

# **GOLD BULLION DEVELOPMENT CORP.**

**Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to the Consolidated Financial Statements**  
**June 30, 2015**

**Managements Responsibility for Financial Reporting**

These consolidated financial statements and other information in management's discussion and analysis were prepared by the management of Gold Bullion Development Corp., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with Canadian Generally Accepted Accounting Principles. Management has included amounts in the Company's financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gold Bullion Development Corp.

We have audited the accompanying consolidated financial statements of Gold Bullion Development Corp. and its subsidiary, which comprise the consolidated statements of financial position as at June 30, 2015 and 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and 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.

### Auditor's 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 the auditor's 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, the auditor considers 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 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 financial position of Gold Bullion Development Corp. and its subsidiary as at June 30, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company had continuing losses during the year ended June 30, 2015 and a working capital deficiency as at June 30, 2015. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
October 26, 2015

**GOLD BULLION DEVELOPMENT CORP.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

As at June 30, 2015 2014

**Assets**

**Current assets**

Cash	\$ 35,157	\$ 152,227
Receivables (Note 5)	135,141	154,813
Prepaid expenses	26,000	91,999
Assets held for sale (Note 9)	<u>25,690</u>	<u>-</u>

**Total current assets** 221,988 399,039

**Deposit - long-term (Note 6)** 171,800 171,800

**Property, plant and equipment (Note 8)** 51,013 69,775

**Total Assets** 444,801 640,614

**Liabilities**

**Current liabilities**

Trade and other payables and provisions (Note 10)	3,637,718	3,371,114
Liabilities of assets held for sale (Note 9)	<u>114,200</u>	<u>-</u>

**Total Liabilities** 3,751,918 3,371,114

**Shareholders' Equity**

Share capital (Note 11)	53,586,835	51,785,760
Reserves (Note 12)	3,337,947	6,224,515
Deficit	<u>(60,231,899)</u>	<u>(60,740,775)</u>

**Total Shareholders' Equity (Deficiency)** (3,307,117) (2,730,500)

**Total Liabilities and Shareholders' Equity (Deficiency)** \$ 444,801 \$ 640,614

**Nature of operations and going concern (Note 1)**

**Contingencies (Note 14)**

**Commitments (Note 15)**

**Subsequent events (Note 19)**

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa" \_\_\_\_\_, Director

Signed "Roger Thomas" \_\_\_\_\_, Director

**GOLD BULLION DEVELOPMENT CORP.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)  
For the years ended June 30,

	2015	2014
<b>Expenses</b>		
Exploration and evaluation (Note 7)		
Acquisition	\$ 15,000	\$ 20,000
Assaying and testing	50,951	14,856
Core analysis	-	44,901
Depreciation	18,762	26,028
Drilling	17,054	-
Equipment	194,512	192,805
Facility expenses	84,414	123,382
Geology, geophysics and surveys	141,220	149,952
Personnel costs	101,130	217,095
Program management and engineering	1,101,473	1,395,033
Royalty	-	15,000
Security	394	7,649
Taxes, permits and licensing	39,309	37,773
Mining tax credits	(107,402)	330,386
	<u>1,656,817</u>	<u>2,574,860</u>
Corporate		
Administrative and general expenses	86,014	72,473
Consulting fees	356,413	256,270
Management fees	230,560	209,953
Professional fees	236,149	200,118
Filing costs and shareholders' information	285,218	229,578
Travel	128,344	88,353
	<u>1,322,698</u>	<u>1,056,745</u>
Other items		
Premium on flow through shares	(420,729)	(197,860)
Interest and other income	(139)	(7,394)
Finders fees	-	-
Stock-based compensation (Note 12)	338,475	33,650
Prior years GST appeal recovery	-	(213,944)
Part XII.6 penalty and interest (Note 10)	23,790	475,794
Flow-through indemnification provision (Note 10)	52,286	1,395,718
Income tax re-assessed	26,855	-
Impairment write-down	-	366,293
	<u>20,538</u>	<u>1,852,257</u>
<b>Net loss for the year before income taxes</b>	<b>3,000,053</b>	<b>5,483,862</b>
Deferred income tax recovery	(10,787)	(23,853)
	<u>2,989,266</u>	<u>5,460,009</u>
<b>Net loss from continuing operations</b>	<b>2,989,266</b>	<b>5,460,009</b>
Discontinued operations		
Loss from discontinued operations (Note 9)	144,633	50,016
	<u>144,633</u>	<u>50,016</u>
<b>Net loss and comprehensive loss for the year</b>	<b>\$ 3,133,899</b>	<b>\$ 5,510,025</b>
<b>Loss per share - basic and diluted - continuing operations</b>	<b>\$ 0.01</b>	<b>\$ 0.02</b>
<b>Loss per share - basic and diluted - discontinued operations</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>
<b>Net loss per share - basic and diluted</b>	<b>\$ 0.01</b>	<b>\$ 0.02</b>
<b>Weighted average number of shares outstanding</b>		
basic and diluted	<u>291,573,261</u>	<u>244,349,630</u>

