# STANS ENERGY CORP.

**(Incorporated under the Laws of Ontario)**

## Consolidated Financial Statements
## For the Years Ended December 31, 2014 and 2013

**(Expressed in Canadian Dollars)**

**Management's Report**

The consolidated financial statements, the notes thereto and other financial information contained in the Management Discussion and Analysis have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and are the responsibility of the management of Stans Energy Corp. The financial information presented in the Management Discussion and Analysis as filed on SEDAR is consistent with the data that is contained in the consolidated financial statements. The consolidated financial statements, where necessary, include amounts which are based on the best estimates and judgment of management.

The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Audit Committee, which is composed of non-executive directors, meets with management as well as the external auditors to ensure that management is properly fulfilling its financial reporting responsibilities to the Directors who approve the consolidated financial statements. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audits, the adequacy of the system of internal controls and review financial reporting issues.

The consolidated financial statements have been audited by KPMG LLP, in accordance with Canadian generally accepting auditing standards.

| | |
|---|---|
| (Signed) "*Rodney Irwin*" | (Signed) "*Elena Masters*" |
| Rodney Irwin | Elena Masters |
| Interim Chief Executive Officer | Chief Financial Officer |

Toronto, Ontario, Canada

April 29, 2015

**KPMG LLP**
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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Stans Energy Corp.

We have audited the accompanying consolidated financial statements of Stans Energy Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Stans Energy Corp. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes that Stans Energy Corp. had a deficit of $59.4 million as at December 31, 2014, incurred a net loss of $5.4 million and experienced negative cash flows from operations of $5.1 million for the year ended December 31, 2014 and is subject to certain legal and regulatory challenges relating to its principal mineral properties in Kyrgyzstan and the economic viability of its rare earth processing facility in Kyrgyzstan. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that cast significant doubt about Stans Energy Corp.'s ability to continue as a going concern.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
April 29, 2015
Toronto, Canada

## Stans Energy Corp.
### Consolidated Statements of Financial Position
### (Expressed in Canadian dollars)

| | Notes | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Cash and cash equivalents | 6 | **$** | **176,699** | $ | 5,261,841 |
| VAT receivable | | | **138,840** | | 265,094 |
| Prepaids and other assets | 9 | | **138,831** | | 114,412 |
| | | | **454,370** | | 5,641,347 |
| **Property, plant and equipment** | 8,10 | | **101,254** | | 173,388 |
| | | **$** | **555,624** | $ | 5,814,735 |
| **Liabilities and Shareholders' Equity** | | | | | |
| **Current Liabilities** | | | | | |
| Accounts payable and accrued liabilities | | **$** | **203,442** | $ | 237,791 |
| **Equity** | | | | | |
| Common shareholders' equity | | | | | |
| Share capital | 12 a | | **43,110,033** | | 43,110,033 |
| Contributed surplus | | | **16,672,242** | | 16,378,138 |
| Accumulated other comprehensive income | | | **112,617** | | 265,604 |
| Deficit | | | **(59,367,964)** | | (54,011,765) |
| **Total common shareholders' equity** | | | **526,928** | | 5,742,010 |
| Non-controlling interest | 13 | | **(174,746)** | | (165,066) |
| **Total Equity** | | | **352,182** | | 5,576,944 |
| | | **$** | **555,624** | $ | 5,814,735 |

**Going Concern (Note 1)**
**Commitments (Note 20)**
**Subsequent Event (Notes 8 and 21)**

Approved by the Board of Directors on April 29, 2015:

*“Gordon Baker”,* DIRECTOR

*“Rodney Irwin”,* DIRECTOR

*“Douglas Underhill”,* DIRECTOR

*The accompanying notes are an integral part of these consolidated financial statements*

## Stans Energy Corp.

**Consolidated Statements of Loss and Comprehensive Loss**
**For the Years ended December 31, 2014 and 2013**
**(Expressed in Canadian dollars except for shares outstanding and per share amounts)**

| | Notes | | **2014** | | 2013 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| **General and Administrative** | | **$** | | $ | |
| Office and administration | 17 | | **2,422,841** | | 3,663,298 |
| Depreciation | | | **33,457** | | 131,051 |
| Consulting fees | | | **302,090** | | 221,116 |
| Professional fees | | | **1,151,886** | | 878,198 |
| Stock-based compensation | 12 c | | **294,104** | | 453,220 |
| Foreign exchange gain | | | **(54,793)** | | (942,355) |
| Interest income | | | **(32,019)** | | (84,985) |
| Maintenance and other costs | | | **132,507** | | 297,075 |
| **Other Operating costs** | | | | | |
| Expenditures on impaired assets | 10,11 | | **1,115,806** | | - |
| Impairment | 8 | | **-** | | 18,857,551 |
| **Net loss for the year** | | | **5,365,879** | | 23,474,169 |
| **Deferred tax expense (recovery)** | 19 | | **-** | | (638,771) |
| **Net loss for the year after tax** | | | **5,365,879** | | 22,835,398 |
| **Attributable to:** | | | | | |
| Non-controlling interest | | | **9,680** | | 167,698 |
| Common shareholders | | | **5,356,199** | | 22,667,700 |
| **Other comprehensive income** | | | | | |
| Foreign currency translation of foreign operations | | | **(152,987)** | | (345,214) |
| **Comprehensive loss for the year** | | | **5,212,892** | | 22,490,184 |
| **Attributable to:** | | | | | |
| Non-controlling interest | 13 | | **9,680** | | 167,698 |
| Common shareholders | | | **5,203,212** | | 22,322,486 |
| **Basic and diluted loss per share** | 18 | **$** | (0.03) | $ | (0.14) |
| **Weighted average number of common shares** | | | | | |
| Basic and diluted | | | **157,263,986** | | 157,263,986 |

*The accompanying notes are an integral part of these consolidated financial statements*

# Stans Energy Corp.

**Consolidated Statements of Changes in Equity**
**For the Years ended December 31, 2014 and 2013**
**(Expressed in Canadian dollars)**

