



# **NEWPORT**

## **EXPLORATION LTD.**

**FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**JULY 31, 2014**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Newport Exploration Ltd.

We have audited the accompanying financial statements of Newport Exploration Ltd., which comprise the statements of financial position as at July 31, 2014 and 2013 and the statements of net income and comprehensive net income, cash flows and changes in shareholders' equity for the years 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.

### *Auditors' 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 audit 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 auditors' 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 auditors consider 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.



***Opinion***

In our opinion, these financial statements present fairly, in all material respects, the financial position of Newport Exploration Ltd. as at July 31, 2014 and 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

October 7, 2014

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT**  
(Expressed in Canadian Dollars)

|  | July 31,<br>2014     | July 31,<br>2013    |
|--|----------------------|---------------------|
| <b>ASSETS</b>                                    |                      |                     |
| <b>Current</b>                                   |                      |                     |
| Cash and equivalents                             | \$ 1,754,167         | \$ 1,452,666        |
| Receivables (Note 4)                             | 3,511,493            | 1,181,105           |
| Prepaid expenses                                 | -                    | 1,958               |
| Short-term investments                           | <u>16,001,512</u>    | <u>5,311,101</u>    |
|  | 21,267,172           | 7,946,830           |
| <b>Equipment</b> (Note 5)                        | 6,476                | 1,734               |
| <b>Exploration and evaluation asset</b> (Note 6) | <u>2,077,438</u>     | <u>335,012</u>      |
|  | <u>\$ 23,351,086</u> | <u>\$ 8,283,576</u> |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|   |                      |                     |
|---|----------------------|---------------------|
| <b>Current</b>                                    |                      |                     |
| Accounts payable and accrued liabilities (Note 8) | \$ 73,968            | \$ 24,711           |
| Income tax payable (Note 14)                      | <u>2,556,000</u>     | <u>-</u>            |
|   | <u>2,629,968</u>     | <u>24,711</u>       |
| <b>Shareholders' equity</b>                       |                      |                     |
| Capital stock (Note 9)                            | 44,761,493           | 42,343,096          |
| Reserves (Note 9)                                 | 1,420,100            | 1,173,038           |
| Deficit   | <u>(25,460,475)</u>  | <u>(35,257,269)</u> |
|   | <u>20,721,118</u>    | <u>8,258,865</u>    |
|   | <u>\$ 23,351,086</u> | <u>\$ 8,283,576</u> |

**Nature of operations** (Note 1)  
**Commitments** (Note 11)  
**Contingency** (Note 16)  
**Shareholder rights plan** (Note 17)  
**Subsequent events** (Note 18)

|                                   |          |   |          |
|-----------------------------------|----------|---|----------|
| <u>"Ian Rozier"</u><br>Ian Rozier | Director | <u>"Barbara Dunfield"</u><br>Barbara Dunfield | Director |
|-----------------------------------|----------|---|----------|

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF NET INCOME AND COMPREHENSIVE NET INCOME**  
**YEARS ENDED JULY 31**  
(Expressed in Canadian Dollars)

|  | 2014                | 2013                |
|--|---------------------|---------------------|
| <b>EXPENSES</b>  |                     |                     |
| Administration fees  | \$ 24,950           | \$ 16,525           |
| Amortization (Note 5)  | 470                 | 630                 |
| Consulting fees  | 186,000             | 206,500             |
| Directors' fees  | 35,000              | 20,000              |
| Foreign exchange (gain) loss                                 | (123,406)           | 116,345             |
| Management fees  | 137,500             | 120,000             |
| Office and miscellaneous                                     | 33,070              | 42,468              |
| Professional fees  | 228,314             | 41,018              |
| Property investigation costs                                 | 10,000              | -                   |
| Rent   | 72,600              | 72,600              |
| Shareholder communications                                   | 32,617              | 2,905               |
| Share-based payments (Note 9)                                | 253,397             | -                   |
| Transfer agent and filing fees                               | 30,132              | 15,479              |
| Travel and related costs                                     | <u>39,323</u>       | <u>16,003</u>       |
| <b>Loss from operations</b>                                  | <u>(959,967)</u>    | <u>(670,473)</u>    |
| <b>OTHER INCOME</b>  |                     |                     |
| Interest income  | 192,110             | 95,014              |
| Petroleum royalty (Note 7)                                   | <u>13,120,651</u>   | <u>2,719,542</u>    |
|  | <u>13,312,761</u>   | <u>2,814,556</u>    |
| <b>Net income before income taxes</b>                        | 12,352,794          | 2,144,083           |
| Income tax expense (Note 14)                                 | <u>(2,556,000)</u>  | <u>-</u>            |
| <b>Net income and comprehensive net income for the year</b>  | <u>\$ 9,796,794</u> | <u>\$ 2,144,083</u> |
| <b>Earnings per common share:</b>                            |                     |                     |
| Basic  | \$ 0.15             | \$ 0.04             |
| Diluted  | \$ 0.12             | \$ 0.04             |
| <b>Weighted average number of common shares outstanding:</b> |                     |                     |
| Basic  | 67,279,137          | 54,922,874          |
| Diluted  | <u>79,332,168</u>   | <u>54,922,874</u>   |

