes to estimate the fair value of the options at the date of grant. For graded vested share options, IFRS 2 requires the use of the attribution method, which requires that the Company treat each installment as a separate share option grant with a different fair value.

Upon transition to IFRS, the Company provided for an estimate of the forfeiture rates determining the total share based compensation expense.

Flow-Through Shares

The Company will from time to time issue flow-through shares to finance a portion of its capital expenditure program. Pursuant to the terms of flow-through share agreements, the tax deductions associated with the expenditures are renounced to the subscribers. Accordingly, share capital will be reduced and a future tax liability will be recorded equal to the estimated amount of future income taxes payable by the Company as a result of the renunciations, when the renunciations are made.

Share issue costs

Share issue expenses are recorded as a charge to share capital in the year in which they are incurred.

Earnings per Share

Basic income per share is computed using the weighted average number of common shares outstanding during the period. Diluted income per share is computed using the weighted average number of common and potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options and warrants using the treasury stock method.

Foreign Currency Translation

The monetary assets and liabilities of the Company denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at the average exchange rate prevailing during the period. Exchange gains or losses are included in operations.

Segment Reporting

The Company operates principally in the Province of Ontario, Canada and in the State of Montana, U.S.A. in one industry segment.

Financial Instruments

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and due to related parties.

Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading, financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

The Company designates its cash as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

The Company had no "other comprehensive income or loss" transactions during the year ended August 31, 2014 and no opening or closing balances for accumulated other comprehensive income or loss.

Asset Retirement Obligations

The Company holds provisions for asset retirement obligations which include dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Asset retirement obligations are a normal consequence of mining and the majority of asset retirement obligations are incurred at the end of the life of a mine. Although the ultimate cost to be incurred is uncertain, the Company estimates the respective costs based on engineering studies using current restoration standards and techniques.

Estimated asset retirement obligation costs are provided for in the accounting period when the asset retirement obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs. Provision for asset retirement obligation costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are updated annually, unless significant changes are identified in the interim period, during the life of the operation to reflect known developments, such as revisions to cost estimates and to the estimated lives of operations, and are subject to formal review at regular intervals.

The initial closure provision together with other movements in the provisions for asset retirement obligation costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalized within property and equipment. These costs are then depreciated over the lives of the assets to which they relate.

The unwinding of the discount applied in establishing the net present value of provisions is charged to profit and loss in each accounting period. The amortization of the discount is shown as a financing cost.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each statement of financial position date and the cost is charged to profit and loss.

Accounting Standards Issued But Not Yet Applied

At the date of approval of these audited financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. Management anticipates that all of the relevant pronouncements will be adopted as an accounting policy for the first period beginning after the effective date of the pronouncement. Information on new standard, amendment and interpretation that is expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 – Financial instruments: classification and measurement

This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 has two measurement categories: amortized cost only in such instances that the entity is holding the financial asset to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, the financial asset must be measured at fair value through the statement of income. The new standard was also updated to include guidance on financial liabilities and de-recognition of financial instruments. The new standard is effective for years beginning on or after January 1, 2013. The Company has not yet considered the impact that this new standard will have on its financial statements.

(Expressed in Canadian dollars unless otherwise indicated)

4. MINING CLAIMS AND DEFERRED EXPLORATION EXPENDITURES

	Opening	Additions	Reductions	Impairment	Closing
Potter Mine, Ontario					
Acquisition	$4,586,890	$ --	$ --	$ --	$4,586,890
Exploration	6,495,374	1,000	--	--	6,496,374
Falconbridge Twp. Airport East Property, Ontario Exploration	1,157,116	--	--	(1,157,116)	-
Falconbridge Twp. Airport Property, Ontario Acquisition	78,000	--	--	(78,000)	-
Tamarack, Montana					
Acquisition	563,040	--	--	--	563,040
Exploration	1,085,613	1,000	--	--	1,086,613
	$13,966,033	$ 2,000	$ --	$(1,235,116)	$12,732,917

Potter Mine, Ontario

The Company holds 100% interest in the Potter Mine Property. An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation, the vendor of the property, but remains the sole director and chief executive officer of all of the companies with Harrison Group of Companies. The vendor retains a 2.5% net smelter return royalty on the property, which the company may purchase at any time for $3,000,000. A $1,600,000 promissory note was issued by the company to the vendor as part of the purchase consideration and remains outstanding to date. Subsequent to year end this promissory note was sold to a related party in return for a convertible promissory note.