See accompanying notes to the consolidated financial statements.

**GOLD BULLION DEVELOPMENT CORP.**  
**Consolidated Statement of Changes in Equity**  
(Expressed in Canadian Dollars)

	<b>Share Capital</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total Equity (Deficiency)</b>
Balance June 30, 2013	\$ 50,442,351	\$ 6,647,749	\$ (55,745,800)	\$ 1,344,300
Issued by private placement	1,495,369	251,440	-	1,746,809
Premium on flow-through shares	(197,860)	-	-	(197,860)
Share issue costs	(112,271)	(14,900)	-	(127,171)
Options granted and vested	-	33,650	-	33,650
Options expired	-	(515,050)	515,050	-
Warrants expired	180,024	(180,024)	-	-
Tax impact on expiry of warrants	(23,853)	-	-	(23,853)
Issued for expenses	2,000	1,650	-	3,650
Net loss for the year ended June 30, 2014	-	-	(5,510,025)	(5,510,025)
<b>Balance June 30, 2014</b>	<b>\$ 51,785,760</b>	<b>\$ 6,224,515</b>	<b>\$ (60,740,775)</b>	<b>\$ (2,730,500)</b>
Issued by private placement	2,322,656	585,183	-	2,907,839
Premium on flow-through shares	(420,729)	-	-	(420,729)
Share issue costs	(171,478)	(86,038)	-	(257,516)
Options granted and vested	-	338,475	-	338,475
Options expired	-	(3,642,775)	3,642,775	-
Warrants expired	81,413	(81,413)	-	-
Tax impact on expiry of warrants	(10,787)	-	-	(10,787)
Net loss for the year ended June 30, 2015	-	-	(3,133,899)	(3,133,899)
<b>Balance June 30, 2015</b>	<b>\$ 53,586,835</b>	<b>\$ 3,337,947</b>	<b>\$ (60,231,899)</b>	<b>\$ (3,307,117)</b>

See accompanying notes to the consolidated financial statements.

# GOLD BULLION DEVELOPMENT CORP.

## Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended June 30,	2015	2014
<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net loss from continuing operations	\$ (2,989,266)	\$ (5,460,009)
Items not involving cash		
Depreciation	18,762	26,028
Stock-based compensation	338,475	33,650
Impairment write-down	-	366,293
Expenses paid with issue of shares and warrants	-	3,650
Premium on flow through shares	(420,729)	(197,860)
Deferred income tax recovery	(10,787)	(23,853)
Part XII.6 penalty and interest (Note 10)	23,790	475,794
Flow-through indemnification provision (Note 10)	52,286	1,395,718
Changes in non-cash working capital items		
Receivables	19,672	1,868,443
Prepaid expenses	65,999	(49,649)
Trade and other payables and provisions	190,528	51,275
<b>Net cash flows (used in) operating activities</b>	<b>(2,711,270)</b>	<b>(1,510,520)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants	2,835,551	1,730,639
Share issue costs	(185,228)	(111,001)
<b>Net cash flows generated from financing activities</b>	<b>2,650,323</b>	<b>1,619,638</b>
<b>Net cash flows (used in) discontinued operations (Note 9)</b>	<b>(56,123)</b>	<b>(9,340)</b>
<b>Change in cash during the year</b>	<b>(117,070)</b>	<b>99,778</b>
<b>Cash, beginning of year</b>	<b>152,227</b>	<b>52,449</b>
<b>Cash, end of year</b>		
Continuing operations	\$ 35,157	\$ 152,227
Discontinued operations	\$ 13,462	\$ -

See accompanying notes to the consolidated financial statements.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **1. Nature of Operations and Going Concern**

Gold Bullion Development Corp. ("Gold Bullion" or the "Company") is domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly-traded company with its shares listed on TSX Venture Exchange ("TSXV"), the Frankfurt Stock Exchange, and the US over-the-counter ("OTC") market. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company's head office is located at 2875 Avenue Granada, Rouyn-Noranda, Quebec, J9Y 1J1.