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31,**  
**(Expressed in Canadian Dollars)**

|   | 2014                    | 2013                    |
|---|-------------------------|-------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                         |                         |
| Net income for the year   | \$ 9,796,794            | \$ 2,144,083            |
| Items not affecting cash:                                       |                         |                         |
| Amortization  | 470                     | 630                     |
| Share-based payments  | 253,397                 | -                       |
| Accrued interest receivable on short-term investments           | (123,366)               | -                       |
| Change in non-cash working capital items:                       |                         |                         |
| Increase in receivables   | (2,330,388)             | (1,140,203)             |
| Decrease in prepaid expenses                                    | 1,958                   | 569                     |
| Increase (decrease) in accounts payable and accrued liabilities | 49,257                  | (1,099)                 |
| Increase in income tax payable                                  | <u>2,556,000</u>        | <u>-</u>                |
| Net cash provided by operating activities                       | <u>10,204,122</u>       | <u>1,003,980</u>        |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                         |                         |
| Expenditures on exploration and evaluation asset                | (1,524,986)             | (262,981)               |
| Mining tax credit recovery                                      | -                       | 21,330                  |
| Purchase of equipment   | (5,212)                 | -                       |
| Short-term investments  | <u>(10,567,045)</u>     | <u>(1,865,826)</u>      |
| Cash used in investing activities                               | <u>(12,097,243)</u>     | <u>(2,107,477)</u>      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                     |                         |                         |
| Proceeds from issuance of capital stock                         | 2,207,500               | -                       |
| Share issuance costs paid                                       | <u>(12,878)</u>         | <u>-</u>                |
| Cash provided by financing activities                           | <u>2,194,622</u>        | <u>-</u>                |
| <b>Change in cash and equivalents during the year</b>           | <b>301,501</b>          | <b>(1,103,497)</b>      |
| <b>Cash and equivalents, beginning of year</b>                  | <b><u>1,452,666</u></b> | <b><u>2,556,163</u></b> |
| <b>Cash and equivalents, end of year</b>                        | <b>\$ 1,754,167</b>     | <b>\$ 1,452,666</b>     |
| <b>Cash and equivalents consists of:</b>                        |                         |                         |
| Cash  | \$ 752,289              | \$ 459,455              |
| Guaranteed Investment Certificates                              | <u>1,001,878</u>        | <u>993,211</u>          |
|   | <u>\$ 1,754,167</u>     | <u>\$ 1,452,666</u>     |

