



BARKERVILLE GOLD MINES LTD.

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(UNAUDITED)**

FOR THE THREE MONTH PERIODS ENDED MAY 31, 2015 AND 2014

Barkerville Gold Mines Ltd.

Unaudited Interim Condensed Consolidated Statement of Financial Position

As at,

	May 31, 2015	February 28, 2015
Assets		
Current Assets		
Cash	\$ 825,158	\$ 476,958
Amounts receivable (Note 6)	4,695,013	5,094,589
Prepaid expenses (Note 7)	507,800	165,981
Inventory (Note 8)	214,255	3,569,787
Total current assets	6,242,226	9,307,315
Reclamation deposits (Note 9)	3,395,800	3,395,800
Available for sale investments	1,380	2,760
Exploration and evaluation assets (Note 12)	17,878,375	17,799,347
Mineral properties and deferred development costs (Note 11)	1,151,970	1,151,970
Property, plant and equipment (Note 10)	8,221,365	8,040,064
Total assets	\$ 36,891,116	\$ 39,697,256
Liabilities		
Current liabilities		
Trade and other payables (Note 14)	\$ 1,823,444	\$ 9,993,337
Due to related parties (Note 18)	676,073	1,377,402
Lease payable (Note 28)	34,000	34,000
Provision for site reclamation and closure (Note 15)	4,061,997	4,101,997
Gold loan facility (Note 16)	19,475,826	19,823,396
Total current liabilities	26,071,340	35,330,132
Provision for site reclamation and closure (Note 15)	2,920,516	2,894,054
Lease payable (Note 28)	96,899	105,824
Deferred tax liability	213,000	229,000
Total liabilities	29,301,755	38,559,010
Shareholders' equity		
Share capital (Note 17)	127,594,366	126,810,456
Share-based payments reserve (Note 17)	24,814,417	24,814,417
Accumulated other comprehensive income (Note 17)	(17,940)	(16,560)
Accumulated deficit	(144,801,482)	(150,470,067)
Total shareholders' equity	7,589,361	1,138,246
Total liabilities and shareholders' equity	\$ 36,891,116	\$ 39,697,256

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Approved on behalf of the board:

"Thomas J. Obradovich"

Thomas J. Obradovich, Chief Executive Officer

"Greg Gibson"

Greg Gibson, Chairman

Barkerville Gold Mines Ltd.

Unaudited Interim Condensed Consolidated Statement of Income (Loss) and Other Comprehensive Income (Loss)

For the period ended May 31, 2015

	Three months ended	
	May 31, 2015	May 31, 2014
Revenue	\$ 12,816,208	\$ 2,664,237
Cost of sales and direct costs (Note 8)	(4,714,488)	(2,138,789)
Gross Profit	8,101,720	525,448
Mine operating expense (Note 20)	(725,675)	(1,721,214)
Mine operating income (loss)	7,376,045	(1,195,766)
Expenses:		
Exploration (Note 21)	242,307	1,016,252
Corporate administration (Note 22)	1,042,489	717,809
	1,284,796	1,734,061
Income (loss) from operations	6,091,249	(2,929,827)
Other income (expense):		
Finance expense (Note 23)	(1,203,327)	(1,233,029)
Change in fair value of derivative (Note 16)	603,883	1,325,678
Loss on gold sales	(68,929)	-
Gain on revaluation of liability to issue options (Note 18)	41,400	-
Sundry income	37,557	-
Loss on shares for debt	-	(57,390)
Gain on shares issued for penalty interest on gold loan facility (Note 17)	150,752	-
	(438,664)	35,259
Income (loss) before income taxes	5,652,585	(2,894,568)
Income tax recovery	16,000	51,000
Net income (loss) for the period	\$ 5,668,585	\$ (2,843,568)
Other comprehensive loss		
Change in fair value of available for sale investment	(1,380)	-
Total Comprehensive income (loss) for the period	\$ 5,667,205	\$ (2,843,568)
Income (loss) per common share, basic (Note 26)	\$ 0.04	\$ (0.02)
Income (loss) per common share, diluted (Note 26)	\$ 0.04	\$ (0.02)
Weighted average number of common shares outstanding, basic (Note 26)	129,322,023	120,817,295
Weighted average number of common shares outstanding, diluted (Note 26)	129,322,023	120,817,295

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Barkerville Gold Mines Ltd.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

As at May 31, 2015

	Outstanding Shares	Share Capital	Share-based payments reserve	Accumulated other comprehensive loss	Accumulated deficit	Total Shareholders' Equity
Balance at March 1, 2014	109,851,706	\$ 118,659,790	\$ 24,814,417	\$ (15,870)	\$ (129,162,213)	\$ 14,296,124
Loss for the period	-	-	-	-	(2,843,568)	(2,843,568)
Issue for shares pursuant to private placement	13,783,000	6,891,500	-	-	-	6,891,500
Share issuance costs	-	(298,224)	-	-	-	(298,224)
Issue of shares for debt settlement	3,000,000	1,557,390	-	-	-	1,557,390
Balance at May 31, 2014	126,634,706	\$ 126,810,456	\$ 24,814,417	\$ (15,870)	\$ (132,005,781)	\$ 19,603,222
Balance at March 1, 2015	126,634,706	\$ 126,810,456	\$ 24,814,417	\$ (16,560)	\$ (150,470,067)	\$ 1,138,246
Income for the period	-	-	-	-	5,668,585	5,668,585
Issue of shares for penalty interest on gold loan facility	3,015,039	783,910	-	-	-	783,910
Change in fair value of available for sale investment	-	-	-	(1,380)	-	(1,380)
Balance at May 31, 2015	129,649,745	\$ 127,594,366	\$ 24,814,417	\$ (17,940)	\$ (144,801,482)	\$ 7,589,361

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

Barkerville Gold Mines Ltd.

Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the period ended May 31, 2015

	Three months ended	
	May 31, 2015	May 31, 2014
Cash flows from (used in) operating activities		
Income (loss) for the period	\$ 5,668,585	\$ (2,843,568)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	210,102	309,984
Change in fair value of derivative component of gold loan facility	(603,883)	(1,325,678)
Accretion expense - debt	1,190,975	1,171,680
Accretion expense - provision for site reclamation and closure	26,462	26,500
Loss on settlement of gold contingency	68,929	-
Gain on revaluation of liability to issue options	(41,400)	-
Loss on shares for debt	-	57,390
Gain on shares issued for penalty interest on gold loan facility	(150,752)	-
Deferred tax recovery	(16,000)	(51,000)
Changes in non-cash working capital balances:		
Accounts receivable	330,647	(662,297)
Prepaid expenses	(341,819)	(268,780)
Trade and other payables	(6,250,643)	(2,343,549)
Inventory	3,362,605	822,119
Total cash inflows (outflows) from operating activities	<u>3,453,808</u>	<u>(5,107,199)</u>
Cash flows from (used in) investing activities		
Reclamation deposits	-	(665,000)
Acquisition of property, plant and equipment, net of disposals (Note 10)	(398,476)	(203,292)
Acquisition of mineral properties and deferred development costs	(1,919,250)	(382,335)
Acquisition of exploration and evaluation assets	(79,028)	(8,668)
Total cash (outflows) from investing activities	<u>(2,396,754)</u>	<u>(1,259,295)</u>
Cash flows from (used in) financing activities		
Amounts advanced by (paid to) related parties	(659,929)	(81,898)
Amounts used for site reclamation and closure	(40,000)	(19,380)
Finance lease	(8,925)	-
Issuance of share capital	-	6,593,276
Total cash (outflows) inflows from financing activities	<u>(708,854)</u>	<u>6,491,998</u>
Total increase in cash during the period	348,200	125,504
Cash and cash equivalents at the beginning of the period	476,958	352,275
Cash and cash equivalents at the end of the period	<u>\$ 825,158</u>	<u>\$ 477,779</u>

See Note 27 for a description of non-cash amounts not included in the consolidated statement of cash flows.

The accompanying notes form an integral part of these unaudited interim condensed consolidated financial statements.

1. CORPORATE INFORMATION

Barkerville Gold Mines Ltd. ("the Company") was incorporated on February 12, 1970 under the laws of the Province of British Columbia and is engaged in the production and sale of gold, and the exploration, development, and acquisition of mineral properties in British Columbia. The Company is listed on the TSX Venture Exchange, under the symbol BGM-V.