On April 11, 2001, the Company sold a 10% net profit interest royalty in and to the Potter Mine Tailings property for $300,000 in cash. Net profits are determined quarterly and the final payment of net profits is due no later than 6 months after the end of the Project Operation's accounting year.

In August 2008 the Company had negotiated an agreement in principle to reacquire the 10% net profit interest ("NPI") in the Potter Mine Property Tailings that it had previously sold to a former director on April 11, 2001. Through this course of action the Company will further consolidate its mineral interests in its 100% owned Potter Mine Property.

The agreement contemplates the return of 5% or one half (1/2) of the 10% Potter tailings NPI through the issuance from its treasury of 750,000 common shares of the Company carrying a 12 month trading restriction. The remaining 5% or one half (1/2) of the 10% Potter tailings NPI is to be purchased by a private arms-length third party for the sum of CDN $150,000.

On May 21, 2008, an NI 43-101 technical report on the property was filed by the Company.

During 2008, the Company acquired a 100% interest in five mining claims contiguous to the Potter Property located in Munro Township, Ontario for $30,000 cash.

During 2009, the Company issued 750,000 common shares valued at $22,500 for an interest in the 10% net profit interest in the tailings pursuant to a settlement agreement.

On January 26, 2010, the Company paid $150,000 to plaintiffs pursuant to the terms of a settlement agreement finalized on March 31, 2010. This payment was in addition to the issuance of 750,000 common shares valued at $22,500 for an interest in the 10% net profit interest in the tailings described above.

In June 2011 the Company entered an agreement to purchase 100% legal and beneficial interest in two mining claims consisting of thirteen units in Munro Township for $13,000 cash and the issuance of 130,000 common shares. The shares were measured at their fair value at the agreement date ($0.05/share). Under the agreement, the vendor reserved a 2% NSR, as defined in industry practice, on all production from the said mining claims. The Company has the option, exercisable at any time, to purchase back half of the NSR (1%) from the vendor for the sum of $500,000 for each claim. The claims are contiguous to the Company's claims held at its Potter Property.

In June 2011 the Company entered a second agreement to purchase 100% legal and beneficial interest in two mining claims consisting of two units in Munro Township for $4,000 cash and reimbursement of $890 plus HST for a survey done on the claims. Under the agreement, the vendor reserved a 3% NSR, as defined in industry practice, on all production from the said mining claims. The Company has the option, exercisable at any time, to purchase back half of the NSR (1.5%) from the vendor for the sum of $500,000. The claims are contiguous to the Company's claims held at its Potter Property.

Falconbridge Twp. Airport Property

At August 31, 2014, the Company wrote down the value of acquisition costs relating to the Falconbridge Twp. Airport property, resulting from a review and prioritization of the Company's portfolio of mineral property assets.

Falconbridge Twp. Airport East Property

At August 31, 2014, the Company wrote down the value of deferred exploration costs relating to the Falconbridge Twp. Airport East property, resulting from a review and prioritization of the Company's portfolio of mineral property assets.

Tamarack, Montana

Pursuant to a Memorandum of Understanding dated April 19, 1998, the company acquired a 50.5% undivided interest in the Tamarack property for $161,500 US ($231,088 Cdn) located in the southwestern part of the state of Montana, U.S.A. The Company has agreed to supply further funding for planned exploration and exploitation and shall be entitled to 80% of all revenues until funding provided by the company has been recaptured and 50.5% thereafter. The Company continues to collect historical data of the property in addition to the exploration of the surface and the structural control (faults) to best establish drill targets.

Management is of the opinion that the property potential is in finding a high-grade gold - low tonnage per day mine since the milling capacity is already on the site. Funding to advance the property towards production remains to be raised at this time.

In October 2006, the company negotiated a 50% ownership in the Uncle Sam Gold Mine, located in the southwestern part of the State of Montana, U.S.A. The company's interest is fully vested based on the consideration that it has completed a substantial amount of development work and exploration expenditures on the property in the past.

In May 2007, the Company entered into an agreement with its partner to purchase the remaining 49.5% interest. In exchange for $300,000 US ($331,950 CDN), the Company acquired 100% ownership of the property. The ex-partner will retain a 0.5% NSR on the gold output alone, which the Company has a right to purchase for $400,000 US.

On July 14, 2008 an NI 43-101 Technical Report on the property was filed by the Company.

On September 24, 2012, the Company finalized the negotiating and signing of a memorandum of understanding ("MOU") with an unlisted public company (hereinafter called the "UPC") for the formation of a joint venture partnership on the property.