**Supplemental disclosure with respect to cash flows (Note 12)**

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

**NEWPORT EXPLORATION LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian Dollars)

|   | <u>Capital Stock</u> |               |                 |                  |                  |
|---|----------------------|---------------|-----------------|------------------|------------------|
|   | <u>Number</u>        | <u>Amount</u> | <u>Reserves</u> | <u>Deficit</u>   | <u>Total</u>     |
| <b>Balance at July 31, 2012</b>                           | 54,922,874           | \$ 42,343,096 | \$ 1,173,038    | \$ (37,401,352)  | \$ 6,114,782     |
| Net income for the year                                   | -                    | -             | -               | <u>2,144,083</u> | <u>2,144,083</u> |
| <b>Balance at July 31, 2013</b>                           | 54,922,874           | 42,343,096    | 1,173,038       | (35,257,269)     | 8,258,865        |
| Shares issued for cash                                    | 20,150,000           | 2,207,500     | -               | -                | 2,207,500        |
| Share issuance costs                                      | -                    | (12,878)      | -               | -                | (12,878)         |
| Reallocation of reserves on the exercise of options       | -                    | 6,335         | (6,335)         | -                | -                |
| Common shares issued for exploration and evaluation asset | 5,436,000            | 217,440       | -               | -                | 217,440          |
| Net income for the year                                   | -                    | -             | -               | 9,796,794        | 9,796,794        |
| Share-based payments                                      | -                    | -             | <u>253,397</u>  | -                | <u>253,397</u>   |
| <b>Balance at July 31, 2014</b>                           | 80,508,874           | \$ 44,761,493 | \$ 1,420,100    | \$ (25,460,475)  | \$ 20,721,118    |

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

## **1. NATURE OF OPERATIONS**

Newport Exploration Ltd. (the “Company”) was incorporated on September 19, 1979 under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its exploration and evaluation assets. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation assets contain ore reserves. Additionally, the Company has no ability to determine the quantum or sustainability of future royalty payments, and as a result, there is no assurance the Company will continue to receive its 2.5% gross overriding petroleum royalty. The receipts of royalty payments are not indicative of additional near-term income or any future income as the Company has no such information to support or validate the expectation of future receipt. Any such future royalty receipts are treated as fortuitous.

The Company’s head office and principal address is 408 – 837 West Hastings Street, Vancouver, British Columbia, Canada, V6C 3N6. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

These financial statements were authorized for issue on October 7, 2014 by the directors of the Company.

### ***Basis of preparation***

These financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information. These financial statements are presented in Canadian dollars unless otherwise noted.

### ***Critical accounting estimates, judgments and assumption***

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.
- ii) The inputs used in calculating the fair value for share-based payments expense included in profit or loss and stock-based share issuance costs included in shareholders’ equity. The share-based payments expense is estimated using the Black-Scholes options-pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of highly subjective assumptions, including the expected price volatility of the Company’s common shares, the expected life of the options, and the estimated forfeiture rate.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

*Critical accounting estimates, judgments and assumption (cont'd...)*

- iii) The valuation of shares issued in non-cash transactions. Generally, the valuation of non-cash transactions is based on the value of the goods or services received. When this cannot be determined, it is based on the fair value of the non-cash consideration. When non-cash transactions are entered into with employees and those providing similar services, the non-cash transactions are measured at the fair value of the consideration given up using market prices.
- iv) The recognition of deferred tax assets. The Company considers whether the realization of deferred tax assets is probable in determining whether or not to recognize these deferred tax assets.

*Cash and equivalents*

Cash and equivalents consist of cash and short-term investments with original maturity dates of less than ninety days or that are fully redeemable without penalty or loss of interest.

*Royalty income*

Royalty income is recognized upon sale by the licensee of royalty-bearing petroleum, when realization is considered probable, and collection is reasonably assured. The receipt of royalty payments is considered to be fortuitous, and as such these payments are not indicative of additional near-term income or any future income.

*Functional and presentation currency*

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar for the Company. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of net income and comprehensive net income in the year in which they arise.

*Short-term investments*

Short-term investments include Canadian guaranteed investment certificates with a major Canadian Banking Institution with original maturity dates greater than ninety days. These investments are stated at fair value.

*Exploration and evaluation expenditures*

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of net income and comprehensive net income.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

***Exploration and evaluation expenditures*** (cont'd...)

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

***Equipment***

Equipment is carried at cost. Amortization is recorded at the following annual rates:

|                        |                       |
|------------------------|-----------------------|
| Computer equipment     | 30% declining balance |
| Furniture and fixtures | 20% declining balance |

***Share-based payments***

The Company operates a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts of option reserves are transferred to capital stock.

***Income per share***

Basic income per share is calculated by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding in the year. For all periods presented, the income attributable to common shareholders equals the reported income attributable to owners of the Company. In calculating the diluted income per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

**Financial instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of net income and comprehensive net income.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

**Financial instruments (cont'd...)**

Financial assets (cont'd...)

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of net income and comprehensive net income.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of net income and comprehensive net income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of net income and comprehensive net income.