The address of the Company's corporate office and principal place of business is 11th floor 1111 Melville Street, Vancouver, British Columbia, Canada.

The Company obtained the required permits to mine Bonanza Ledge in December 2011. In July 2012, the Company obtained the required permits to mill Bonanza Ledge ore at the QR Mill and intends to obtain the required financing for the exploration of its Cariboo Gold Project. The Company commenced commercial production at Bonanza Ledge Mine in June 2014 and ceased mining operations in February 2015.

2. BASIS OF PREPARATION

a) Going Concern of Operations

These unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. At May 31, 2015, the Company had accumulated losses of \$144,801,482 (February 28, 2015: \$150,470,067). The Company had income of \$5,668,585 during the three month period ending May 31, 2015 (2014: loss of \$2,843,568) and had a working capital deficiency of \$19,829,114 at May 31, 2015 (February 28, 2015 deficiency of \$26,022,817). These conditions raise material uncertainty that may cast significant doubt as to the ability of the Company to continue operating as a going concern.

The Company requires additional financing to continue to be able to operate, retain rights to its properties and carry out exploration and development of its properties. Because of continuing operating losses and its excess of current liabilities over current assets, the Company's continuance as a going concern for the foreseeable future is dependent upon its ability to obtain adequate financing. It is not possible to predict whether financing efforts will be successful.

The Company is in the process of exploring its properties and has not yet determined whether these properties contain economically recoverable reserves. The continued operations of the Company and the amounts recoverable on these properties are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the financing to complete the necessary exploration and development of such property and upon attaining future profitable production or proceeds from disposition of the properties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

b) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

The unaudited interim condensed consolidated financial statements were authorized for issue by the Board of Directors on July 24, 2015.

2. BASIS OF PREPARATION (CONTINUED)

c) Basis of presentation

The notes herein include only significant transactions and events occurring since the Company's last fiscal year end and are not fully inclusive of all matters required to be disclosed in the annual audited consolidated financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with our most recent annual audited financial statements for the year ended February 28, 2015.

d) Basis of Measurement

The unaudited interim condensed consolidated financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative liabilities carried at fair value.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Recent accounting pronouncements

The Company did not adopt any new or amended standards for the year beginning March 1, 2015 that had a material impact on the unaudited interim condensed consolidated financial statements. The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended May 31, 2015.

(i) IFRS 15 Revenue Recognition

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue - Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on March 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

There are no additional standards not yet effective that would have an impact on the unaudited interim condensed consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

a) Provision for Site Reclamation and Closure

Provisions for Site Reclamation and Closure have been created based on management estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability as shown in Note 15. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of discount rate, contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual reclamation and closure costs will ultimately depend on future market prices for the costs which will reflect the market condition at the time the costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

b) Mineral Reserves and Mineral Resource Estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its mineral reserve and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mineral reserve or mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

c) Units of production depletion

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimate of future capital expenditure. Changes are accounted for prospectively.

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

d) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward only to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

e) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

f) Fair Value Measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumption that market participants act in their best economic interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

When the fair values of non-financial assets/CGUs need to be determined, e.g. when calculating fair value less cost to sell for impairment purposes, fair value is measured using valuation techniques including comparable calculations and discounted cash flow models. Further information about the judgments and estimates and assumptions impacting impairment testing is contained in Note 13.

g) Inventories

Net realizable value tests are performed at each reporting date and represent the estimated future sale price of the product the Company expects to realize when the product is sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Stockpiles are measured by estimating the number of tons added and removed from the stockpile, the number of contained gold ounces is based on assay data, and estimated recovery percentage is based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

5. CRITICAL ACCOUNTING JUDGMENTS

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the unaudited interim condensed consolidated financial statements.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

a) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

b) Commencement of Production

The Company assesses the stage of each mine under construction to determine when a mine moves into the production stage, being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when the production phases are considered to commence and all related amounts are reclassified from 'Mines under construction' to 'Producing mines' and 'Property, plant and equipment'. The principal criteria used includes, but is not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specification)
- Ability to sustain ongoing production of metal
- Ability to sustain ongoing profitable production

When a mine development / construction project moves into the production stage, the capitalization of certain mine development costs ceases. Costs are either regarded as forming part of the cost of inventory or expensed. However, any costs relating to mining asset additions or improvements, underground mine development or mineable reserve development are assessed to determine whether capitalization is appropriate. It is also at this point that depreciation / amortization commences.

c) Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

5. CRITICAL ACCOUNTING JUDGMENTS (CONTINUED)

d) Impairment of Property, Plant and Equipment, Mining Properties and Deferred Development Costs and Exploration and Evaluation Properties

Management considers both external and internal sources of information in determining if there are any indications that the Company's property, plant and equipment assets, mining properties and deferred development costs and exploration and evaluation assets are impaired. External sources of information management consider include the market, economic, and legal environment in which the Company operates. Internal sources of information management considers include the manner in which the property, plant and equipment, mining properties and deferred development costs are being used or are expected to be used, and indication of economic performance of the assets. Management has used its judgment to determine the appropriate allocation of assets to a specific cash generating unit (CGU), for which it was determined that there are two CGUs (individual mining locations). These locations are the lowest level for which cash inflows are largely independent of those from other assets/CGUs. Further information on assumptions and estimates used in the Company's impairment assessment are given in Note 13.

Exploration and Evaluation properties have not been included with other CGUs for assessment for impairment indicators.

If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available. The Company has determined that there are currently no indicators of impairment on its exploration and evaluation properties at May 31, 2015 (February 28, 2015: \$7,932,779, see note 11).

e) Embedded Derivatives and Hybrid Financial Instruments

Judgment is required in determining whether financial instruments are classified as debt or equity and whether instruments contain one or more embedded derivatives. The Company makes significant judgments in assessing whether instruments meet the definition of an equity instrument or financial liability and in determining whether a contract gives rise to one or more derivatives with economic characteristics distinct from the host contract. See Note 16.

6. AMOUNTS RECEIVABLE

The amounts receivable for the Company are comprised of the following:

	May 31, 2015	February 28, 2015
Trade receivables	\$ 4,608,873	\$ 4,381,629
Goods and services tax receivable	86,140	712,960
Total amounts receivable	<u>\$ 4,695,013</u>	<u>\$ 5,094,589</u>

7. PREPAID EXPENSES

The prepaid expenses for the Company are comprised of the following:

	May 31, 2015	February 28, 2015
Insurance	\$ 212,999	\$ 66,629
Rent	17,998	3,500
Other prepaid amounts	276,803	95,852
Total prepaid expenses	<u>\$ 507,800</u>	<u>\$ 165,981</u>

Barkerville Gold Mines Ltd.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three month periods ended May 31, 2015 and 2014

8. INVENTORY, COST OF SALES AND DIRECT COSTS

The inventory for the Company is comprised of the following:

	May 31, 2015	February 28, 2015
Consumables	\$ -	\$ 43,599
Stockpiled ore	-	2,479,765
Finished goods	214,255	1,046,423
Total inventory	\$ 214,255	\$ 3,569,787

There have been no write-downs of the carrying value of inventory during the period (May 31, 2014: \$nil).

The cost of sales and direct costs included in profit and loss is comprised of the following:

	May 31, 2015	May 31, 2014
Mining and processing costs	\$ 1,237,851	\$ 1,329,453
Depreciation	121,105	220,321
Change in inventory	3,355,532	589,015
Cost of Sales and Direct Costs	\$ 4,714,488	\$ 2,138,789

9. RECLAMATION DEPOSITS

The Company is required to make reclamation deposits in respect of its expected site reclamation and closure obligations. The reclamation deposits represent collateral for possible reclamation activities necessary on mineral properties in connection with the permits required for exploration activities by the Company.

In December 2011, the Company received a M-238 Permit from the British Columbia Provincial Government to develop an open pit gold mine at the Bonanza Ledge section of the Cariboo Gold Project. As at May 31, 2015, the Company had total deposits of \$1,000,000 (February 28, 2015: \$1,000,000) for this property. Under the terms of the permit the Company is further required to deposit additional reclamation bonds of \$10,800,000 (February 28, 2015: \$10,800,000) to total \$11,800,000 to the government as follows:

- (i) Deposit \$4,400,000 on or before December 30, 2014 (not paid);
- (ii) Deposit \$1,500,000 on or before September 30, 2015 ;
- (iii) Deposit \$1,500,000 on or before September 30, 2016 ;
- (iv) Deposit \$1,400,000 on or before September 30, 2017;
- (v) If the underground bulkhead is not fully constructed by September 30, 2015, the Company shall post an additional \$2,000,000.