The essential terms contained in the agreement are:

It is agreed and understood by the parties that the plan is to up-grade the property's existing 60 tons per day ("tpd") plant facilities, infrastructure, underground workings and resource definition drilling so that the project has the capacity to process mill throughput of up to 300 tpd. Also, as part of this agreement, the UPC has issued three (3) million treasury shares to the Company. Further:

- The Company has assigned a 49% undivided working interest in the Tamarack to the UPC. The Company is to be the operator/manager;
- The UPC to maintain its 49% interest must supply US$4.01 million for the agreed planned upgrade to the Company (or as directed by the Company);
- The UPC is to deliver the US$4.01 million in a timely manner through progress tranches not to exceed 12 months from the execution date of this agreement;

(Expressed in Canadian dollars unless otherwise indicated)

- Any shortfall of the total US$4.1 million is subject to an interest dilution at 1% per each US$100,000 (or any part thereof);

- Any dilution of the UPC working interest to 10% or less will be automatically converted to a 10% net profit interest in the property forfeiting to the Company a 100% undivided working interest;

- The UPC must deliver US$200,000 of the US$4.1 million on or before the end of the second completed month of being listed on the Frankfurt Exchange or another recognized exchange. Subject to the failure to obtain exchange listing within two (2) months after executing the MOU, or failure to deliver the US$200,000 as stipulated, the Company can terminate this agreement rendering it as annulled. The result being the UPC forfeits any and all monies paid and shares issued to the Company prior to the date of termination.

5. OIL AND GAS INTERESTS

The Company holds a 6.25% interest in a non-producing well in Canadian County, Oklahoma, U.S.A. with royalty interests not exceeding 25%. The well is recorded on the books of the Company at the nominal value of $1.

6. DUE TO RELATED PARTIES – SHORT TERM

	August 31, 2014	August 31, 2013
Advances from Harrison Group of Companies, due on demand, unsecured and non-interest bearing.	$561,320	$561,320
Demand loan from 607638 Ontario Limited, a company related by virtue of common management, due on demand, unsecured and bears interest at 6% per annum compounded monthly.	304,218	286,545
Promissory note payable to an officer of the Company, due on demand, unsecured and bears interest at 6% per annum compounded monthly.	51,453	179,674
Promissory note payable to Patrick Harrison Global Investments Limited, a company owned by an officer of the Company, unsecured and bears interest at 6% per annum compounded monthly.	296,679	108,186
Promissory note payable to Kenartha Oil and Gas Company Limited, a company related by virtue of common management, due on demand, unsecured and bears interest 6% per annum compounded monthly.	27,384	25,794
Promissory note payable to a company owned by an officer of the Company, due on demand, unsecured and bears interest at 6% per annum compounded monthly.	30,148	28,396
	$1,271,202	$1,189,915

(Expressed in Canadian dollars unless otherwise indicated)

7. DUE TO RELATED PARTIES – LONG TERM

An officer of the Company controlling and directing the controlling block of shares in the Company is also the sole director and chief executive officer of the entities within The Harrison Group of Companies.

	August 31, 2014	August 31, 2013
Harrison Mining & Engineering Corp.		
a) demand loan	$1,274,764	$1,274,764
b) promissory note (principal)	1,600,000	1,600,000
	$2,874,764	$2,874,764

a) An officer of the company controlling and directing the control block of shares in the company has divested his declared minority 10% interest in Harrison Mining and Engineering Corporation but remains the sole director and chief executive office of the Harrison Group of Companies.

b) This promissory note bears interest at the rate of the Toronto Dominion Bank prime plus 1% per annum, compounded annually, and due on April 3, 2000, provided that a commercial production decision has been announced on or before that date. In consideration of permitting Ernest Harrison to continue to actively control and be the driving force of the company, Harrison Mining & Engineering Corp. has waived the accumulated interest charges to date, and for a further period extending to April 3, 2014 at which time the repayment terms of this note will be revisited.

Subsequent to year end, the demand loan and promissory note were sold to related parties. The instruments were sold at face value, and in return the Company issued convertible debt.

8. RELATED PARTY TRANSACTIONS

During the year the Company was invoiced $1,200 (2013 - $NIL) rent to an entity within the Harrison Group. These transactions occurred in the normal course of operations and are recorded at the exchange amount agreed upon by the two parties.