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Share Capital** | | | | |
| Balance beginning of year | $ | **43,110,033** | $ | 43,110,033 |
| Balance at the end of the year | $ | **43,110,033** | $ | 43,110,033 |
| **Share purchase warrants** | | | | |
| Balance beginning of year | $ | **-** | $ | 6,082,329 |
| Fair value of warrants expired | | **-** | | (6,082,329) |
| Balance at the end of the year | $ | **-** | $ | - |
| **Contributed Surplus** | | | | |
| Balance beginning of year | $ | **16,378,138** | $ | 9,842,589 |
| Stock-based compensation | | **294,104** | | 453,220 |
| Warrants expired | | **-** | | 6,082,329 |
| Balance at the end of the year | $ | **16,672,242** | $ | 16,378,138 |
| **Cumulative translation adjustment** | | | | |
| Balance beginning of year | $ | **265,604** | $ | (79,610) |
| Foreign currency translation adjustment | | **(152,987)** | | 345,214 |
| Balance at the end of the year | $ | **112,617** | $ | 265,604 |
| **Deficit** | | | | |
| Balance beginning of year | $ | **(54,011,765)** | $ | (31,344,065) |
| Net loss attributed to common shareholders | | **(5,356,199)** | | (22,667,700) |
| Balance at the end of the year | $ | **(59,367,964)** | $ | (54,011,765) |
| Total common shareholders' equity | $ | **526,928** | $ | 5,742,010 |
| **Non-controlling interest** | | | | |
| Balance beginning of year | $ | **(165,066)** | $ | 2,632 |
| Net loss attributed to non-controlling interest | | **(9,680)** | | (167,698) |
| Balance at the end of the year | $ | **(174,746)** | $ | (165,066) |
| Total Equity | $ | **352,182** | $ | 5,576,944 |

*The accompanying notes are an integral part of these consolidated financial statements*

**Stans Energy Corp.**

**Consolidated Statements of Cash Flows**
**For the Years ended December 31, 2014 and 2013**
**(Expressed in Canadian dollars)**

| | | 2014 | | 2013 |
|---|---|---|---|---|
| **Cash Provided By (Used In)** | | | | |
| **Operations** | | | | |
| Net loss | $ | **(5,365,879)** | $ | (22,835,398) |
| Adjustments to reconcile net loss to cash provided by operating activities | | | | |
| Stock-based compensation | | **294,104** | | 453,220 |
| Loss on disposal of Property, Plant and Equipment | | **-** | | (3,783) |
| Depreciation | | **33,457** | | 131,051 |
| Unrealized foreign exchange gain | | **(54,793)** | | (926,968) |
| Deferred tax expense | | **-** | | (638,771) |
| Interest received | | **(32,019)** | | (82,719) |
| Provision for irrecoverable input tax credits | | **190,174** | | - |
| Impairment | | **-** | | 18,857,551 |
| Changes in non-cash working capital: | | | | |
| VAT receivable | | **(63,920)** | | 106,226 |
| Prepaids and other assets | | **(24,419)** | | (364,542) |
| Accounts payable and accrued liabilities | | **(34,349)** | | (176,341) |
| | | **(5,057,644)** | | (5,480,474) |
| **Investing** | | | | |
| Interest received | | **32,019** | | 82,719 |
| Additions to property, plant and equipment | | **-** | | (278,256) |
| Expenditures on mineral properties | | **-** | | (1,326,095) |
| | | **32,019** | | (1,521,632) |
| Effect of exchange rate changes on cash | | **(59,517)** | | 265,593 |
| **Net change in cash** | | **(5,085,142)** | | (6,736,513) |
| Cash and cash equivalents, beginning of year | | **5,261,841** | | 11,998,354 |
| **Cash and cash equivalents, end of year** | **$** | **176,699** | $ | 5,261,841 |

*The accompanying notes are an integral part of these consolidated financial statements*

## 1. DESCRIPTION OF BUSINESS AND GOING CONCERN

Stans Energy Corp. (the "Company" or “Stans”) was incorporated on September 26, 2005 under the laws of the Province of Ontario. The Company is engaged in the business of the acquisition and development of mineral deposits such as uranium, molybdenum, vanadium, beryllium, lithium and rare earth metals in the Kyrgyz Republic. Stans’ common shares are listed on the TSX Venture Exchange (“TSXV”) under the symbol HRE. The head office, principal address and records office of the Company are located at 8 King St. East, Suite 205, Toronto, Ontario, M5C 1B5.

These consolidated financial statements have been prepared on a going concern basis which assumes the Company will continue its exploration and development activities for the foreseeable future and will be able to discharge its liabilities in the normal course of business as they become due. As at December 31, 2014, the Company had an accumulated deficit of $59,367,964 and cash of $176,699. The Company incurred a loss for the year ended December 31, 2014 of $5,365,879 and cash used in operations of $5,057,644.

The Company is currently in legal disputes with the Kyrgyzstan Government in relation to its Kutessay and Kalesay mineral properties licenses (see Note 8). This has resulted in the Company significantly reducing its exploration activities and future planned exploration activities. Further, due to depressed prices of rare earth elements and the uncertainty with its revoked Kutessay and Kalesay mineral properties licenses by the State Agency of Geology and Mineral Resources of the Kyrgyz Republic, the Company deferred its plans to refurbish and update the Kashka Rare Earth Processing Facility. In relation to these events, the Company recorded additional expenditures on properties and plant expense of $1,115,806 for the year ended December 31, 2014 and impairment of $18,857,551 during the year ended December 31, 2013.

There is no assurance that the Company will be successful in collecting the USD $118,206,057 awarded to the Company by the Arbitration Court at the Moscow Chamber of Commerce and Industry (the “MCCI Tribunal”) on June 30, 2014 related to the legal disputes in connection with the Kutessay and Kalesay exploration licenses with the Kyrgyzstan Government. There is also no assurance that the Company will be able to find alternative sources of ore for its Kashka Rare Earth Processing Facility or obtain alternative sources of financing. Accordingly this results in material uncertainties which cast significant doubt as to the Company’s ability to continue to operate as a going concern. If the going concern assumption was not appropriate for the consolidated financial statements, then adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position, classifications used, and such adjustments could be material.