During the year ended February 28, 2015, the Company commenced construction and mining operations as pursuant to the December 2011 permit. In February 2015, the Bonanza Ledge section of the project was placed on care and maintenance.

9. RECLAMATION DEPOSITS (CONTINUED)

In July 2012, the Company received an amendment to the M-198 Permit from the British Columbia Provincial Government to mill Bonanza Ledge and Dome Mountain ores at the Quesnel River Mine and Mill facility. As at May 31, 2015, the Company had a total deposit of \$2,052,300 plus pledged equipment of \$807,700 (February 28, 2015: deposit of \$2,052,300 plus pledged equipment of \$807,700) for this permit. Subject to certain conditions, the Company is required to deposit additional reclamation bonds of \$7,390,000 for a total \$10,250,000 as follows:

- (i) \$1,750,000 within 30 days of the start of milling (not paid);
- (ii) \$1,500,000 on or before September 30, 2012 (not paid);
- (iii) \$4,140,000 on or before December 15, 2012 (not paid).

The \$1,500,000 can be waived once the tailings dam elevation has reached 1029.3 meters and an independent report there on is obtained meeting the satisfaction of the Government of British Columbia. During the year ended February 28, 2014, the Company raised the tailings dam to the required elevation however it has not yet completed the report or received the waiver.

The \$4,140,000 can be waived if the Company has commenced work on the tailings dam seepage, the work is ongoing and an independent report there on is obtained meeting the satisfaction of the Government of British Columbia. As at May 31, 2015 and February 28, 2015 the Company has not yet completed the report or received the waiver. No provision is included as at May 31, 2015 and February 28, 2015 as the Company is currently negotiating the amounts and terms and expects to obtain the waivers.

Other bonds of \$343,500 have been paid in respect of properties included in exploration and evaluation asset at May 31, 2015 (February 28, 2015: \$343,500).

	As at May 31, 2015		As at February 28, 2015	
Open Pit	\$	1,000,000	\$	1,000,000
Mill Bonanza Ledge		2,052,300		2,052,300
Other bonds		343,500		343,500
Total	\$	3,395,800	\$	3,395,800

Barkerville Gold Mines Ltd.

NOTES TO THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the three month periods ended May 31, 2015 and 2014

10. PROPERTY, PLANT AND EQUIPMENT

	Mine Plant & Equipment		Office furniture & equipment		Total
Cost:					
Balance at March 1, 2014	\$	17,775,642	\$	724,938	\$ 18,500,580
Additions		369,300		127,690	496,990
Disposal		(3,402)		-	(3,402)
Balance at February 28, 2015		18,141,540		852,628	18,994,168
Additions		401,864		-	401,864
Disposals		-		(3,388)	(3,388)
Balance at May 31, 2015	\$	18,543,404	\$	849,240	\$ 19,392,644
Depreciation and impairment losses					
Balance at March 1, 2014	\$	6,425,584	\$	455,778	\$ 6,881,362
Depreciation		1,129,735		76,154	1,205,889
Disposal		(2,692)		-	(2,692)
Impairment		2,869,545		-	2,869,545
Balance at February 28, 2015		10,422,172		531,932	10,954,104
Depreciation		201,310		15,865	217,175
Balance at May 31, 2015	\$	10,623,482	\$	547,797	\$ 11,171,279
Net Book Value					
At March 1, 2014	\$	11,350,058	\$	269,160	\$ 11,619,218
At February 28, 2015	\$	7,719,368	\$	320,696	\$ 8,040,064
At May 31, 2015	\$	7,919,922	\$	301,443	\$ 8,221,365

As at May 31, 2015, \$807,700 (February 28, 2015: \$807,700) worth of property, plant and equipment is pledged as collateral for the reclamation deposits (see Note 9). In addition, all property, plant and equipment are pledged as security for the gold loan facility (Note 16).

During the three month period ended May 31, 2015, the Company recognized \$217,175 (2014: \$309,984) of depreciation. \$121,105 (2014: \$220,321) of depreciation on its property, plant and equipment associated with the QR Mill was recorded in cost of sales and direct costs (Note 8). \$7,074 (2014: \$nil) of depreciation was allocated to inventory; \$33,580 (2014: \$53,656) in depreciation was recorded in mine operating expense, \$41,551 (2014: \$19,630) in exploration and \$13,866 (2014: \$16,377) in corporate administration.

During the year ended February 28, 2015, the Company decided to place Bonanza Ledge Mine under care and maintenance and as a result recorded \$2,869,545 of impairment for its mine plant & equipment (Year ended February 28, 2014: \$Nil). Refer to Note 13 for further details.

The Goldstream Mill is a custom mineral processing plant fully permitted in its current location and is presently on care and maintenance. The facility has a name-plated milling capacity of 1,360 tonnes per day and residue from such operations can be accommodated in the adjacent tailings pond and surrounding properties. No amortization has been charged during the period ended May 31, 2015 (2014: \$Nil). As at May 31, 2015, the carrying value of the Goldstream Mill is \$3,110,000 (February 28, 2015: \$3,110,000).

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11. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS

	Mineral properties	Deferred development costs	Total
Cost			
Balance at March 1, 2014	\$5,275,301	\$12,141,089	\$17,416,390
Additions for the year	-	3,350,368	3,350,368
Balance at February 28, 2015	5,275,301	15,491,457	20,766,758
Additions for the period	-	-	-
Balance at May 31, 2015	\$5,275,301	\$15,491,457	\$20,766,758
Depletion and impairment losses			
Balance at March 1, 2014	\$3,416,754	\$3,902,580	\$7,319,334
Depletion for the year	624,939	3,737,736	4,362,675
Impairment for the year	81,638	7,851,141	7,932,779
Balance at February 28, 2015	4,123,331	15,491,457	19,614,788
Depletion for the period	-	-	-
Balance at May 31, 2015	\$4,123,331	\$15,491,457	\$19,614,788
Carrying amounts			
At March 1, 2014	\$1,858,547	\$8,238,509	\$10,097,056
At February 28, 2015	\$1,151,970	-	\$1,151,970
At May 31, 2015	\$1,151,970	-	\$1,151,970

All mineral properties and deferred development costs are pledged as security on the Gold Loan Facility (Note 16).

Quesnel River Mine:

The Quesnel River Mine ("QR") is an underground mine located near Quesnel River in British Columbia. During the three month period ended May 31, 2015, the Company incurred \$Nil (2014: \$Nil) of deferred development costs. Deferred mine development costs are amortized over the Company's initial estimate of the life of mine (LOM), and transferred to income using the unit of production method.

The QR Mine site is subject to a 5% net operating profits royalty, a 1% net smelter return royalty (NSR), and a 2% net profit royalty. Should a deposit of one million proven recoverable ounces of gold be discovered on the property, the property is subject to a 50% back-in interest in return for reimbursing the Company for double the amount of expenditures incurred and by completing a bankable feasibility study.

As at May 31, 2015, the carrying value of the mineral property and deferred development costs for the Quesnel River Mine is \$nil (February 28, 2015: \$nil).

11. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS (CONTINUED)

Bonanza Ledge:

The Bonanza Ledge gold deposit is located on the southwest flank of Barkerville Mountain, within the Cariboo Gold Project, about 2 km northwest of the Barkerville Historic Town site. During fiscal 2010 the Company obtained a NI 43-101 compliant Technical report and Pre-Feasibility Study of the Bonanza Ledge deposit and accordingly, all costs associated with the acquisition of the project were transferred from Exploration & Evaluation assets to Mineral Properties, on March 1, 2010.

In December 2011 the Company received a M-238 Permit from the British Columbia provincial government to develop an open pit gold mine at the Bonanza Ledge section of the Cariboo Gold Project. During the year ended February 28, 2015, the Company commenced mining operations. In February 2015, the Bonanza Ledge section of the project was placed on care and maintenance.

During the three month period ended May 31, 2015, depletion of mineral resources and mine development costs of \$nil (2014: \$nil) was included in cost of sales and direct costs and \$nil (2014: \$233,104) was included in inventory. No depletion of mineral resources and mine development costs was incurred in the three month period ended May 31, 2015 as the Bonanza Ledge was on care and maintenance.