These consolidated financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 26, 2015.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to obtain additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations.

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 government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, and renegotiation of contracts.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

As at June 30, 2015, the Company had not yet achieved profitable operations, has accumulated losses of \$60,231,899 (June 30, 2014 - \$60,740,775) since its inception, has a working capital deficiency of \$3,529,930 (June 30, 2014 - working capital deficiency of \$2,972,075) and expects to incur further losses in the development of its business.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **1. Nature of Operations and Going Concern (cont'd)**

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. Management believes that unless additional funding is obtained there may be material uncertainty as to the Company's ability to continue as a going concern.

### **2. Basis of Preparation**

#### **(a) Statement of Compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies applied in these consolidated financial statements are presented in Note 3 and are based on IFRS applicable as at June 30, 2015.

#### **(b) Basis of Presentation**

These consolidated financial statements have been prepared on the historic cost basis, except certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of consolidated financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results may ultimately differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in Note 4.

#### **(c) Functional and Presentation Currency**

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiary.

For the purpose of the consolidated financial statements, the results and financial position are expressed in Canadian dollars. The Company does not have any foreign operations.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

#### **(a) Basis of Consolidation**

These consolidated financial statements incorporate the accounts of Gold Bullion Development Corp. and its subsidiary, Castle Silver Mines Inc. ("Castle").

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

All intercompany transactions, balances, and income and expenses are eliminated upon consolidation.

#### **(b) Foreign Currency Transactions**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in currencies other than the Company's functional currency are recognized in the consolidated statement of loss.

#### **(c) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and bank balances with original maturities of three months or less from the date of acquisition, or are available upon demand. The Company did not have any cash equivalents as at June 30, 2015 and June 30, 2014.

#### **(d) Financial Instruments**

Financial assets and financial 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 asset 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.

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial instruments at fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or financial liabilities at FVTPL unless they are designated within an effective hedging relationship.

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to the Consolidated Financial Statements**  
**Years Ended June 30, 2015 and 2014**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(d) Financial Instruments (cont'd)**

Financial assets classified at FVTPL are carried in the consolidated statements of financial position at fair value with changes being recognized in income in the consolidated statement of loss.

The Company's financial instruments consist of the following:

Cash equivalents are classified as FVTPL. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recognized in income as they occur and reflected in the consolidated statement of loss.

Receivable and cash are classified under "loans and receivables". Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement at fair value, they are carried at amortized cost using the effective interest rate method, which generally corresponds to their cost due to their short-term maturity.

Trade and other payables, and accrued liabilities are classified under "other financial liabilities". Other financial liabilities are financial liabilities that are not classified as FVTPL. After their initial measurement at fair value, they are carried at amortized cost, using the effective interest rate method. It generally corresponds to their cost due to their relative short-term maturity.

*Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(d) Financial Instruments (cont'd)**

##### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the financial assets. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the consolidated statement of loss.

An impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized.

##### *Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, including mineral property rights, mine properties under development, mineral property assets and property, plant and equipment, to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

#### **(e) Property, Plant and Equipment**

##### *Recognition and measurement*

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses.

On initial recognition, property, plant, and equipment are valued at cost, being the purchase price and directly attributable cost required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(e) Property, Plant and Equipment (cont'd)**

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant, buildings and equipment.

Amortization is recognized in profit or loss on a declining balance basis at the following annual rates:

Equipment	20%
Vehicles	30%

An asset's amortization methods, useful lives and residual values are reviewed on an annual basis and adjusted, if appropriate.

#### **(f) Exploration and Evaluation Expenditures**

Exploration and Evaluation ("E&E") expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are expensed as Exploration and Evaluation Expenses on an "area of interest basis" which generally is defined as a project. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises of a single mine or deposit.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, additional E&E expenditures will be charged to mining properties. Currently, the Company does not hold any assets classified as mining properties.

#### **(g) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost and is based on the discount rates that reflect current market assessments and the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions as at June 30, 2015 and 2014.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(h) Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable in respect of previous years.

Deferred tax is determined using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date.

#### **(i) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company intends to finance a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature.