On April 29, 2015, the Board of Directors approved the consolidated financial statements for the year ended December 31, 2014.

## 2. BASIS OF PRESENTATION

These consolidated financial statements for the years ended December 31, 2014 and 2013 (“financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements have been prepared on a going concern basis under the historical cost method except for certain financial assets and liabilities which are measured at fair value. The significant accounting policies are presented in Note 3 and have been consistently applied in each of the periods presented. Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these financial statements are presented in Note 5.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation

These consolidated financial statements include the accounts of Stans and its subsidiaries. Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. Where the Company's interest in a subsidiary is less than 100%, the Company recognizes non-controlling interests. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses have been eliminated on consolidation. Stans and all of its subsidiaries have a reporting date of December 31.

The following companies have been consolidated within these consolidated financial statements:

| Company | Registered | % of ownership and voting rights | Principal activity | Functional currency |
|---|---|---|---|---|
| Subsidiaries | | | | |
| Stans Energy Corp. | Canada | n/a | Corporate and holding | CAD |
| Stans Energy KG LLC. | Kyrgyz Republic | 100% | Exploration | USD |
| Kutisay Mining LLC. | Kyrgyz Republic | 99.9% | Exploration | USD |
| Kashka REE Plant Ltd. | Kyrgyz Republic | 100% | Extraction | USD |
| SevAmRus CJSC | Russian Federation | 99% | Research | RUB |
| Didim Inc.(*) | Russian Federation | 99% | Research | RUB |

* The Company, through its subsidiary SevAmRus CJSC, acquired Didim Inc. on September 1, 2014 for $280 (RUB 9,900)

### Functional and Presentation Currency

These consolidated financial statements have been presented in Canadian dollars. Functional currency is determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency.

Transactions denominated in foreign currencies are translated into the entity's functional currency as follows:

- Monetary assets and liabilities are translated at the rates of exchange at the consolidated statement of financial position date;
- Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date;
- Revenue and expenses are translated at the exchange rate at the date of the transaction, except depreciation, depletion and amortization, which are translated at the rates of exchange applicable to the related assets, and
- Exchange gains and losses on translation are included in earnings.

For any subsidiaries whose functional currency differs from the Canadian dollar, foreign currency balances and transactions are translated into the Company's presentation currency as follows:

- Assets and liabilities are translated at the rates of exchange at the consolidated statement of financial position date;
- Revenue and expenses are translated at average exchange rates throughout the reporting period or at rates that approximate the actual exchange rates; items such as depreciation are translated at the rate implicit in the historical rate applied to the related asset; and
- Exchange gains and losses on translation are included in OCI.

The exchange gains and losses are recognized in earnings upon the substantial disposition, liquidation or closure of the entity that gave rise to such amounts.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and highly liquid investments with a maturity of three months or less at the date of acquisition, that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

**Mineral properties and exploration and evaluation ("E&E") costs**

Exploration and evaluation costs are those costs required to evaluate a mineral property and determine commercial viability. E&E costs include costs to establish an initial mineral resource and determine whether inferred mineral resources can be upgraded to measured and indicated mineral resources and whether measured and indicated mineral resources can be converted to proven and probable reserves.

The costs of acquiring licenses and other expenditures associated with the acquisition of exploration and evaluation assets are capitalized under mineral properties on a property-by-property basis.

Property acquisition costs and related direct exploration costs less recoveries are deferred until such time as the properties are either placed into commercial production, sold, determined not to be economically viable, or abandoned.

Exploration and evaluation activity includes:

- acquiring the rights to explore;
- researching and analyzing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- compiling pre-feasibility and feasibility studies.

Capitalization of exploration and evaluation expenditures commence on acquisition of a beneficial interest or an option in mineral rights. Capitalized costs are recorded as a component of mining interests at cost less impairment charges, if applicable. No amortization is charged during the exploration and evaluation phase as the asset is not available for use. Exploration and evaluation assets are tested for impairment when indicators of impairment are present.

Exploration and evaluation expenditures are transferred to the mineral properties balance within property, plant and equipment when the technical feasibility and commercial viability of a mineral resource has been demonstrated and a development decision has been made.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost and carried net of accumulated depreciation, depletion and amortization and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the estimate of reclamation and remediation and, for qualifying assets, capitalized borrowing costs.

Repairs and maintenance costs are expensed as incurred. However, expenditures on major maintenance rebuilds or overhauls are capitalized when it is probable that the expenditures will extend the productive capacity or useful life of an asset.

**(a) Asset categories**

The Company categorizes property, plant and equipment based on the type of asset and/or the stage of operation or development of the property.

Land, plant, equipment and vehicles includes land, mobile and stationary equipment, and refining and processing facilities for all properties regardless of their stage of development or operation, and vehicles.

**(b) Depreciation, depletion and amortization**

The Company has applied the following depreciation methods:

| | |
|---|---|
| Office and Computer Equipment | Amortized over 5 years on a straight-line basis |
| Vehicles | Amortized over 5 years on a straight-line basis |
| Buildings | Amortized over 20 years on a straight-line basis |
| Equipment | Amortized over 3-15 years on a straight-line basis depending on equipment type |

Land is not depreciated.

The Company reviews useful lives and estimated residual values of its property, plant and equipment annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Acquired or capitalized exploration and evaluation costs and assets under construction are not depreciated. These assets are depreciated when they are put into production in their intended use.

**(c) Impairment**

The carrying amounts of the Company's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. In addition, capitalized exploration and evaluation costs are assessed for impairment immediately prior to the transfer of an exploration and evaluation asset to property, plant and equipment.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or groups of assets, in which case, the individual assets are grouped together into CGUs for impairment purposes.

An impairment exists when the carrying amount of the asset, or group of assets, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the consolidated statement of loss. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased.