During the year ended February 28, 2015, the Company decided to put Bonanza Ledge under care and maintenance and as a result recorded impairment of \$7,932,779. As at May 31, 2015, the carrying value of Bonanza Ledge is \$1,151,970 (February 28, 2015: \$1,151,970).

12. EXPLORATION & EVALUATION ASSETS

	Wayside Property	Cariboo Gold Project	Bethlehem	Total
Cost				
Balance at March 1, 2014	\$1	\$17,642,046	\$138,177	\$17,780,224
Additions	-	19,123	-	19,123
Balance at February 28, 2015	1	17,661,169	138,177	17,799,347
Additions	-	79,028	-	79,028
Balance at May 31, 2015	\$1	\$17,740,197	\$138,177	\$17,878,375
Carrying amounts				
At March 1, 2014	\$1	\$17,642,046	\$138,177	\$17,780,224
At February 28, 2015	\$1	\$17,661,169	\$138,177	\$17,799,347
At May 31, 2015	\$1	\$17,740,197	\$138,177	\$17,878,375

Wayside property:

As at May 31, 2015 and February 28, 2015 the Company holds a 100% interest in the Wayside property, consisting of certain mineral claims and leases located in the Lillooet Mining Division, British Columbia. If the property commences commercial production, the Company will be required to issue shares equal in value to \$480,000 to the party from whom it was initially acquired.

12. EXPLORATION & EVALUATION ASSETS (CONTINUED)

Cariboo Gold Project:

The Company has an 100% interest in the mineral rights to 254 contiguous mineral tenures totaling 117,442 hectares in the Cariboo Mining District near Wells, British Columbia. The Company also pays taxes on 2,419 hectares of Crown Grant Mineral Claims which is contained within the 117,442 hectare Cariboo Gold Project claim group.

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated May 5, 2011, 412,500 common shares for \$660,000 and \$500,000 cash to acquire the Myrtle-Proserpine and the Promise properties within the Cariboo Gold Project. The Myrtle-Proserpine Property is subject to a 3% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 17, 2011, 100,000 common shares for \$153,000 to acquire the remaining 40% interest in the Craze Creek Property within the Cariboo Gold Project. This property is subject to a 3.5% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 18, 2011, 30,000 common shares for \$46,500 and \$10,000 cash to acquire the Antler Creek Property within the Cariboo Gold Project. This property is subject to a 1% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 26, 2011, 20,000 common shares for \$31,200 and \$26,000 cash to acquire the Roundtop Mountain Property within the Cariboo Gold Project. This property is subject to a 2% net smelter return royalty (NSR).

During the year ended February 28, 2014, the Company purchased a piece of land for \$40,000 in order to obtain the surface right for the mineral properties.

The Company's interest in the Cariboo Gold Project provides that if the Company can extract a bulk sample of not more than 40,000 tons from the Cariboo Gold Quartz property, a NSR royalty of 5% is payable. The 2003 agreement, as amended, also provides that the Company's interest in the Properties was subject to a further 3% NSR royalty and a collective 10% net profit interest. On January 20, 2011, the Company completed the acquisition of the collective 10% net profit interest royalty by issuing an aggregate of 250,000 shares at an issue price of \$1.34 per share. During the year ended February 29, 2012, the Company acquired the 3% NSR royalty and the remaining undivided 50% interest in the Cariboo Gold Quartz Property for consideration of \$5,000,000.

The Company is required to pay an annual advance royalty payment of \$50,000 commencing in 2010. The Company paid \$25,000 and \$225,000 was included in trade and other payables as at February 28, 2015. As at May 31, 2015, the Company accrued a further \$12,500 and the total payable included in trade and other payables as at May 31, 2015 amounts to \$237,500 (February 28, 2015: \$225,000).

Bethlehem:

On November 16, 2010 the Company completed the acquisition of all the issued and outstanding shares of Bethlehem Resources (1996) Corporation, a private B.C. company, from International Bethlehem Mining Corporation (IBMC). The asset purchase includes the Goldstream mill facility, tailings pond, and related mineral leases and claims which are located in the Revelstoke mining division, British Columbia. Certain mineral claims are subject to either a 25% net profit royalty, or a 2.5% net smelter return royalty and a 12.5 % net profit royalty, at the election of the holder of the royalty interest.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The recoverable amount is determined based on the greater of value in use (“VIU”) and fair value less costs to sell (“FVLCS”). The determination of the VIU requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. The determination of VIU and FVLCS for each CGU use Level 3 valuation techniques in both periods.

In assessing whether the carrying value of an asset or CGU is impaired, its carrying value is compared with its recoverable amount. Management has determined that there are three cash generating units at May 31, 2015 and February 28, 2015:

- a) QR Mill and Bonanza Ledge mine (“BL CGU”);
- b) Exploration and evaluation assets (“E&E CGU”); and
- c) Goldstream Mill.

a) QR Mill and Bonanza Ledge

Three months ended May 31, 2015:

The Company determined that no further impairment or indications for impairment existed for the QR Mill and Bonanza Ledge during the three month period ended May 31, 2015.

Year ended February 28, 2015:

During the year ended February 28, 2015, the Company decided to place the BL CGU under care and maintenance. This constituted an internal indicator of impairment. Immediately prior to the identification of the impairment indicator the BL CGU had a carrying amount of \$15,881,357. The carrying amount of the BL CGU was comprised as follows:

	Milling Plant & Equipment	Mineral Properties	Mine Development Costs	Total
Carrying Amount	\$ 6,796,608	\$ 1,233,608	\$ 7,851,141	\$ 15,881,357
Recoverable Amount	3,927,063	1,151,970	-	5,079,033
Impairment Loss	2,869,545	81,638	7,851,141	10,802,324
Impairment Reversals	-	-	-	-

As management has placed the BL CGU into care and maintenance the recoverable amount of the assets in the CGU have been calculated separately. The recoverable amount of the Mineral Properties and Mine Development Costs have been calculated using a level 3 fair value measurement, based on comparable market capitalizations for similar properties in North America.

The recoverable amount of the Milling Plant & Equipment was obtained using a professional valuator, using an orderly liquidation value. The recoverable amount for the Milling Plant & Equipment was \$3,927,063 (including 5% selling costs). Significant assumptions in this valuation include scrap metal prices.

As at February 28, 2015, the BL Mineral Properties and Mine Development Costs is recorded at a recoverable amount, determined as FVLCS, of \$1,151,970, and an impairment loss of \$7,932,779 was recorded for the year ended February 28, 2015. The recoverable amount of has been allocated to the Mineral Properties and mine development costs, as management has determined the current method of mining was not the method of mining required for profitable operations, and therefore does not have any future value. Accordingly, management recognized an impairment charge of \$7,851,141 through loss and other comprehensive loss with respect to deferred development costs at BL and \$81,638 on mineral property acquisition costs.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

Significant assumptions applied in the determination of the fair value less costs to sell model include a valuation of gold resources at BL at \$7.05 per ounce, total gold inventories at BL of 172,000 ounces, and an assumption of selling costs representing 5% of gross sale proceeds.

The determination of FVLCS of the Mineral Properties and Mine Development Costs is most sensitive to the following assumption:

Market price of gold per ounce: In calculating the FVLCS of the Mineral Property and Mine Development Costs, the market price of gold per ounce is a critical estimate. Management reviewed comparable companies with comparable gold inventories (quantity and grade) to determine an appropriate range of valuations between \$3.69 and \$8.45 per ounce.

The total impairment charge for the BL CGU for the year ended February 28, 2015 amounted to \$10,802,324, recognized in the statement of loss and other comprehensive loss.

b) Exploration and evaluation assets

The Company determined that there were no indicators of impairment pertaining to exploration and evaluation assets brought to account at May 31, 2015 and February 28, 2015 given all mining concessions and titles remain in good standing and management's plans for further exploration. Consequently, no impairment charge was recognized in the statement of loss and other comprehensive loss for the three month periods ended May 31, 2015 and 2014 or the year ended February 28, 2015.

c) Goldstream Mill

The Company determined that no further impairment or indications for impairment reversal existed for the Goldstream Mill during the three month period ended May 31, 2015 and the year ended February 28, 2015.