(Expressed in Canadian dollars unless otherwise indicated)

9. INCOME TAXES

A reconciliation comparing income taxes calculated at the statutory rates to the amount provided in the accompanying statements is as follows:

	2014	2013
Combined federal and provincial income tax rates	25%	25%
Net loss before income taxes	$ (1,356,939)	$ (97,508)
Expected income taxes recovery	(339,000)	(24,000)
Flow-through exploration expenditures	-	-
Share issue costs	(1,000)	(1,000)
Future income tax recovery	$ (340,000)	$ (25,000)

The significant components of the Company's future income taxes at August 31, 2014 are as follows:

	August 31, 2014	August 31,2013
Future income tax assets (liabilities)		
Mining claims and deferred exploration expenditures	$ (3,487,000)	$ (3,487,000)
Canadian exploration expense	578,000	578,000
Canadian development expense	1,245,000	1,245,000
Foreign exploration and development expense	841,000	841,000
Foreign resource expense	272,000	272,000
Losses carried forward	714,000	374,000
Share issue costs	5,000	5,000
	$ 168,000	$ (172,000)

Future income taxes

The Company has approximately $1,609,000 of tax loss carry-forwards which may be applied to reduce taxable income of future years. These losses expire as follows:

2015	$47,000
2026	89,000
2027	260,000
2028	186,000
2029	261,000
2030	132,000
2031	256,000
2032	164,000
2033	97,000
2034	1,357,000
	$ 2,849,000

(Expressed in Canadian dollars unless otherwise indicated)

10. CAPITAL STOCK

By articles of amendment dated November 20, 2013 the Company's common shares were consolidated on a 1 for 5 basis.

Stock based compensation
In accordance with the Company's stock option plan, options have an exercise price equal to the market price at the date of grant.

A summary of the status of the Company's stock option plan as of August 31, 2014 and 2013 and changes during the period then ended are as follows:

	Number of Options	2014 Weighted Average Exercise Price	Number of Options	2013 Weighted Average Exercise Price
Outstanding, beginning of year	750,000	$0.10	1,500,000	$0.12
Expired during the year	-	-	(750,000)	(0.14)
Outstanding, end of year	750,000	$0.10	750,000	$0.10

At August 31, 2014 the following stock options were outstanding:

Options	**Price**	**Expiry**
750,000	0.10	December 15, 2015

(Expressed in Canadian dollars unless otherwise indicated)

11. CAPITAL MANAGEMENT

The Company's capital is substantially represented by its cash resources and share capital. Capital is impacted by operating expenses (fixed and variable) and the ability of the Company to raise funds through equity markets and other means.

The Company's principle source of capital is from the issuance of common shares. The Company's capital management objective is to obtain sufficient capital to meet operational cash flow needs and to develop new business opportunities for the benefit of its stakeholders. To meet the objectives, management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses additional capital requirements on specific business opportunities.

The Company has a working capital deficit of $1,367,699 as at August 31, 2014. Management estimates that additional equity funding will be required to allow the Company to complete anticipated exploration programs and for new business opportunities.

The Company is not subject to any externally imposed capital requirements.

	August 31, 2014	August 31, 2013
Working capital deficit	$(1,367,699)	$(1,243,876)
Deficit	(8,450,695)	(7,433,756)

12. FINANCIAL INSTRUMENTS

Credit risk

The Company's cash and cash equivalents are held in Canadian and U.S. financial institutions. The Company does not have any asset-backed commercial paper in its cash and cash equivalents.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash and cash equivalents is limited because they are generally held to maturity.

Fair value

The Company's financial assets and liabilities consist of cash, accounts payable and accrued liabilities and due to related parties. The estimated fair values of cash, accounts payable and accrued liabilities and due to related parties approximate their respective carrying values due to the short period to maturity. The Company classifies its fair value measurements within a fair value hierarchy. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash is based on level 1 inputs of the fair value hierarchy.

The following table illustrates the classification of the Company's financial instruments recorded at fair value within the fair value hierarchy as at August 31, 2014:

	Level 1 $	Level 2 $	Level 3 $	Total $
Cash	$1,700	$--	$--	$1,700

There were no financial instruments categorized in Level 2 or Level 3 for the year ended August 31, 2014.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company manages liquidity risk by ensuring that is has sufficient cash and other financial resources available to meet its short-term obligations. These requirements are met through a combination of cash flows from loans from related parties and accessing financing through private placements. The exposure of the Company to liquidity risk is considered to be minimal.

Foreign currency risk

The Company's functional currency is Canadian dollars at August 31, 2014 the Company is not exposed to currency risk.

Commodity price risk

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of commodities for which it is exploring. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.