**(d) Derecognition**

The carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset or when no future economic benefits are expected to accrue to the Company from its continued use. Any gain or loss arising on derecognition is included in the consolidated statement of loss in the period in which the asset is derecognized. The gain or loss is determined as the difference between the carrying value and the net proceeds on the sale of the assets, if any, at the time of disposal.

**Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

| | |
|---|---|
| Cash | FVTPL |
| Short-term investments | Loans and receivables |
| VAT receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment.

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary or a significant or prolonged decline in the fair value of that investment below its cost. Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial assets and liabilities that are recognized on the statement of financial position at fair value are classified in a hierarchy that is based on significance of the inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Cash and cash equivalents are designated as fair value through profit and loss. VAT receivables and certain other assets are designated as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

**Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in net income (loss) and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through net income (loss).

**Share-based payments**

Employees (including directors and senior executives) of the Company may receive a portion of their remuneration in the form of share-based payment transactions ("share-based payments"). Equity instruments issued to employees are measured by reference to the fair value at the date on which they are granted. The costs of share-based payments are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date").

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Income tax**

The tax expense for the period is comprised of current and deferred tax.

Current income tax

The current tax payable is based on taxable earnings for the year. The tax rates and tax laws to compute the amount payable are those that are enacted at the date of the statement of financial position.

Deferred tax

Deferred tax is recognized, using the liability method, on unused tax losses, unused tax credits and temporary differences between the carrying value of assets and liabilities in the statement of financial position, and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are not recognized if the temporary difference arises in a transaction other than a business combination that at the time of the transaction affects neither the taxable nor the accounting earnings or loss. Deferred tax is determined using tax rates and tax laws that are substantively enacted at the date of the statement of financial position and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset the current tax assets against the current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Earnings (loss) per share**

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Dilutive potential common shares shall be deemed to have been converted into common shares at the beginning of the period or, if later, at the date of issue of the potential common shares. For the purpose of calculating diluted loss per share, the Company assumes the exercise of its dilutive options and warrants. The assumed proceeds from these instruments are regarded as having been received from the issue of common shares at the average market price of its shares during the period.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate of the obligation can be made.

The amount recognized as a provision is the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflect current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

## 4. ACCOUNTING CHANGES AND RECENT ACCOUNTING PRONOUNCEMENTS

### Accounting changes

In May 2013, the IASB issued IFRIC 21, "Levies". This IFRIC is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The Company adopted IFRIC 21 in its financial statements for the annual period beginning January 1, 2014. The Company determined there was no significant impact on the Company's consolidated financial statements.

### Future Changes in Accounting Policies

Information on new standards, amendments and interpretations that has not been issued but is not yet effective and that are expected to be relevant to the Company's consolidated financial statements are provided below:

IFRS 9 "Financial Instruments" ("IFRS 9") introduces new requirements for the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The standard introduces additional changes relating to financial liabilities. It also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management.

This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Special transitional requirements have been set for the application of the new general hedging model. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Early adoption is permitted. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15") 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 new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of adoption of the standard has not yet been determined.

## 5. SIGNIFICANT JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from these estimates.

The areas which require management to make estimates and assumptions in applying the Company's accounting policies in determining carrying values include, but are not limited to:

### (a) Impairment of mineral properties and exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when indicators of impairment are present. In assessing impairment for exploration and evaluation assets, the Company applies judgement in considering factors that determine technical feasibility and commercial viability. Judgments may change if new information becomes available. See Note 8 for impairment recorded by the Company with respect to its mineral properties and exploration and evaluation assets during the year ended December 31, 2013. Impairment charges recognised may be reversed if there are changes in assumptions or estimates which indicate that a previously recognized impairment loss may no longer exist or may be decreased.

### (b) Taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes, due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

### (c) Impairment of property, plant and equipment

The carrying value of property, plant and equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in the consolidated statement of loss.

The assessment would require the use of estimates and assumptions for long-term commodity prices, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of assets could impact the impairment analysis. See Note 8 for impairment recorded by the Company with respect to its Kashka Rare Earth Processing Facility during the year ended December 31, 2013. Impairment charges recognised may be reversed if there are changes in assumptions or estimates which indicate that a previously recognised impairment loss may no longer exist or may be decreased.

**(Expressed in Canadian dollars)**

### (d) Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees and others 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, dividend yield and forfeiture rate. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12c.

## 6. CASH AND CASH EQUIVALENTS

| | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| Cash held in bank accounts | $ | **176,699** | $ | 559,163 |
| Guaranteed investment certificates | | **-** | | 4,702,678 |
| | $ | **176,699** | $ | 5,261,841 |

## 7. SEGMENTED INFORMATION

As at December 31, 2014 and December 31, 2013, the Company's assets were located in the following countries:

| | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| Canada | $ | **263,722** | $ | 5,037,776 |
| Kyrgyz Republic | | **161,993** | | 619,437 |
| Russia | | **129,909** | | 157,522 |
| Total | $ | **555,624** | $ | 5,814,735 |

## 8. IMPAIRMENT

The Company considers both quantitative and qualitative factors to assess impairment. Since early 2013, the Kyrgyzstan Government and the Company have been involved in a legal dispute with respect to its Kutessay and Kalesay exploration licenses. A chronological summary of events is described below:

(i) On April 2, 2013 the Kyrgyz State Prosecutor's Office initiated legal proceedings against the Kyrgyz State Geological and Mineral Resources Agency ("SGA") in the Inter-District Court of the City of Bishkek. The State Prosecutor's Office put forward an application to lift the three-year statute of limitations to allow them to present to the court their claim of request to nullify the minutes of the December 21, 2009 meeting between the SGA and Open Stock Company ("OSC") 'Kutisay Mining' which granted OSC 'Kutisay Mining' mining licenses for the Kutessay II and Kalesay deposits. OSC 'Kutisay Mining' was a 100% state-owned special purpose entity, created to hold mining licenses for the Kutessay II and Kalesay deposits. It was put up for an open and previously advertised government auction on December 29, 2009. Stans Energy's local subsidiary, Stans Energy KG LLC, acquired OSC 'Kutisay Mining' on December 29, 2009 through this auction, where the sum of USD $855,000 was paid to the Government of Kyrgyzstan. Stans Energy KG LLC was subsequently re-registered OSC 'Kutisay Mining' as it's fully owned subsidiary 'Kutisay Mining LLC'.