14. TRADE AND OTHER PAYABLES

The trade and other payables of the Company consist of the following:

	May 31, 2015	February 28, 2015
Trade payables	\$ 1,166,747	\$ 8,949,129
Payroll related liabilities	97,793	149,245
Royalty Payable	473,500	461,000
Other payables	85,404	433,963
Total trade and other payables	\$ 1,823,444	\$ 9,993,337

15. PROVISIONS FOR SITE RECLAMATION AND CLOSURE

Provincial laws and regulations concerning environmental protection affect the Company's exploration and operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from its activities and to perform site restoration and other closure activities. The Company's provision for future site closure and reclamation costs is based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company's determination of the environmental rehabilitation provision arising from its activities at the Cariboo Gold Project, Quesnel River Mine, Bethlehem Resources and Bonanza Ledge Mine at May 31, 2015 was \$6,982,513 (February 28, 2015: \$6,996,051). This estimate was based upon a May 31, 2015 undiscounted future cost of \$7,061,484 (February 28, 2015: \$7,061,484), an annual inflation rate of 1.98% and risk adjusted discount rate of 5.3%. The closure and reclamation expenditure is expected to be incurred in various stages up to 2017.

During the year ended February 28, 2014, certain work related to Cariboo Gold Project was completed and therefore the remaining provision of \$114,196 was reversed. There is substantial uncertainty related to the cost of implementation of the mitigation plan related to uncertainty about applicable water quality, the engineering scope and cost of mitigation required to meet the standards and responsibilities for the financial liability. As such, outcomes that are unfavorable could result in material additional liability.

The breakdown of the provision for site reclamation and closure is as per below:

Balance, March 1, 2014	\$	5,711,731
Addition		956,608
Accretion		381,043
Amount used		(53,331)
Balance, February 28, 2015	\$	<u>6,996,051</u>
Addition		-
Accretion		26,462
Amount used		(40,000)
Balance, May 31, 2015	\$	<u>6,982,513</u>
As at May 31, 2015		2015
Current portion	\$	<u>4,061,997</u>
Long term portion	\$	<u>2,920,516</u>
As at February 28, 2015		2015
Current portion	\$	<u>4,101,997</u>
Long term portion	\$	<u>2,894,054</u>

16. GOLD LOAN FACILITY

a) Gold loan facility

By agreement dated October 8, 2013 and amended January 31, 2014, the Company entered into a \$15,000,000 gold loan facility (the "Facility") with 2176423 Ontario Limited (the "Lender"). The amendment was not considered to be substantially different from the original facility, and all changes have been reflected in the amortized cost.

The Facility is guaranteed by the Company, and all subsidiaries, and secured by first ranking security over all of the Company's present and future assets and a pledge of the shares of the Company's subsidiaries (the "Security"). The Gold Loan Facility is subject to a covenant to maintain working capital of not less than \$1,500,000 at all times commencing August 1, 2014.

The Facility is due and payable by way of three cash payments on each of July 31, 2014, May 31, 2015 and March 31, 2016 (each a "Repayment Date"). Each cash payment will be based on the notional value of 4,181.67 ounces of gold (being 12,545 ounces over the term of the Facility) as priced at the Bloomberg composite closing value of gold at 4 p.m. on the day prior to each repayment. If the gold price is less than US\$1,200 per ounce, then the Company's repayment amount shall be determined using a reference price of US\$1,200 per ounce. If the gold price is above US\$1,650 per ounce, then the Company's repayment amount shall be determined using a reference price of US\$1,650 per ounce. There is no requirement or option to deliver physical gold as a form of repayment under the terms of the Facility. The Company agreed to provide the Lender with a minimum rate of return equal to 10% per annum, which shall be calculated on the date which the Facility is fully repaid.

The Company may not voluntarily prepay the Facility at any time prior to maturity without the Lender's prior written consent. However, the Company may at any time prepay all or any part of the Facility using a reference price of US\$1,650 per ounce of gold.

In consideration for the advance of the Facility, the Company made a bonus payment to the Lender in the amount of 9,000,000 non-transferable share purchase warrants of the Company (each a "Bonus Warrant"). The Bonus Warrants are exercisable for a period of 30 months, and have an exercise price of \$0.89 per warrant ("Exercise Price"). In the event that the volume weighted average trading price of the Company's common shares on the TSX-V is at a 50% premium to the Exercise price, the Company may require the Lender to exercise \$5,000,000 worth of the Bonus Warrants within 10 calendar days of the Company providing written notice to the Lender. The Company has calculated the Warrant Exercise Trigger price to be \$1.33 per common share.

The Company also paid the Lender a \$150,000 structuring fee together with legal and other out-of-pocket expenses of \$173,602 incurred in connection with the Facility. A third party finder's fee of \$300,000 was paid, and 360,000 non-transferable finder's warrants (each a "Finder's Warrant") were issued by the Company. The Company may require the holder of the Finder's Warrants to exercise 50% of the Finder's Warrants within 10 days of the Company providing notice.

The Company considers the Facility a financial instrument comprised of a host loan with embedded derivatives. On inception, the fair value of the embedded derivatives were determined to be \$4,612,257 with the residual of the proceeds received less transaction costs allocated as the fair value of the host loan. On October 24, 2014 the exercise price was set and the warrants met the definition of equity. As a result, \$4,175,700 allocated to the warrant liability was reclassified to equity. The host loan was subsequently measured at amortized cost with an effective interest rate of 40% per annum. The embedded derivatives are measured at fair value with any fair value changes recognized through profit or loss.

On July 31, 2014, the Company missed the first scheduled repayment, and the Company incurred penalty interest on the missed scheduled repayment of \$1,103,956 in the period to February 28, 2015.

The Company settled penalty interest of \$934,662 with the Lender through the issuance of 3,015,039 shares in the Company on March 10, 2015 (see note 17).

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16. GOLD LOAN FACILITY (CONTINUED)

As a result of missing the first scheduled repayment, the Company received on July 31, 2014 the first of five waivers from the lender waiving any and all events of default and, ultimately, extending the repayment date for the initial installment ultimately to April 30, 2015. The remedy to the defaults did not amend the contractual provisions of the facility, other than delay the scheduled repayment date. The notional amount of the repayment remains at 4,181.67 ounces. The delay to the scheduled repayments did not result in a significant modification of the expected cash flows of the facility, and has not been accounted for as a debt extinguishment.

The Company missed the extended repayment date on the first installment of April 30, 2015 and also missed the second scheduled repayment due on May 31, 2015. Subsequent to the period ended May 31, 2015, the Company settled the debt outstanding under the Gold Loan Facility through the issuance of an aggregate of 74,885,900 common shares (see note 29 for details).

For the three month period ended May 31, 2015, the Company has recorded an interest charge of \$688,173 (2014: \$1,171,680) related to the host loan, a penalty interest charge of \$502,802 related to the first missed payment on July 31, 2014 (2014: \$Nil) and a gain of \$603,883 (2014: gain of \$1,325,678) for the change in fair value of the embedded derivatives. By agreement, the interest on delayed payment is calculated by multiplying the dollar amount of the gold equivalent deliverable at the time by 2.5% per annum.

As at May 31, 2015, the Facility is presented as follows:

Accreted principal, net of transaction costs	Principal	Embedded Derivatives	Transaction Costs	Total
March 1, 2014	\$ 16,536,670	\$ (4,502,092)	\$ (608,707)	\$ 11,425,871
Interest expense	6,055,868	-	-	6,055,868
February 28, 2015	\$ 22,592,538	\$ (4,502,092)	\$ (608,707)	\$ 17,481,739
Interest expense	1,190,975	-	-	1,190,975
Settlement of penalty interest (Note 17)	(934,662)	-	-	(934,662)
May 31, 2015	\$ 22,848,851	\$ (4,502,092)	\$ (608,707)	\$ 17,738,052

Derivative liabilities (assets)	Warrants To be Issued	Forward Contracts	Repayment Collar	Total
March 1, 2014	\$ -	\$ 1,172,247	\$ 354,631	\$ 1,526,878
Unrealized (gain)/loss	-	606,154	208,625	814,779
February 28, 2015	\$ -	\$ 1,778,401	\$ 563,256	\$ 2,341,657
Unrealized (gain)/loss	-	(463,344)	(140,539)	(603,883)
May 31, 2015	\$ -	\$ 1,315,057	\$ 422,717	\$ 1,737,774

	May 31, 2015	February 28, 2015
Accreted principal, net of unamortized transaction costs	\$ 17,738,052	\$ 17,481,739
Embedded derivative liabilities (assets)	1,737,774	2,341,657
Gold loan liability	19,475,826	19,823,396
Current portion of gold loan	19,475,826	19,823,396
Long term portion of gold loan	\$ -	\$ -

As at May 31, 2015 the minimum contractual cash flows for the facility based on contractual maturity date of March 31, 2016 are \$20,183,674 (February 28, 2015: \$21,219,417). This reflects the delivery of a notional amount of 12,558 oz of gold based on forward gold prices, a put and call option, and outstanding penalty interest as at May 31, 2015.