At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a deferred liability on the consolidated statement of financial position. When the expenditures are renounced, the deferred liability is reversed and this amount is recognized in the consolidated statement of loss.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(i) Share Capital (cont'd)**

The proceeds attributable to the warrants are also treated as equity and recorded in share-based payments reserve on the consolidated statements of financial position until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are measured at the fair value of the properties, goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

#### **(j) Share Issuance Costs**

Share issuance costs are applied to reduce the proceeds of share capital issued in the year they are incurred.

#### **(k) Share-Based Compensation**

The Company uses the fair value method of valuing its equity settled share-based compensation plans. Under this method, compensation cost attributable to share-based plans are measured at their fair value on the grant date and expensed in the statement of loss over the vesting period with a corresponding credit to share based payment reserve. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model. When options are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired options is transferred to deficit.

Equity settled share-based compensation with non-employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the services.

#### **(l) Valuation of Equity Units in Private Placements**

The Company uses the fair value method to value any warrants and broker warrants issued in private placements. The fair value assigned to share purchase warrants is recorded as a reduction to share capital and an increase to share-based payments reserves. The fair value assigned to broker warrants is recorded as share issue costs and an increase to share-based payments reserve. The fair value of each warrant is estimated on the date of the grant using the Black-Scholes warrant-pricing model. Warrant pricing models require the input of highly subjective assumptions, including the expected price volatility and changes in these assumptions can materially affect the fair value estimate. When warrants are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(m) Loss per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

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 effect of all dilutive warrants and options outstanding that may add to the total number of common shares.

As at June 30, 2015 and 2014, all outstanding warrants and options are anti-dilutive because the Company was in a net loss position. As a result, all options and warrants are excluded from the calculation of diluted loss per share.

#### **(n) Decommissioning Liabilities**

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in accretion of decommissioning liability in the consolidated statement of loss. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when there is a legal obligation to restore the site. The Company presently has no decommissioning liabilities or provisions as at June 30, 2015 and 2014.

#### **(o) Assets Held For Sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

#### **(p) Discontinued Operations**

Classification as a discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

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**(Expressed in Canadian Dollars)**

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### **3. Significant Accounting Policies (cont'd)**

#### **(q) Changes in Accounting Standards**

The Company has adopted the following new standards, along with any consequential amendments, effective July 1, 2014. These changes were made in accordance with the applicable transitional provisions.

**IAS 32 – Financial Instruments: Presentation** (“IAS 32”) was amended by the IASB in December 2011 to clarify certain aspects of the requirements on offsetting. The amendments focus on the criterion that an entity currently has a legally enforceable right to set off the recognized amounts and the criterion that an entity intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. The adoption of this amended standard did not result in any material change to the Company’s consolidated financial statements.

#### **(r) New Accounting Standards and Interpretations**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after July 1, 2014 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

**IFRS 9 – Financial Instruments** (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

**IAS 1 – Presentation of Financial Statements** (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

**IAS 24 – Related Party Disclosures** (“IAS 24”) was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **4. Significant Judgements, Estimates and Assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the year. Estimates and judgments are continuously 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 those estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

#### *Income taxes*

Assessing the recoverability of deferred income tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the deferred tax assets and liabilities recorded at the yearend date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

#### *Decommissioning and restoration costs*

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is one that reflects current market assessments and the risks specific to the liability.

#### *Share-based payments*

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

(Expressed in Canadian Dollars)

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### 4. Significant Judgements, Estimates and Assumptions (cont'd)

#### *Premium on Flow-through shares*

At the time of issue, the Company estimates the proportion of proceeds attributed to the flow-through share, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded in trade and other payables on the consolidated statements of financial position. When the eligible expenditures are incurred, the Flow-Through Premium is reversed into the statement of loss within other income (expenses) when the eligible expenditures are incurred.

### 5. Receivables

	June 30, 2015	June 30, 2014
Commodity taxes	\$ 103,394	\$ 98,168
Other	20,000	-
Tax credits receivable	11,747	56,645
	<u>\$ 135,141</u>	<u>\$ 154,813</u>

The Company is entitled to a refundable tax credit of up to 35% (2014 – 35%) on qualified mining exploration expenditures net of flow-through renunciations incurred in the Province of Quebec and a refund of mining duties at an effective rate of up to 8% (2014 – 8%) on qualified Canadian exploration expenditures net of flow-through renunciations and the refundable tax credit. These refunds are applied against the exploration expenses and included in tax credits receivable.