**(Expressed in Canadian dollars)**

(ii) On May 3, 2013 the Inter-District Court of Bishkek, at the request of the Kyrgyz State Prosecutor's Office, issued an injunction to suspend communications between Company's subsidiary 'Kutisay Mining LLC' and the SGA, until such time that an ongoing above mentioned court case is resolved.

(iii) On October 31, 2013 Stans Energy commenced international arbitration against the Government of Kyrgyzstan for its expropriatory and unlawful treatment of the Company in relation to the Kutessay II rare earth project. The claim seeks USD $117,853,000 in compensation for losses and damage. The arbitration which was brought by Stans and its subsidiaries and took place under the Convention for the Protection of Investor's Rights to which Kyrgyzstan is a signatory. On June 30, 2014 the MCCI Tribunal awarded USD $118,206,057 for recovery by the Company. Final arguments for award enforcement of the USD $118 million MCCI Tribunal award are expected to be presented to the Ontario Court of Justice by June 29, 2015.

(iv) On March 19, 2014, the Inter-District Court of Bishkek ruled in favour of the Kyrgyz General Prosecutor's Office with respect to its claim regarding Stans' wholly owned Kutessay II project. In April 2014, the Company filed an appeal to the Bishkek City Court in response to the ruling from the Inter-District Court of Bishkek in favor of the Kyrgyz General Prosecutor's Office claim. In October 2014, Stans received a ruling of the Bishkek City Court dated July 30, 2014 to leave the March 19, 2014 decision in effect. Stans filed the supervisory appeal to the Supreme Court of the Kyrgyz Republic and on March 24, 2015 the Supreme Court ruled the final judgment to dismiss the supervisory appeal with no right for further appeal.

(v) On November 3, 2014, the SGA through its licensing committee notified Kutisay Mining LLC that it was revoking the licenses for Kutessay II and Kalesay properties. Stans filed a claim to the Inter-District Court of Bishkek contesting the SGA decision to revoke the license based on the July 30, 2014 ruling by the Bishkek City Court. On December 8, 2014 the Inter-District Court ruled to dismiss the appeal. On December 24, 2014, Stans Energy appealed the December 8, 2014 decision to the Bishkek City Court. On January 27, 2015 the Bishkek City Court ruled to leave the decision in effect and it's subject to further appeals to the Supreme Court of the Kyrgyz Republic. Stans maintains the right to appeal for a year period from the date of the last decision.

During 2013, due to the above legal matters not enabling the Company to explore and develop its mineral properties and the inability to identify a feasible alternate source of rare earth elements that could be processed at the Kashka Rare Earth Processing Facility ("plant"), the Company determined that there were indicators of impairment for its mineral properties; property plant and equipment; and other assets in Kyrgyzstan. As a result at September 30, 2013, the Company in accordance with IAS 36, Impairment of Assets, recorded an impairment of $18,857,551 which included $9,324,431 relating to its interests in the Kyzyluraan, Aktyuz, Kutessay II and Kalesay properties (Note 11); $7,695,899 relating to the Kashka Rare Earth Processing Facility (Note 10); and write off of $1,837,221 in prepaid expenses and other assets.

## 9. PREPAID EXPENSES AND OTHER ASSETS

| | | **December 31, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Prepaid expenses | $ | **127,962** | $ | 102,256 |
| Consumables | | **1,188** | | 1,499 |
| Inventories | | **9,681** | | 10,424 |
| Other | | **-** | | 33 |
| Total | $ | **138,831** | $ | 114,412 |

**(Expressed in Canadian dollars)**

## 10. PROPERTY, PLANT AND EQUIPMENT

| | Equipment and Vehicles | Office & Computer Equipment | Total |
|---|---|---|---|
| Cost | | | |
| Balance at Jan 1, 2014 | $ 8,045,092 | $ 132,163 | $ 8,177,255 |
| Disposals | - | (4,740) | (4,740) |
| Foreign exchange impact | 729,928 | 11,991 | 741,919 |
| Balance before impairment and depreciation | 8,775,020 | 139,414 | 8,914,434 |
| Depreciation and Impairment | | | |
| Balance at Jan 1, 2014 | $ (7,896,209) | $ (107,658) | $ (8,003,867) |
| Depreciation | (19,042) | (14,415) | (33,457) |
| Disposals | - | 4,740 | 4,740 |
| Foreign exchange impact | (766,005) | (14,591) | (780,596) |
| Balance at December 31, 2014 | (8,681,256) | (131,924) | (8,813,180) |
| **Net Book Value as of December 31, 2014** | **$ 93,764** | **$ 7,490** | **$ 101,254** |

During the year ended December 31, 2014, the Company recorded an additional expenditures expense of $719,762 relating to the impaired Kashka Rare Earth Processing Facility, expenditures to maintain the plant and for completion of technical reports and researches.

Property, Plant and Equipment as of December 31, 2013:

| | Land, Plant, Equipment and Vehicles | Office & Computer Equipment | Total |
|---|---|---|---|
| Cost | | | |
| Balance at Jan 1, 2013 | $ 7,656,647 | $ 132,580 | $ 7,789,227 |
| Additions | 273,856 | 4,400 | 278,256 |
| Foreign exchange impact | 114,589 | (4,817) | 109,772 |
| Balance before depreciation and impairment | 8,045,092 | 132,163 | 8,177,255 |
| Depreciation and impairment | | | |
| Balance at Jan 1, 2013 | $ (98,507) | $ (82,243) | $ (180,750) |
| Depreciation | (114,063) | (18,117) | (132,180) |
| Impairment of Kashka plant ( Note 8) | (7,684,789) | (11,110) | (7,695,899) |
| Foreign exchange impact | 1,151 | 3,811 | 4,962 |
| Depreciation and impairment Balance at December 31, 2013 | (7,896,208) | (107,659) | (8,003,867) |
| **Net Book Value as of December 31, 2013** | $ 148,884 | $ 24,504 | $ 173,388 |

**(Expressed in Canadian dollars)**

## 11. MINERAL PROPERTIES AND EXPLORATION AND EVALUATION ASSETS

During the year ended December 31, 2014, the Company recorded an additional expenditures expense of $174,488 (2013 - $9,324,431) relating to its interests in the impaired Kyzyluraan, Aktyuz, Kutessay II and Kalesay properties, for licenses of $39,287 and geological work performed on mineral properties of $135,201.