17. EQUITY

Share Capital

a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at May 31, 2015, 129,649,745 (February 28, 2015: 126,634,706) common shares were outstanding.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the three month period ended May 31, 2015:

1. The Company completed the debt settlement of penalty interest relating to the gold loan (see note 16). Under the debt settlement, the Company issued an aggregate of 3,015,039 common shares with a fair value of \$783,910 (\$0.26 per share being the quoted market price on issuance date) for settlement of penalty interest payable totalling \$934,662 resulting in a gain on settlement of \$150,752 which was recognized in the condensed consolidated statement of income (loss) and other comprehensive income (loss).

During the year ended February 28, 2015:

2. The Company issued 13,783,000 shares at a price of \$0.50 per share for proceeds of \$6,891,500 under a private placement. The Company paid finder's fees of \$298,224 in relation to this private placement.
3. The Company completed a shares for debt settlement during the three month period ended May 31, 2014, where the Company issued 3,000,000 common shares of the Company with a fair value of \$1,557,390 (\$0.52 per share being the quoted market price on issuance date) for settlement of trade and other payables totalling \$1,500,000. Loss on settlement of \$57,390 was recognized in condensed consolidated statement of income (loss) and other comprehensive income (loss).

b) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with the Plan, the vesting of options is at the complete discretion of the Board other than in respect of any particular options granted to a service provider who is performing Investor Relations Activities, which will vest in stages over twelve months with no more than one quarter (1/4) of such option vesting in any three month period.

The following is a summary of changes in for the three month period ended May 31, 2015 and year ended February 28, 2015:

	Number of options	Weighted average exercise price per share
Balance, February 28, 2014	10,985,171	\$1.01
Forfeited/Expired	(5,213,512)	\$0.90
Balance, February 28, 2015	5,771,659	\$1.10
Forfeited/Expired	(240,000)	\$1.15
Balance, May 31, 2015	5,531,659	\$1.96

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17. EQUITY (CONTINUED)

Share Capital (continued)

b) Option Plan Details (continued)

A summary of the Company's options outstanding and exercisable at May 31, 2015 is presented as follows:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
27/09/2010	27/09/2015	\$ 1.16	195,947	-	-	(35,000)	160,947	160,947	0.33
26/11/2010	26/11/2015	\$ 1.42	448,261	-	-	(30,000)	418,261	418,261	0.49
01/04/2011	01/04/2016	\$ 1.22	213,956	-	-	(20,000)	193,956	193,956	0.84
20/06/2011	20/06/2016	\$ 1.66	295,790	-	-	(15,000)	280,790	280,790	1.06
22/07/2011	22/07/2016	\$ 1.66	503,705	-	-	(15,000)	488,705	488,705	1.15
12/08/2011	12/08/2016	\$ 1.52	317,500	-	-	-	317,500	317,500	1.20
01/02/2012	01/02/2017	\$ 0.89	1,779,000	-	-	(20,000)	1,759,000	1,759,000	1.68
29/06/2012	29/06/2017	\$ 1.21	240,000	-	-	(30,000)	210,000	210,000	2.08
23/10/2013	23/10/2018	\$ 0.87	1,777,500	-	-	(75,000)	1,702,500	1,702,500	3.40
			5,771,659	-	-	(240,000)	5,531,659	5,531,659	1.96

Subsequent to the period end, 407,500 options with weighted average exercise price of \$1.11 per share were forfeited unexercised.

On July 15, 2015, 9,631,161 options were granted to purchase common shares of the Company exercisable at a price of \$0.27 per share for a period of five years, to certain directors, officers, employees and consultants.

A summary of the Company's options outstanding and exercisable at February 28, 2015 is presented as follows:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
4/16/2009	4/16/2014	\$ 0.45	1,003,661	-	-	(1,003,661)	-	-	-
7/17/2009	7/17/2014	\$ 0.38	66,266	-	-	(66,266)	-	-	-
8/28/2009	8/28/2014	\$ 0.60	456,306	-	-	(456,306)	-	-	-
9/18/2009	9/18/2014	\$ 0.62	78,287	-	-	(78,287)	-	-	-
10/29/2009	10/29/2014	\$ 1.25	576,490	-	-	(576,490)	-	-	-
2/2/2010	2/2/2015	\$ 1.00	1,869,208	-	-	(1,869,208)	-	-	-
9/27/2010	9/27/2015	\$ 1.16	235,947	-	-	(40,000)	195,947	195,947	0.58
11/26/2010	11/26/2015	\$ 1.42	548,261	-	-	(100,000)	448,261	448,261	0.74
4/1/2011	4/1/2016	\$ 1.22	283,956	-	-	(70,000)	213,956	213,956	1.09
6/20/2011	6/20/2016	\$ 1.66	480,790	-	-	(185,000)	295,790	295,790	1.31
7/22/2011	7/22/2016	\$ 1.66	568,705	-	-	(65,000)	503,705	503,705	1.40
8/12/2011	8/12/2016	\$ 1.52	317,500	-	-	-	317,500	317,500	1.45
2/1/2012	2/1/2017	\$ 0.89	2,329,000	-	-	(550,000)	1,779,000	1,779,000	1.93
6/29/2012	6/29/2017	\$ 1.21	289,980	-	-	(49,980)	240,000	240,000	2.33
10/23/2013	10/23/2018	\$ 0.87	1,880,814	-	-	(103,314)	1,777,500	1,777,500	3.65
			10,985,171	-	-	(5,213,512)	5,771,659	5,771,659	2.20

17. EQUITY (CONTINUED)

Share Capital (continued)

c) Share Purchase Warrants

There were no changes in warrants from February 28, 2014 to May 31, 2015:

	Number of Warrants	Weighted average exercise price per warrant
Balance, February 28, 2014, February 28, 2015 and May 31, 2015	9,360,000	\$ 0.89

No warrants were granted during the three month period ended May 31, 2015 and year ended February 28, 2015.

As at May 31, 2015 and February 28, 2015, the Company had outstanding warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
April 24, 2016	\$0.89	9,360,000
Balance, May 31, 2015 and February 28, 2015		9,360,000

Share -Based Payments Reserve

Share-based payment reserve represents employee entitlements to share-based awards that have been charged to the loss and other comprehensive loss in the periods during which the entitlements were accrued and have not yet been exercised

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised of the cumulative net change in the fair value of available-for-sale financial assets, net of taxes, until the investments are sold or impaired.

18. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions during the three month period ended May 31, 2015:

a) Exploration costs

Costs of \$nil (2014: \$40,214), incurred in connection with the Company's exploration costs, were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director.

b) Deferred development costs

Costs of \$nil (2014: \$95,057), incurred in connection with the Company's deferred development costs, were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director.

c) Reclamation costs

Costs of \$nil (2014: \$9,188), incurred in connection with the Company's reclamation work at the QR Mine and Mill, were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director.

d) Administration fees

Administration fees of \$nil (2014: \$27,230), incurred in connection with the Company's above-noted exploration, deferred development and reclamation costs, were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

e) Rent

Costs of \$nil (2014: \$19,182), incurred in connection with the Company's office lease were paid to Pub Co Management Ltd., a company controlled by a former director (Note 28).

f) Inventory

Costs of \$nil (2014: \$58,837), incurred in connection with the Company's QR Mine and BL Mine were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director of the Company.

g) Cost of Goods Sold

Costs of \$30,856 (2014: \$Nil), incurred in connection with the Company's QR Mine and BL Mine productions were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director of the Company.

h) Legal fees

Legal fees in the amount of \$2,904 (2014: \$nil) were charged by a law firm in which a partner is a director of the Company.

i) Purchase of equipment and chemicals

Equipment in the amount of \$200,000 (2014: \$nil) and chemicals in the amount of \$31,613 (2014: \$nil) were purchased from a company whose CEO is a director of the Company. The equipment was recorded as part of property, plant and equipment and the chemicals were expensed in cost of goods sold for the period.

j) Key Management Compensation

Key management personnel compensation comprised:

	Three month period ended May 31, 2015	Three month period ended May 31, 2014
Short term employee benefits, director fees	\$ 267,105	\$ 161,088
Severance	240,000	-
	\$ 507,105	\$ 161,088

During the year ended February 28, 2015, the Company entered into a settlement agreement with the former CEO where the Company will pay \$20,000 per month plus benefits for two years starting August 2014 and grant 401,161 options in the next grant. In addition, the Company will reimburse the former CEO all the ongoing legal fees related to BCSC claims against the former CEO.

k) Balance payable:

The amounts payable to related parties, are summarized as follows:

	May 31, 2015	February 28, 2015
Due to other companies with certain common directors	\$ 30,179	\$ 773,302
Other amounts due to related parties	645,894	604,100
	\$ 676,073	\$ 1,377,402

At May 31, 2015 and February 28, 2015, the balance payable to companies with certain common directors includes ongoing exploration, reclamation and deferred development costs incurred by the Company. The balance is payable on demand, unsecured and on normal commercial terms.