*Other financial liabilities*: This category includes amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and equivalents and short-term investments as fair value through profit or loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and income tax payable are classified as other financial liabilities.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

**Financial instruments (cont'd...)**

Financial liabilities (cont'd...)

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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.

See Note 15 for relevant disclosures.

***Impairment of assets***

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of net income and comprehensive net income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. A reversal of an impairment loss is recognized immediately in the statement of net income and comprehensive net income.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

***Income taxes***

Current income tax:

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

*Income taxes (cont'd...)*

Deferred tax:

Deferred tax is provided using the statement of financial position liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same taxation authority.

*Restoration and environmental obligations*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets, when those obligations result from the acquisition, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of net income and comprehensive net income.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
JULY 31, 2014

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**3. NEW AND FUTURE ACCOUNTING PRONOUNCEMENTS**

As of August 1, 2013, the Company adopted the following accounting policies:

- i) IFRS 10: New standard to establish principles for the presentation and preparation of IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement, effective for annual periods beginning on or after January 1, 2013;
- ii) IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9/ IAS 39: effective for annual periods on or after January 1, 2013; and
- iii) IFRS 13: New standard on the measurement and disclosure of fair value, effective for annual periods beginning on or after January 1, 2013.

There was no effect on the Company's financial statements as a result of adopting these standards.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements

- i) IFRS 7 (Amendment): Standard amended to clarify requirements for mandatory effective dates and transition disclosures, effective for annual periods beginning on or after January 1, 2015;
- ii) IFRS 9: New standard that replaced IAS 39 for classification and measurement of financial assets, effective for annual periods beginning on or after January 1, 2018;
- iii) IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014.

**4. RECEIVABLES**

Trade and other receivables are comprised of the following:

|                            | July 31,<br>2014 | July 31,<br>2013 |
|----------------------------|------------------|------------------|
| GST receivable             | \$ 8,556         | \$ 5,877         |
| Petroleum royalty (Note 7) | 3,498,148        | 1,174,795        |
| Interest income            | 4,789            | 433              |
| Total                      | \$ 3,511,493     | \$ 1,181,105     |

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**JULY 31, 2014**

**5. EQUIPMENT**

|  | Furniture and<br>fixtures | Computer<br>equipment | Total        |
|--|---------------------------|-----------------------|--------------|
| <b>Cost</b>                              |                           |                       |              |
| Balance, July 31, 2012 and July 31, 2013 | \$ 21,758                 | \$ 41,079             | \$ 62,837    |
| Additions                                | <u>-</u>                  | <u>5,212</u>          | <u>5,212</u> |
| Balance, July 31, 2014                   | \$ 21,758                 | \$ 46,291             | \$ 68,049    |
| <b>Accumulated amortization</b>          |                           |                       |              |
| Balance, July 31, 2012                   | \$ 21,075                 | \$ 39,398             | \$ 60,473    |
| Amortization                             | <u>182</u>                | <u>448</u>            | <u>630</u>   |
| Balance, July 31, 2013                   | 21,257                    | 39,846                | 61,103       |
| Amortization                             | <u>100</u>                | <u>370</u>            | <u>470</u>   |
| Balance, July 31, 2014                   | \$ 21,357                 | \$ 40,216             | \$ 61,573    |
| <b>Carrying amounts</b>                  |                           |                       |              |
| As at July 31, 2013                      | \$ 501                    | \$ 1,233              | \$ 1,734     |
| As at July 31, 2014                      | \$ 401                    | \$ 6,075              | \$ 6,476     |

**6. EXPLORATION AND EVALUATION ASSET**

During the year ended July 31, 2011, and amended in July 2012, the Company entered into an agreement with Reva Resources Corp. (“Reva”) to earn a 50% interest in Reva’s Chu Chua massive sulphide deposit (“Chu Chua”), located north of Kamloops, British Columbia. To earn the 50% interest, the Company was to carry out, and fund, the estimated \$1,070,000 work program on or before December 31, 2013. There are two separate 1% net smelter returns on Chu Chua to underlying parties. Two significant shareholders of Reva are directors of the Company. During the year ended July 31, 2011, the Company incurred \$37,642 in geological consulting expenditures. During the year ended July 31, 2012, the Company incurred \$70,811 in geological consulting expenditures and paid \$5,000 as a reclamation bond. Additionally, during the year ended July 31, 2012, the Company received a mining exploration tax credit of \$11,292. During the year ended July 31, 2013, the Company incurred \$4,181 of geological consulting expenditures and paid the sum of \$250,000 to Reva, acknowledged as a work program credit of \$500,000 towards the Company’s Chu Chua obligation. In addition, the Company received a mining exploration tax credit of \$21,330 during the year ended July 31, 2013.