Licenses to exploration and mining rights in the Kyrgyz Republic as of December, 31 2013:

| | | Balance at January 1, 2013 | Changes in the period | | Impairment (Note 8) | | Balance at December 31, 2013 |
|---|---|---|---|---|---|---|---|
| | | | Additions | Foreign exchange translation | | | |
| Kyzyluraan | $ | 2,682,065 | 220,075 | 321,395 | (3,223,535) | $ | - |
| Aktyuz | | 1,862,142 | 113,197 | 223,143 | (2,198,482) | $ | - |
| Kutessay II | | 2,220,508 | 969,959 | 266,086 | (3,456,553) | $ | - |
| Kalesay | | 377,732 | 22,864 | 45,265 | (445,861) | $ | - |
| | $ | 7,142,447 | 1,326,095 | 855,889 | (9,324,431) | $ | - |

## 12. SHARE CAPITAL

(a) Authorized and issued capital

The Company has unlimited authorized common shares with no par value. The movement in the Company's issued and outstanding capital during the period is as follows:

| | Number of shares | | Amount |
|---|---|---|---|
| Balance, December 31, 2012 | 157,263,986 | $ | 43,110,033 |
| Balance, December 31, 2013 | 157,263,986 | $ | 43,110,033 |
| **Balance, December 31, 2014** | **157,263,986** | **$** | **43,110,033** |

(b) Warrants

A summary of the status of the common share purchase warrants with the expiry date of April 28, 2013 is as follows:

| | Year ended | |
|---|---|---|
| | December 31, 2014 | December 31, 2013 |
| Balance, beginning of year | - | 8,475,676 |
| Expired on April 28, 2013 | - | (8,475,676) |
| Balance, end of year | **-** | **-** |

**(Expressed in Canadian dollars)**

(c) Stock options

Under the terms of the Company's Stock Option Plan (the "Plan"), the maximum number of shares reserved for issuance under the Plan is 10% of the issued shares on a rolling basis. Options may be exercisable over periods of up to 10 years as determined by the board of directors of the Company and the exercise price shall not be less than the closing price of the shares on the day preceding the award date, subject to regulatory approval.

The following table reflects the continuity of stock options for the year ended December 31, 2014 and 2013 (all options are exercisable into one common share):

| | | | |
|---|---|---|---|
| Balance at January 1, 2013 | 14,423,333 | $ | 0.90 |
| Granted (a) | 1,500,000 | | 0.18 |
| Cancelled (b) | (3,000,000) | | 0.57 |
| Expired (b) | (933,333) | | 0.88 |
| Balance at December 31, 2013 | **11,990,000** | **$** | **0.81** |
| Granted | 3,800,000 | | 0.09 |
| Forfeited (d) | (300,000) | | 0.94 |
| Balance at December 31, 2014 | **15,490,000** | **$** | **0.63** |

(a) During the year ended December 31, 2013, the Company granted 250,000 options to a consultant with a total fair value of $42,930 and 1,250,000 options to officers, directors and employees with the total fair value of $187,500. The fair value of these stock options was estimated at the grant date based on the Black-Scholes pricing model.

(b) During 2013 year, 933,333 were expired and 3,000,000 were cancelled.

(c) On March 3, 2014, the Company granted 2,700,000 stock options to directors and officers with the vesting period of 18 months (1/6 on each: grant day and 6, 9, 12, 15 and 18 months anniversary). Each option entitles the holder to purchase one common share at $0.07 per share at any time on or before March 3, 2019. The fair value of these stock options of $171,131 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.07 |
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.77% |
| Expected life | 5 years |
| Expected volatility | 147.6% |

(d) On April 6, 2014, 300,000 stock options issued to a Company officer were forfeited due to their resignation on January 6, 2014.

(e) On June 3, 2014, the Company granted 800,000 stock options to a director and an officer with the vesting period of 18 months (1/6 on each: grant day and 6, 9, 12, 15 and 18 months anniversary). Each option entitles the holder to purchase one common share at $0.13 per share at any time on or before June 3, 2019. The fair value of these stock options of $92,338 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

**(Expressed in Canadian dollars)**

| | |
|---|---|
| Share price | $0.13 |
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.67% |
| Expected life | 5 years |
| Expected volatility | 140.2% |

(f) On July 8, 2014, the Company granted 300,000 stock options to a director with the vesting period of 18 months (1/6 on each: grant day and 6, 9, 12, 15 and 18 months anniversary). Each option entitles the holder to purchase one common share at $0.18 per share at any time on or before July 8, 2019. The fair value of these stock options of $46,360 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.18 |
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.67% |
| Expected life | 5 years |
| Expected volatility | 129.5% |

During the years ended December 31, 2014 and 2013, the following stock options were granted to officers, directors and employees. The fair value of the options granted was estimated based on the Black-Scholes option pricing model, using the following weighted average assumptions:

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Number of options granted | | **3,800,000** | | 1,250,000 |
| Weighted average exercise price | $ | **0.09** | $ | 0.19 |
| Risk-free interest rate | | **1.71%** | | 1.57% |
| Expected life | | **5** | | 5 |
| Expected volatility | | **139%** | | 119% |
| Dividend yield | | **0%** | | 0% |
| Weighted average fair value per stock option granted | $ | **0.08** | $ | 0.15 |