18. RELATED PARTY TRANSACTIONS (CONTINUED)

Other amounts due to related parties at May 31, 2015 include unpaid severance of \$280,000 (February 28, 2015: \$340,000) and the obligation to issue 401,161 options valued at \$67,100 (February 28, 2015: 401,161 options valued at \$108,500) to the former CEO and administration fees payable of \$32,500 (February 28, 2015: \$80,000) to the directors for attending meetings. The balance also included unpaid severance of \$240,000 (February 28, 2015: \$nil) to the former CFO. The balance is payable on demand, interest free, and unsecured. The fair value of the options as at May 31, 2015 was estimated using a Black-Scholes option pricing model with the following assumptions: 1. Volatility: 130% (February 28, 2015: 121%); 2. Dividend yield: 0% (February 28, 2015: 0%); 3. Risk Free Rate: 0.57% (February 28, 2015: 1.06%); and Expected life: 2 years (February 28, 2015: 2 years).

In connection with the Partial Revocation Order (“PRO”) the Company received on December 5, 2012, the Company received approval for the PRO to allow the Company’s former CEO to loan the Company up to \$2.44 million to be used toward payment of outstanding accounts payable and for costs associated with the NI43-101 Technical Report (the “Loan”). As at May 31, 2015, the Company owed \$nil (February 28, 2015: \$nil) to the Company’s former CEO by means of the PRO. The amounts bore interest at 20% per annum with all such interest payable in full to the lender on repayment of the principal, which was on the date which was six months from the date of the loan. The interest rate was reduced to 10% after one year as the loan remained outstanding for a period greater than one year from the date of advancement. During the year ended February 28, 2015, the loan balance was reassigned to Standard Drilling & Engineering Ltd., a company controlled by the Company’s former CEO. All the terms on Loan remained unchanged.

During the three month period ended May 31, 2015, a total of \$nil in interest has been recorded (2014: \$18,441), \$nil (February 28, 2015: \$9,059) of which is outstanding as at May 31, 2015. The loan is collateralized by all of the Company’s presently owned and after acquired or held personal property, assets and undertakings. All terms on the Loan were determined to reflect terms that would be appropriate for a similar loan with a non-related party for an entity under similar circumstances.

During the three month period ended May 31, 2015, a director paid corporate administration and exploration expenditures on behalf of the Company and was reimbursed a total of \$nil (2014: \$720,752).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company’s objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company’s exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

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19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	Financial Assets at Fair Value through Profit or Loss		Loans and Receivables		Available for Sale Investments	
	May 31, 2015	February 28, 2015	May 31, 2015	February 28, 2015	May 31, 2015	February 28, 2015
Cash	\$ 825,158	\$ 476,958	\$ -	\$ -	\$ -	\$ -
Amounts receivable	-	-	4,695,013	5,094,589	-	-
Available for sale investments	-	-	-	-	1,380	2,760
Reclamation deposits	-	-	3,395,800	3,395,800	-	-
Total Financial Assets	\$ 825,158	\$ 476,958	\$ 8,090,813	\$ 8,490,389	\$ 1,380	\$ 2,760

	May 31, 2015	February 28, 2015
Financial liabilities at amortized cost:		
Trade and other payables	\$ 1,823,444	\$ 9,993,337
Due to related parties	676,073	1,377,402
Lease payable	130,899	139,824
Gold loan facility (Note 16)	17,738,052	17,481,739
Financial liabilities at fair value:		
Derivative liability (Note 16)	1,737,774	2,341,657
Total Financial Liabilities	\$ 22,106,242	\$ 31,333,959

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)**a) Market Risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to foreign exchange rate fluctuation due to the payment terms of its gold facility loan. A 5% increase/decrease to the Canadian Dollar to United States Dollar foreign exchange rate would have a \$719,000 increase/decrease to the Company's net income/loss for the three month period ended May 31, 2015 (2014: \$873,000).

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Commodity Price Risk:

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include gold and silver. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. A 5% increase/decrease in gold price would have an impact of approximately \$950,000. The Company has elected not to actively manage its exposure to metal prices at this time.

Equity Price Risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Lions Gate Energy Inc. is not a source of market risk.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash, reclamation deposits and amounts receivable. Cash is maintained with financial institutions of reputable credit and may be redeemed upon demand. The reclamation bonds are maintained with financial institutions by the Province and can be released upon the Company fulfilling its reclamation obligations.

The Company has one receivable from one customer that accounted for approximately 98% of all receivables owing (February 28, 2015: 86%). The need for impairment is analyzed at each reporting date.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash of \$825,158 (February 28, 2015: \$476,958), reclamation deposits of \$3,395,800 (February 28, 2015: \$3,395,800), and amounts receivable of \$4,695,013 (February 28, 2015: \$5,094,589).

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. As at May 31, 2015, the Company had a working capital deficit of \$19,829,114 (February 28, 2015: \$26,022,817).

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities as at May 31, 2015 and February 28, 2015:

	Book Value at May 31, 2015	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	\$ 1,823,444	\$ 1,823,444	\$ -	\$ -	\$ 1,823,444
Due to related parties	676,073	676,073	-	-	676,073
Lease payable	130,899	34,000	96,899	-	130,899
Gold loan facility	19,475,826	20,183,674	-	-	20,183,674
Total	\$ 22,106,242	\$ 22,717,191	\$ 96,899	\$ -	\$ 22,814,090

	Book Value at February 28, 2015	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	\$ 9,993,337	\$ 9,993,337	\$ -	\$ -	\$ 9,993,337
Due to related parties	1,377,402	1,377,402	-	-	1,377,402
Lease payable	139,824	34,000	105,824	-	139,824
Gold loan facility	19,823,396	21,219,417	-	-	21,219,417
Total	\$ 31,333,959	\$ 32,624,156	\$ 105,824	\$ -	\$ 32,729,980

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for amounts receivable, trade and other payables and due to related parties, approximate their fair value due to their short-term nature.

	31-May-15 Book value	31-May-15 Fair value
Gold loan facility, inclusive of embedded derivatives	\$ 19,475,826	\$ 20,183,674
	28-Feb-15 Book value	28-Feb-15 Fair value
Gold loan facility, inclusive of embedded derivatives	\$ 19,823,396	\$ 21,219,417

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value Measurements, using:					
	Level 1		Level 2		Level 3	
	May 31, 2015	February 28, 2015	May 31, 2015	February 28, 2015	May 31, 2015	February 28, 2015
Financial Assets						
Cash and cash equivalents	\$ 825,158	\$ 476,958	\$ -	\$ -	\$ -	\$ -
Reclamation deposits	3,395,800	3,395,800	-	-	-	-
Available for sale investments	1,380	2,760	-	-	-	-
Financial Liabilities						
Lease payable			(130,899)	(139,824)		
Derivative liabilities	-	-	(1,737,774)	(2,341,657)	-	-
	\$ 4,222,338	\$ 3,875,518	\$ (1,868,673)	\$ (2,481,481)	\$ -	\$ -

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Available for sale investments

The available-for-sale investment is based on quoted prices and is therefore considered to be Level 1.

Current derivative liabilities

The derivative liabilities is the repayment in excess of the \$15,000,000 gold loan facility with 10% interest per annum when the gold price is between US\$1,200 and US\$1,650 per ounce on the repayment date (note 16). The fair value of the Company's derivative liabilities is calculated using forward gold prices and gold option prices traded on the Chicago Mercantile Exchange and is considered to be a Level 2 fair value measurement.