### 6. Deposit – Long-term

As at June 30, 2015 and 2014, the Company has a non-interest bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site. The Company had estimated that it has no material decommissioning obligations as at June 30, 2015 and 2014.

### 7. Exploration and Evaluation Projects

The Company has determined that as at June 30, 2015 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified in mining properties. Accordingly the Company has expensed all exploration and evaluation expenditures in the year. As of June 30, 2015 and 2014, the Company did not hold any assets classified as mining properties.

#### Granada Property, Quebec, Canada

The Company holds a 100% interest to certain mining leases and claims. The mining leases are subject to a 2% GMR, ½ of which may be purchased for \$1,000,000 and a 1% NSR and 23 of the original mining claims are subject to a 1% NSR. Additionally, there is a 2% NSR on 4 properties optioned from the D2D3 Group (“D2D3”) in 2010, half of which may be purchased for \$1,000,000.

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

Years Ended June 30, 2015 and 2014

(Expressed in Canadian Dollars)

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### 7. Exploration and Evaluation Projects (cont'd)

#### Castle Property, Ontario, Canada

The Company, through its wholly-owned subsidiary, Castle, holds a 100% interest to certain claims and parcels located in the Haultain and Nicol townships of Ontario. The property is subject to a sliding scale royalty on silver production which will start from 3% when the price of silver is US\$15 or lower per troy ounce and up to 5% when the price of silver is greater than US\$30 per troy ounce and a 5% gross overriding royalty on the sale of products derived from the property with a minimum annual payment of \$15,000 in the form of royalties on all future production from the property. See notes 9 and 19.

#### Beaver Property, Ontario, Canada

The Company holds a 7-year option with Jubilee Gold Exploration Ltd. ("Jubilee") to acquire a 100% interest to an area in Coleman Township, Ontario. The property is subject to a 3% net smelter return royalty, and the Company may purchase each 1% of the NSR royalty for \$1.5 million. On January 31, 2012, the Company entered into a consent to assignment and amendment of option agreement with Jubilee pursuant to which Jubilee consents to the assignment by Grupo Moje Limited ("Grupo"), which is owned by an officer and director of the Company, to the Company of all of the rights, obligations and liabilities of Grupo under the Option Agreement, signed on May 10, 2011, to the complete exoneration of Grupo; and agrees that the completion of the foregoing assignment by the following terms:

- i) Pay to Jubilee the sum of \$10,000 upon execution of this Agreement; and
- ii) Incur exploration expenditures aggregating \$100,000 on the property over a period of seven years as follows: \$20,000 in each year on or before May 10, 2012, 2013 and 2014, and \$10,000 in each of the further additional four years on or before May 10, 2018.
- iii) Pay to Jubilee, as prepayment of the Net Smelter Royalty the following amounts, commencing July 1, 2012 and continuing for a period of five years or until the property is put into commercial production, whichever is earlier:

<u>Date of payment</u>	<u>Amount</u>
July 1, 2012	\$10,000 (Paid)
July 1, 2013	\$10,000 (Paid)
July 1, 2014	\$10,000 (Paid)
July 1, 2015	\$15,000 (Paid)
July 1, 2016	\$15,000

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**8. Property, Plant and Equipment**

	June 30, 2015				
	Balance June 30, 2014	Additions (Disposals) (Write-down)	Balance June 30, 2015	Accumulated Amortization	Net
Equipment	\$21,703	-	\$21,703	\$4,340	\$17,363
Vehicles	48,072	-	48,072	14,422	33,650
	<u>\$69,775</u>		<u>\$69,775</u>	<u>\$18,762</u>	<u>\$51,013</u>

  

	June 30, 2014				
	Balance June 30, 2013	Additions (Disposals) (Write-down)	Balance June 30, 2014	Accumulated Amortization	Net
Equipment	\$27,129	-	\$27,129	\$ 5,426	\$21,703
Vehicles	68,674	-	68,674	20,602	48,072
	<u>\$95,803</u>		<u>\$95,803</u>	<u>\$26,028</u>	<u>\$69,775</u>

**9. Assets Held For Sale and Liabilities of Assets Held for Sale**

As at June 30, 2015, the Company had committed to a plan to sell Castle and had therefore presented all related assets and liabilities as held for sale. In April 2015, the Company entered into a share purchase agreement with Takara Resources Inc. ("Takara"), an arms'-length, publicly traded company, whereby Takara agreed to acquire all of the issued and outstanding common shares of Castle, the Company's wholly-owned subsidiary (the "Transaction").