During the year ended December 31, 2013 (2014 - Nil) the Company granted 250,000 options to a consultant with a total fair value of $42,930. These options were valued at the fair value of the services provided by the consultant. As these options were granted for services that were not reliably measurable, the fair value of these options granted was estimated based on the Black-Scholes option pricing model, using the following assumptions:

| | |
|---|---|
| Share price | $0.23 |
| Expected dividend yield | Nil |
| Risk-free interest rate | 1.56% |
| Expected life | 5 years |
| Expected volatility | 100% |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

The following table reflects the actual stock options issued and outstanding as of December 31, 2014 (all options are exercisable into one common share of Stans):

**(Expressed in Canadian dollars)**

| | Option price ($) | Number of options outstanding | Number of options vested and exercisable | Remaining contractual life of options outstanding, years | Vesting Exercise period (months) |
|---|---|---|---|---|---|
| 12-Jan-15 | 0.37 | 1,500,000 | 1,500,000 | 0.03 | 18 |
| 12-Jan-15 | 0.37 | 50,000 | 50,000 | 0.03 | immediate |
| 29-Apr-15 | 0.32 | 835,000 | 835,000 | 0.33 | 18 |
| 18-Jun-15 | 0.25 | 1,600,000 | 1,600,000 | 0.46 | 18 |
| 26-May-16 | 1.85 | 2,615,000 | 2,615,000 | 1.40 | 18 |
| 14-Jul-16 | 1.46 | 200,000 | 200,000 | 1.54 | 18 |
| 03-Aug-16 | 1.39 | 500,000 | 500,000 | 1.59 | 18 |
| 10-Jan-17 | 0.74 | 2,200,000 | 2,200,000 | 2.03 | 18 |
| 27-Feb-17 | 1.12 | 40,000 | 40,000 | 2.16 | 9 |
| 11-May-17 | 0.74 | 100,000 | 100,000 | 2.36 | 18 |
| 11-May-17 | 0.74 | 200,000 | 200,000 | 2.36 | 18 |
| 02-Aug-17 | 0.61 | 350,000 | 350,000 | 2.59 | 18 |
| 21-Mar-18 | 0.41 | 100,000 | 100,000 | 3.22 | 18 |
| 02-May-18 | 0.23 | 50,000 | 50,000 | 3.34 | 18 |
| 02-May-18 | 0.23 | 250,000 | 250,000 | 3.34 | 18 |
| 23-Oct-18 | 0.15 | 1,100,000 | 733,333 | 3.81 | 18 |
| 03-Mar-19 | 0.07 | 2,700,000 | 1,350,000 | 4.17 | 18 |
| 03-Jun-19 | 0.13 | 800,000 | 266,667 | 4.42 | 18 |
| 08-Jul-19 | 0.18 | 300,000 | 50,000 | 4.52 | 18 |
| | | **15,490,000** | **12,990,000** | **2.17** | |

## 13. NON-CONTROLLING INTEREST

| | | SevAmRus(*) | | Stans Energy KG (**) | | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ | (2,009) | $ | 4,641 | $ | 2,632 |
| Share of income (loss) | | (10,055) | | (157,643) | | (167,698) |
| Total as of December 31, 2013 | $ | (12,064) | $ | (153,002) | $ | (165,066) |
| Share of income (loss) | | (4,611) | | (5,069) | | (9,680) |
| Total as of December 31, 2014 | $ | (16,675) | $ | (158,071) | $ | (174,746) |

* Non-controlling interest includes Didim Inc. from September 1, 2014
** Non-controlling interest includes Kutisay Mining Corp. and Kashka REE Plant Ltd until March 13, 2014

## 14. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes equity, comprised of issued common shares, contributed surplus, share purchase warrants, accumulated other comprehensive loss and deficit in the definition of capital. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business. The Company includes equity, comprised of issued common shares, contributed surplus and deficit in the definition of capital.

As at December 31, 2014, managed capital was $352,182 (2013 - $5,576,944). Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

## 15. FINANCIAL RISK MANAGEMENT

Credit risk

Credit risk relates to cash and cash equivalents and VAT receivable and arises from the possibility that any counterparty to an instrument fails to perform. The Company thoroughly examines the various financial risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by the Board of Directors. As at December 31, 2014, the Company's maximum exposure to credit risk was the carrying value of cash and cash equivalents and VAT receivable.

The Company has no significant concentration of credit risk arising from operations. The Company's cash and short-term investments are either on deposit with one of highly rated banking groups in Canada or invested in guaranteed investment certificates issued by one of highly rated Canadian banking groups. VAT receivables consist of sales tax receivable from government authorities in Canada, Kyrgyzstan and Russia. Management believes that the credit risk with respect to financial instruments included in cash, short-term investments and VAT receivable is remote.

Liquidity risk

The Company's exposure to liquidity risk is dependent on its ability to raise funds to meet purchase commitments and to sustain operations. The Company controls its liquidity risk by managing working capital and cash flows. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December, 2014, the Company had a cash balance of $176,699 (2013 - $559,163) and short-term investments of $Nil (2013 - $4,702,678) to settle current liabilities of $203,442 (2013 - $237,791). All of the Company's financial liabilities have contractual maturities of less than 12 months and are subject to normal trade terms. Subsequent to the year end, the Company raised additional capital for total net cash proceeds of $485,100 (Note 21 a, b).

Market risk

a) Interest Rate Risk

The Company's current policy is to invest excess cash in investment grade short-term deposit certificates issued by banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of the banks. The Company does not have any interest bearing debt.

b) Foreign Currency Risk

In the normal course of operations, the Company is exposed to currency risk due to business transactions in foreign countries. Transactions related to the Company's exploration and acquisition activities are mainly denominated in United States dollars ("USD") and some in Kyrgyz SOM and Russian Rubles. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rate. The Company has not entered into any derivative contracts to manage this risk. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the period-end exchange rates.