During the year ended July 31, 2014, the Company acquired a 100% interest in Chu Chua. In consideration, the Company paid Reva \$1,500,000 and issued 5,436,000 common shares of the Company at a value of \$217,440. The 100% acquisition agreement supersedes and replaces the earlier 50% earn-in agreement and the Company was no longer required to complete the recommended \$1,070,000 work program on or before December 31, 2013. In addition, the Company incurred \$24,986 of geological consulting expenditures on Chu Chua during the year ended July 31, 2014.

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**7. PETROLEUM ROYALTY**

Under the terms of an agreement over the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company) in 2002, the Company retained a 2.5% gross overriding royalty interest on any hydrocarbons discovered on certain petroleum exploration licences in Australia. During the year ended July 31, 2014, the Company earned \$13,120,651 (2013 - \$2,719,542) of petroleum royalty income, of which the Company had \$3,498,148 (2013 - \$1,174,795) included in receivables as at July 31, 2014 (notified and received subsequent to July 31, 2014).

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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|                                  | July 31,<br>2014 | July 31,<br>2013 |
|----------------------------------|------------------|------------------|
| Trade payables                   | \$ 38,394        | \$ 289           |
| Due to related parties (Note 10) | 17,016           | 8,422            |
| Accrued liabilities              | 18,558           | 16,000           |
| Total                            | \$ 73,968        | \$ 24,711        |

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**9. CAPITAL STOCK AND RESERVES**

a) Authorized share capital

As at July 31, 2014, the authorized share capital of the Company is an unlimited number of common shares without par value.

Reserves relate to stock options and compensatory warrants that have been previously issued by the Company.

During the year ended July 31, 2014, the Company completed a non-brokered private placement and issued 20,000,000 units at a price of \$0.11 per unit for gross proceeds of \$2,200,000. Each unit consists of one common share and one share purchase warrant which entitles the holder to acquire one common share of the Company, at \$0.14, until March 7, 2019. Share issuance costs of \$12,878, relating to legal and filing fees, were incurred by the Company.

During the year ended July 31, 2014, the Company issued 5,436,000 common shares with a value of \$0.04 per share pursuant to the Chu Chua property agreement (Note 6). Shares are valued at the market price on the date of issuance.

During the year ended July 31, 2014, 150,000 stock options were exercised for gross proceeds of \$7,500.

b) Stock options

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to directors and employees to acquire up to 8,050,887 of the Company's issued and outstanding common shares. Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of Grant less any applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

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**9. CAPITAL STOCK AND RESERVES (cont'd...)**

b) Stock options (cont'd...)

Details of options outstanding as at July 31, 2014 are as follows:

| Number of Shares | Exercise Price | Expiry Date       |
|------------------|----------------|-------------------|
| 5,850,000        | \$0.05         | December 19, 2018 |

Stock option transactions are summarized as follows:

|                                 | Number of Options | Weighted Average Exercise Price |
|---------------------------------|-------------------|---------------------------------|
| Balance, July 31, 2012 and 2013 | 5,450,000         | \$ 0.10                         |
| Expired                         | (5,450,000)       | 0.10                            |
| Granted                         | 6,000,000         | 0.05                            |
| Exercised                       | (150,000)         | 0.05                            |
| Balance, July 31, 2014          | 5,850,000         | \$ 0.05                         |
| Number of options exercisable   | 5,850,000         | \$ 0.05                         |

c) Share-based payments

During the year ended July 31, 2014, the Company granted stock options to directors, officers and consultants to acquire up to 6,000,000 common shares with a grant date fair value of \$0.04 per option resulting in share-based payments expense of \$253,397, using the Black-Scholes option pricing model. No stock options were granted during the year ended July 31, 2013.