In consideration, Takara will issue an aggregate of 10,000,000 units, in four equal instalments of 2,500,000 units per year over a three-year period, with the first issuance occurring on closing. Each unit consists of one common share and one common share purchase warrant, each exercisable at \$0.10 for a one-year period. The Transaction was subject to the approval of the TSXV.

The following table summarizes the assets and liabilities related to Castle:

	June 30, 2015
<b>Assets</b>	
Cash	\$ 13,462
Receivables	12,228
	<u>\$ 25,690</u>
<b>Liabilities</b>	
Trade and Other Payables	<u>\$ 114,200</u>

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

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### 9. Assets Held For Sale and Liabilities of Assets Held for Sale (cont'd)

As a result of the Transaction, the Company recognized net loss from discontinued operations of \$144,633 for the year ended June 30, 2015 (2014 - \$50,016).

The net cash flows used in discontinued operations for the year ended June 30, 2015 was \$56,123 (2014 - \$9,340). The breakdown of the net cash flows (used in) discontinued operations for the years ended June 30, 2015 and 2014 is as follows:

	June 30, 2015	June 30, 2014
Net cash flows (used in) operating activities	\$ (56,123)	\$ (9,340)
Net cash flows (used in) financing activities	-	-
Net cash flows (used in) investing activities	-	-
Net cash flows (used in) discontinued operations	\$ (56,123)	\$ (9,340)

Subsequent to June 30, 2015, the Company received TSXV approval and closed the Transaction on September 16, 2015. See note 19.

### 10. Trade and Other Payables and Provisions

	June 30, 2015	June 30, 2014
Trade payable	\$1,550,300	\$1,497,980
Due to related party	139,830	1,622
Part XII.6 taxes and interest <sup>(1)</sup>	385,852	367,478
Flow-through indemnification provision <sup>(1)</sup>	1,098,004	1,045,718
Part XII.6 taxes and interest <sup>(2)</sup>	113,732	108,316
Flow-through indemnification provision <sup>(2)</sup>	350,000	350,000
	\$3,637,718	\$3,371,114

(1) The Company had been reassessed for a renunciation shortfall of \$1,759,590 on unspent flow-through expenditures for fiscal years 2006 to 2008. During the year ended June 30, 2015, the Company had accrued \$23,790 (2014 - \$367,478) for Part XII.6 taxes and penalties on the shortfall. As at June 30, 2015, the Company has accrued \$1,098,004 (2014 - \$1,045,718) for potential indemnity for shareholders. The Company has reviewed the reassessment and has filed objections on certain of the CRA's claims.

(2) The Company has estimated potential Part XII.6 taxes and indemnity in relations to unspent flow-through expenditures on flow-through issuance in fiscal year 2012. During the year ended June 30, 2015, the Company had accrued interest of \$52,286 (2014 - nil). As at June 30, 2015, the Company has accrued \$113,732 (2014 - \$108,316) for Part XII.6 taxes and penalties on the shortfall. In addition, the Company has accrued \$350,000 for potential indemnity for shareholders.

**GOLD BULLION DEVELOPMENT CORP.**  
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**11. Share Capital**

**Authorized**

Unlimited number of common shares without par value

**Issued**

	2015		2014	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	257,606,874	\$51,785,760	228,486,974	\$50,442,351
Private placements	51,283,717	2,835,551	29,069,900	1,730,639
Premium on flow-through shares	-	(420,729)	-	(197,860)
Share issue costs	-	(171,478)	-	(112,271)
Value of warrants issued	-	(512,895)	-	(235,270)
Warrants expired	-	81,413	-	180,024
Tax impact on warrants expired	-	(10,787)	-	(23,853)
Issued for expenses	-	-	50,000	2,000
Balance, end of year	<b>308,890,591</b>	<b>\$ 53,586,835</b>	257,606,874	\$51,785,760

On August 18, 2013, the Company issued 50,000 common shares pursuant to a Memorandum of Understanding ("MOU") entered with a First Nation community. See note 15 (a) viii).

On October 21, 2013, the Company closed a non-brokered private placement financing by the issuance of 13,857,200 units at a purchase price of \$0.07 per unit for gross proceeds of \$970,004. Each unit consists of one flow-through common share in the capital of the Company and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one non-flow-through common share in the capital of the Company on or before April 21, 2015, at a purchase price of \$0.10 per share.