20. MINE OPERATING EXPENSES

Mine Operating Expenses for the Company for the three month periods ended May 31, 2015 and 2014 consist of the following components by nature:

	May 31, 2015	May 31, 2014
Consulting fees	\$ 17,450	\$ 151,694
Depreciation	33,580	53,656
Employee salaries and benefits	242,578	616,769
Environmental	256,333	127,144
Office and administration	105,783	164,848
Repairs and maintenance	15,320	547,103
Travel	4,906	-
Utilities	49,725	60,000
Total mine operating expenses	\$ 725,675	\$ 1,721,214

21. EXPLORATION EXPENSES

Exploration expenses for the Company for the three month periods ended May 31, 2015 and 2014 consist of the following components by nature:

	May 31, 2015	May 31, 2014
Administration fees	\$ 202,479	\$ 51,871
Assaying	23,514	545,523
Assessment and tax	6,845	37,919
Consulting fees	44,258	-
Depreciation	41,551	19,630
Environmental and permitting	-	10,743
Exploration	88,687	-
Equipment and rentals	27,936	52,656
Land fees and permitting	-	1,762
Travel	6,815	19,217
Employee salaries and benefits	230,214	140,842
Repairs and maintenance	45,028	136,089
Recovery of exploration expenditures	(487,520)	-
Royalty	12,500	-
Total exploration expenses	\$ 242,307	\$ 1,016,252

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22. CORPORATE ADMINISTRATION EXPENSES

Corporate administration expenses for the Company for the three month periods ended May 31, 2015 and 2014 consist of the following components by nature:

	May 31, 2015		May 31, 2014	
Consulting fees	\$	115,359	\$	112,842
Depreciation		13,866		16,377
Employee salaries and benefits		587,313		273,151
Legal, audit & accounting		110,820		42,192
Office and administration		162,007		94,554
Shareholder communications and advertising		21,320		30,025
Other corporate administration costs		-		39,926
Travel and related expenses		31,804		108,742
Total corporate administration expenses	\$	1,042,489	\$	717,809

23. FINANCE EXPENSE

The finance expense for the Company for the three month periods ended May 31, 2015 and 2014 is comprised of the following:

	May 31, 2015		May 31, 2014	
Accretion on provision for site reclamation and closure (Note 15)	\$	26,462	\$	26,500
Bank charges, interest charges and commissions		(14,110)		34,849
Interest and accretion on debt (Note 16)		1,190,975		1,171,680
Total finance expense expense	\$	1,203,327	\$	1,233,029

24. CAPITAL MANAGEMENT

The company monitors its cash, common shares, warrants, stock options, and the gold loan as capital. The Company's objectives when maintaining capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business. There were no changes in the Company's approach to capital management during the year.

Under the terms of the Gold Loan Facility, the Company is required to maintain a minimum working capital amount of \$1,500,000 commencing August 1, 2014 (Note 16). During the year ended February 28, 2015, the lender agreed to waive any events of default under the agreement until April 30, 2015. Subsequent to the period ended May 31, 2015, the Company settled the debt outstanding under the Gold Loan Facility through the issuance of an aggregate of 74,885,900 common shares (see note 29 for details).

The Company's capital consists of the following:

	May 31, 2015	February 28, 2015
Less cash	\$ 825,158	\$ 476,958
	(825,158)	(476,958)
Short term gold loan facility	19,475,826	19,823,396
Share capital	127,594,366	126,810,456
Share-based payments reserve	24,814,417	24,814,417
Accumulated other comprehensive income	(17,940)	(16,560)
Accumulated Deficit	(144,801,482)	(150,470,067)
Capital	\$ 26,240,029	\$ 20,484,684

25. SEGMENTED REPORTING

An operating segment is defined as a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Company's chief operating decision maker, and for which discrete financial information is available. The Company has determined that it has one reportable operating segment, the acquisition, exploration, development and production of gold mineral properties, all of which occurs within Canada. The Company's corporate head office earns nominal revenue that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment. The Company's revenue is derived through a refining agreement with a single refiner.

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26. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period.

	May 31, 2015	May 31, 2014
Income (loss) attributed to ordinary shareholders	\$ 5,668,585	\$ (2,843,568)
Weighted average number of common shares - basic	129,322,023	120,817,295
Weighted average number of common shares - diluted	129,322,023	120,817,295
Basic income (loss) per share	\$ 0.04	\$ (0.02)
Diluted income (loss) per share	\$ 0.04	\$ (0.02)
Weighted Average Number of Common Shares		
Issued Common Shares at May 31	126,634,706	109,851,706
Effect of shares issued for private placements	-	10,432,256
Effect of shares issued for debts	2,687,317	533,333
Weighted average number of common shares - basic	129,322,023	120,817,295
Dilutive effect of outstanding options in the money	-	-
Dilutive effect of outstanding warrants in the money	-	-
Weighted average number of common shares - diluted	129,322,023	120,817,295

As at May 31, 2015, there are 5,531,659 (February 28, 2015: 5,771,659) options, 9,360,000 (February 28, 2015: 9,360,000) share purchase warrants, and nil (2014: nil) broker warrants outstanding. The effect of shares issuable on the exercise of options, share purchase warrants, and broker warrants was anti-dilutive for the three month period ended May 31, 2014 as the Company had a net loss for the period. For the calculation of diluted weighted average common shares outstanding, only the effect of in the money options and warrants were taken into consideration. As no options or warrants were in the money as at May 31, 2015, there was no effect on the calculation of diluted weighted average common shares outstanding.

27. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from consolidated statements of cash flows. During the three month period ended May 31, 2015, included in trade and other payable is \$nil (2014: \$1,461,786) related to mineral properties and deferred development costs and \$934,662 (2014: nil) related to the settlement of penalty interest on the gold loan facility. These transactions are excluded from the consolidated statement of cash flows.

28. COMMITMENT

On April 1, 2014, the Company entered into an Administrative Service Agreement with a company owned by a former director. The Company was due to pay \$10,220 per month for its office lease from May 1, 2014 to May 30, 2019. The Company also charges other former related companies rent. On February 3, 2015, the Company terminated the Administrative Service Agreement as part of the settlement with the former CEO. In addition, the Company agreed to pay the former CEO ongoing legal fees related to BCSC claims.

On February 3, 2015, the Company entered a lease agreement where the Company will pay \$2,833 per month from February 6, 2015 to January 6, 2019 to purchase a grader. This lease agreement carries nil interest.

29. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to May 31, 2015:

- a) On July 23, 2015 the Company completed a private placement of 9,375,000 flow through units at a price of \$0.32 per flow through unit, for gross proceeds of \$3,000,000. Each flow through unit consists of one common share of the Company and one-half of one common share purchase warrant with each warrant entitling the holder thereof to purchase a common share at an exercise price of \$0.40 until January 23, 2017.
- b) On July 15, 2015, the Company granted an aggregate of 9,631,161 options to purchase common shares of the Company exercisable at a price of \$0.27 per share for a period of five years, to certain directors, officers, employees and consultants. The common shares issuable upon exercise of the options are subject to a four month hold period from the original date of grant.
- c) On July 14, 2015, the Company settled an aggregate of \$19,470,334 of indebtedness with 2176423 Ontario Ltd., a company controlled by Mr. Eric Sprott, through the issuance of an aggregate of 74,885,900 common shares of the Company at a price of \$0.26 per common share (the "Debt Settlement"). As a result of the Debt Settlement, Mr. Eric Sprott is now the "Control Person" (as that term is defined in the policies of the TSX Venture Exchange) of the Company.
- d) On June 29, 2015, the Company completed a private placement of 6,059,375 flow through units at a price of \$0.32 per flow through unit for gross proceeds of \$1,939,000. Each flow through unit consists of one common share and one half of one common share purchase warrant with each warrant entitling the holder thereof to purchase a common share at a price of \$0.40 until December 29, 2016.

The Company paid the agent a cash commission of 6% of the gross proceeds of the offering and issued 363,563 broker warrant with each broker warrant entitling the agent to purchase one common share at a price of \$0.32 until December 29, 2016.

- e) On June 22, 2015 the Company issued an aggregate 6,250,000 flow through common shares at a price of \$0.32 per common share, for gross proceeds of \$2,000,000.
- f) On June 17, 2015, the Company entered into a debt settlement agreement with an arm's length creditor, pursuant to which the Company has settled an aggregate of \$118,201 of indebtedness through the issuance of an aggregate of 422,148 common shares.