The Company applies the fair value method using the Black-Scholes option pricing model to account for stock options granted to directors, officers and consultants. The following assumptions were used to calculate the fair value of the stock options granted during the year:

|                          | 2014    |
|--------------------------|---------|
| Risk-free interest rate  | 1.88%   |
| Expected life of options | 5 years |
| Annualized volatility    | 124.82% |
| Dividend rate            | 0%      |
| Forfeiture rate          | 0%      |

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**9. CAPITAL STOCK AND RESERVES (cont'd...)**

d) Warrants

Details of warrants outstanding as at July 31, 2014 are as follows:

| Number<br>of Warrants | Exercise<br>Price | Expiry Date   |
|-----------------------|-------------------|---------------|
| 20,000,000            | \$0.14            | March 7, 2019 |

Warrant transactions are summarized as follows:

|                                 | Number<br>of Warrants | Exercise<br>Price |
|---------------------------------|-----------------------|-------------------|
| Balance, July 31, 2012 and 2013 | -                     | \$ -              |
| Issued                          | <u>20,000,000</u>     | <u>0.14</u>       |
| Balance, July 31, 2014          | <u>20,000,000</u>     | <u>\$ 0.14</u>    |

**10. RELATED PARTY TRANSACTIONS**

During the year ended July 31, 2014, the Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$180,000 (2013 - \$180,000) to a company controlled by a director of the Company.
- b) Paid or accrued management fees of \$137,500 (2013 - \$120,000) to a company controlled by a director of the Company.
- c) Paid or accrued rent of \$72,600 (2013 - \$72,600) to a company controlled by a director of the Company.
- d) Paid or accrued directors' fees of \$35,000 (2013 - \$20,000) to two directors of the Company.
- e) Paid or accrued professional fees of \$68,713 (2013 - \$9,303) to a legal firm of which an officer of the Company is a partner.
- f) Paid or accrued consulting fees of \$6,000 (2013 - \$24,000) to a company controlled by a director of the Company.
- g) Paid or accrued share issuance costs of \$1,878 (2013 - \$Nil) to a legal firm of which an officer of the Company is a partner.
- h) Recorded share-based payment expense of \$244,950 (2013 - \$nil) in conjunction with the granting of stock options to directors and officers of the Company.

As at July 31, 2014, accounts payable and accrued liabilities included \$17,016 (2013 - \$8,422) owing to directors of the Company and to a legal firm of which an officer of the Company is a partner.

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**10. RELATED PARTY TRANSACTIONS (Cont'd...)**

Key management personnel compensation disclosed above (including senior officers and directors of the Company):

|                      | July 31, 2014 | July 31, 2013 |
|----------------------|---------------|---------------|
| Short-term benefits  | \$ 317,500    | \$ 300,000    |
| Share-based payments | \$ 143,592    | \$ -          |

**11. COMMITMENTS**

- a) The Company leases office premises under an operating lease with a company controlled by a director. The lease provides for basic lease payments of \$6,050 per month to March 2015. The lease provides for basic lease payments as follows:

| 2015 | \$ | 48,400 |
|------|----|--------|
|------|----|--------|

- b) The Company entered into management and consulting contracts with companies having a director and an officer in common. The Company has agreed to pay the companies a combined total of \$27,500 per month. These contracts remain in force on a continuous basis. The contracts can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 36 months of service fees to the director's company and 36 months of service fees to the officer's company.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

|                            | July 31,<br>2014 | July 31,<br>2013 |
|----------------------------|------------------|------------------|
| Cash received for interest | \$ 68,612        | \$ 13,909        |
| Cash paid for income taxes | \$ -             | \$ -             |
| Cash paid for interest     | \$ -             | \$ -             |

During the year ended July 31, 2014, the Company issued 5,436,000 common shares valued at \$217,440 in conjunction with the purchase of Chu Chua.

There were no significant non-cash transactions for the year ended July 31, 2013.

**13. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of resource assets. The Company's mineral property is held in Canada and the Company's royalty portfolio is in Australia.