At December 31, 2014, the Canadian dollar equivalent of the Company's financial instruments is as follows:

| | | **Canadian Dollar** |
|---|---|---|
| Cash | $ | 44,426 |
| VAT receivable | | 44,745 |
| Accounts payable and accrued liabilities | | (88,928) |
| **Net assets (liabilities) exposure** | $ | 243 |

At December 31, 2013, the Canadian dollar equivalent of the Company's financial instruments is as follows:

| | | **Canadian Dollar** |
|---|---|---|
| Cash | $ | 331,247 |
| Prepaid expenses and other receivables | | 391,481 |
| Accounts payable and accrued liabilities | | (238,200) |
| **Net assets (liabilities) exposure** | $ | 484,528 |

Based on the above net exposures at December 31, 2014, a 10% depreciation or appreciation of the above currencies against the CDN dollar would result in an increase or decrease, respectively, in the net loss by $89 (2013 - $33,940).

## 16. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2014, the Company expensed $114,288 (2013 - $42,450) in consulting fees to a director and officers of the Company (included in the table below). These transactions are in the normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related party). The remuneration awarded to directors and to senior key management is as follows:

**(Expressed in Canadian dollars)**

| | **December 31, 2014** | December 31, 2013 |
|---|---|---|
| Salaries, officers and directors fees | **$ 406,141** | $ 1,473,599 |
| Stock-based compensation | **282,684** | $ 295,898 |
| | **$ 688,825** | $ 1,769,497 |

In 2013, as a result of the termination of the employment of the Company's President and CEO, the executive received a severance pay. Accordingly, the Company recognized an expense of $446,000 during the year ended December 31, 2013 (2014 - $Nil).

## 17. OFFICE AND ADMINISTRATION EXPENSES

The following expenses are included in office and administration expenses:

| | | **December 31, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Salaries and other employee benefits | **$** | **1,397,253** | $ | 2,457,357 |
| Travel | | **277,967** | | 293,534 |
| Rent | | **154,786** | | 194,410 |
| Promotion and advertising | | **39,865** | | 50,721 |
| Investors' relations | | **68,865** | | 34,674 |
| Other office expenses | | **484,105** | | 632,602 |
| | **$** | **2,422,841** | $ | 3,663,298 |

## 18. EARNINGS PER SHARE

Earnings per share (''EPS'') has been calculated using the weighted average number of common shares and common share equivalents issued and outstanding during the year. Stock options are reflected in diluted earnings per share by application of the treasury method.

As a result of the loss incurred in 2014 and 2013, all potentially dilutive securities are anti-dilutive. The following table details the weighted average number of outstanding common shares for the purpose of computing basic and diluted earnings per common share for the following years:

| | | **December 31, 2014** | | December 31, 2013 |
|---|---|---|---|---|
| Net loss for the year attributable to common shareholders | **$** | **(5,356,199)** | $ | (22,667,700) |
| Basic weighted average shares outstanding | | 157,263,986 | | 157,263,986 |
| Diluted weighted average shares outstanding | | 157,263,986 | | 157,263,986 |
| Basic and diluted loss per share | **$** | **(0.03)** | $ | (0.14) |

**(Expressed in Canadian dollars)**

## 19. INCOME TAXES

| | **Year ended December 31, 2014** | **Year ended December 31, 2013** |
|---|---|---|
| Change in deferred tax expense (recovery) | - | (638,771) |

Reconciliation of effective tax rate:

The provision for income tax differs from the amount that would have resulted by applying statutory income tax rates to income or loss before taxes. The difference results in the following:

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| Loss before tax | (5,365,879) | (23,474,169) |
| Statutory income tax rate | 26.50% | 26.50% |
| Expected income tax expense (recovery) at statutory rates | (1,421,958) | (6,220,655) |
| Non-deductible stock based compensation | 77,938 | 120,103 |
| Foreign tax rate differential | 350,391 | 3,158,072 |
| Change in unrecognized deferred tax asset | 1,142,929 | 2,169,396 |
| Other | (149,300) | 134,313 |
| Deferred tax expense (recovery) | - | (638,771) |

Unrecognized deferred tax assets:
Gross deductible temporary differences have not been recognized in respect of the following items:

| | 31-Dec-14 | 31-Dec-13 |
|---|---|---|
| Deductible temporary differences | 7,465,758 | 4,868,901 |
| Deductible temporary difference – investment in subsidiaries | 27,700,535 | 25,308,450 |
| Loss carry forwards | 31,955,046 | 24,799,673 |
| | 67,121,339 | 54,977,023 |

The tax losses not recognized expire as per the amount and year noted below. Deferred tax assets have not been recognized in respect of these items as it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

Non- Capital losses

As at December 31, 2014, the Company had the following tax losses to carry forward:

| | Amount | Expiry |
|---|---|---|
| Canada | 16,158,748 | 2028-2034 |
| Kyrgyzstan | 15,523,865 | 2015-2019 |
| Russia | 272,433 | 2021-2024 |
| | 31,955,046 | |

**(Expressed in Canadian dollars)**

## 20. COMMITMENTS

The Company is committed to pay approximately $6,900 per month for the lease of its corporate office.

| | 2015 | 2016 | 2017 | **Total** |
|---|---|---|---|---|
| Operating leases | $82,800 | $82,800 | $48,300 | **$213,900** |

## 21. SUBSEQUENT EVENTS

(a) On March 23, 2015, the Company issued 334,800 units for gross proceeds of $25,110. No finders' fees were paid. Pursuant to Canadian securities laws, the securities issuable under this private placement are subject to a hold period which expires on July 24, 2015. Each unit consisted of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company for a period of 24 months from date of issue at a price of $0.10 per common share.

(b) On April 13, 2015, the Company issued 9,419,800 units for gross proceeds of $470,990. Each unit consisted of one common share in the capital of the Company and one share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company for a period of 24 months from date of issue at a price of $0.065 per common share. Finders' fees were paid totaling $11,000 in cash and 215,500 finders' warrants, with each finder's warrant being exercisable to acquire one common share of the Company for a period of 24 months from date of issue at a price of $0.065 per common share. Pursuant to Canadian securities laws, the securities issuable under this private placement are subject to a hold period which expires on August 11, 2015.

(c) On April 29, 2015 in the Moscow City Arbitrazh Court, the Court set aside on procedural grounds the MCCI Tribunal award to the Company (see Note 1 and 8 (iii)).