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**14. INCOME TAXES**

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying statements of comprehensive loss is provided below:

A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

|   | 2014          | 2013         |
|---|---------------|--------------|
| Net income before income taxes                          | \$ 12,352,794 | \$ 2,144,083 |
| Expected tax expense                                    | \$ 3,212,000  | \$ 543,000   |
| Change in statutory rate and other                      | 12,000        | (200,000)    |
| Non-deductible expenditures and non-taxable revenues    | 66,000        | -            |
| Change in unrecognized deductible temporary differences | (734,000)     | (343,000)    |
| Total income taxes                                      | \$ 2,556,000  | \$ -         |

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

|                                  | 2014          | 2013          | Expiry date range |
|----------------------------------|---------------|---------------|-------------------|
| Temporary differences:           |               |               |                   |
| Exploration and evaluation asset | \$ 1,242,000  | \$ 2,628,000  | No expiry         |
| Equipment                        | \$ 190,000    | \$ 255,000    | No expiry         |
| Allowable capital losses         | \$ 12,286,000 | \$ 12,286,000 | No expiry         |
| Share issuance costs             | \$ 10,000     | \$ 28,000     | 2034-2037         |
| Non-capital losses               | \$ -          | \$ 1,372,000  | 2015-2034         |

**15. FINANCIAL AND CAPITAL RISK MANAGEMENT**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The following is an analysis of the Company's financial instruments measured using the fair value hierarchy as at July 31, 2014 and 2013:

|                        | As at July 31, 2014 |         |         |
|------------------------|---------------------|---------|---------|
|                        | Level 1             | Level 2 | Level 3 |
| Cash and equivalents   | \$ 1,754,167        | \$ -    | \$ -    |
| Short-term investments | \$ 16,001,512       | \$ -    | \$ -    |
|                        | As at July 31, 2013 |         |         |
|                        | Level 1             | Level 2 | Level 3 |
| Cash and equivalents   | \$ 1,452,666        | \$ -    | \$ -    |
| Short-term investments | \$ 5,311,101        | \$ -    | \$ -    |

**15. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

**Financial risk factors**

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

*Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of the Company's royalty income. The royalty income comes from one company, and is typically received within 30 days after the quarter of production. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is remote due to the historical success of collecting receivables.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at July 31, 2014, the Company had a cash and equivalents balance of \$1,754,167 (2013 - \$1,452,666), receivables of \$3,511,493 (2013 - \$1,181,105) and short-term investments of \$16,001,512 (2013 - \$5,311,101) to settle current liabilities of \$2,629,968 (2013 - \$24,711). All of the Company's financial liabilities are subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect of a 1% change in interest rates is approximately \$160,000.

b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment which is denominated in Australian dollars. The effect of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$131,000. The Company does not currently hedge exchange risk. The majority of its transactions are denominated in Canadian dollars.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the amount of any possible petroleum royalty payment received and the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

**15. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

**Capital management**

The Company's objectives when managing capital is to pursue the exploration and evaluation of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company is currently not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**16. CONTINGENCY**

The Company has been served with a notice of civil claim brought under the B.C. Class Proceedings Act against the Company. The claim alleges that the Company failed to generally disclose a material change in its affairs relating to a royalty held by the Company on certain oil and gas properties in Australia. The Company believes that the claim is without merit, and intends to vigorously defend the claim.

**17. SHAREHOLDER RIGHTS PLAN**

On May 13, 2014, the TSX Venture Exchange accepted for filing the Company's adoption of a Rights Plan subject to shareholder approval at the 2014 Annual General Meeting. The plan is designed to encourage the fair treatment of shareholders in connection with any takeover bid made for the Company. Pursuant to the terms of the plan, any bids that meet certain criteria intended to protect the interest of all shareholders are deemed to be "Permitted Bids". In the event that a bid, other than a Permitted Bid is made, shareholders other than those involved in the take-over bid will be entitled to exercise rights to acquire common shares of the Company at a discount to the market price. The Rights Plan will remain in effect for one year from the date of shareholder approval.

**18. SUBSEQUENT EVENTS**

Subsequent to July 31, 2014, the Company:

- a) received approval from the TSX Venture Exchange for a normal course issuer bid for up to 4,025,444 shares of the Company over a period of one year commencing September 2, 2014, and will continue until the earlier of August 31, 2015 or the date by which the Company has acquired the maximum 4,025,444 shares; and
- b) was notified of, and received its, 2.5% gross overriding petroleum royalty income of \$3,498,148 for the fourth quarter of fiscal 2014.