In connection with the private placement, the Company paid finders' fees consisting of \$72,000 in cash and issued 514,288 non-transferable broker warrants, each broker warrant exercisable into one common share in the capital of the Company on or before April 21, 2015 at a purchase price of \$0.10 per share.

On January 31, 2014, the Company closed a non-brokered private placement financing by the issuance of 15,212,700 units at a purchase price of \$0.05 per unit for gross proceeds of \$760,635. Each unit consists of one flow-through common share in the capital of the Company and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one non-flow-through common share in the capital of the Company on or before January 31, 2017, at a purchase price of \$0.10 per share.

In connection with the private placement, the Company paid finders' fees consisting of \$25,000 in cash and issued 500,000 non-transferable broker warrants, each broker warrant exercisable into one common share in the capital of the Company on or before January 31, 2017 at a purchase price of \$0.10 per share.

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

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### 11. Share Capital (cont'd)

On September 6, 2014, the Company closed a non-brokered private placement financing by the issuance of 18,091,019 flow-through units at a purchase price of \$0.065 per unit, and 6,952,698 non-flow-through units at a purchase price of \$0.05 per unit, for gross proceeds of \$1,523,551.

Each flow-through unit consists of one flow-through common share in the capital of the Company and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one non-flow-through common share in the capital of the Company on or before September 6, 2016, at a purchase price of \$0.10 per share.

Each non-flow-through unit consists of one non-flow-through common share in the capital of the Company and one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one non-flow-through common share in the capital of the Company on or before September 6, 2016, at a purchase price of \$0.10 per share.

In connection with the private placement, the Company paid finders' fees consisting of \$64,828 in cash.

In December 2014, the Company closed a non-brokered private placement financing by the issuance of 26,240,000 flow-through units at a purchase price of \$0.05 per unit for gross proceeds of \$1,312,000. Each unit consists of one flow-through common share in the capital of the Company and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one non-flow-through common share in the capital of the Company on or before December 23, 2016 or December 30, 2016, at a purchase price of \$0.10 per share.

In connection with the private placement, the Company paid finders' fees consisting of \$100,400 in cash and the issuance of 2,008,000 non-transferable finder's warrants with each finders warrants being exercisable to acquire one non-flow-through common share in the capital of the Company on or before December 23, 2016 or December 30, 2016, at a purchase price of \$0.10 per share.

### 12. Reserves

#### *Warrants*

The Company records the fair value of warrants issued. The fair value is determined using the Black-Scholes option pricing model. The following weighted average assumptions were used for the Black-Scholes option pricing model:

	2015	2014
Risk-free interest rate	1.02%-1.12%	0.97%-1.73%
Expected volatility	133%-136%	107%-142%
Expected dividend yield	0.00	0.00
Expected life (years)	2.0	1.5-5
Estimated fair value at grant date	\$0.015 to \$0.02	\$0.012 to \$0.033

**GOLD BULLION DEVELOPMENT CORP.**  
**Notes to the Consolidated Financial Statements**  
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**12. Reserves (cont'd)**

***Warrants (cont'd)***

	Number of Options	Weighted Average Exercise Price	Value of Options	Number of Warrants	Weighted Average Exercise Price	Value of Warrants	Total Value
Balance, June 30, 2013	19,390,000	\$ 0.30	\$ 6,467,725	11,294,018	\$ 0.18	\$ 180,024	\$ 6,647,749
Granted	500,000	0.05	8,000	15,599,238	0.10	238,191	246,191
Expired	(2,435,000)	0.28	(515,050)	(11,294,018)	0.18	(180,024)	(695,074)
Vesting	-	-	25,650	-	-	-	25,650
Balance, June 30, 2014	17,455,000	\$ 0.30	\$ 5,986,325	15,599,238	\$ 0.10	\$ 238,191	\$ 6,224,516
Granted	7,950,000	0.02	338,475	31,126,208	0.08	499,145	837,620
Expired	(10,105,000)	0.15	(3,642,775)	(7,442,888)	0.08	(81,414)	(3,724,189)
Vesting	-	-	-	-	-	-	-
Balance, June 30, 2015	15,300,000	\$ 0.17	\$ 2,682,025	39,282,558	\$ 0.10	\$ 655,922	\$ 3,337,947

A summary of the Company's outstanding warrants as at June 30, 2015 is presented below. Each warrant entitles the holder to purchase one common share:

Number of Warrants	Exercise Price	Expiry Date
50,000	\$0.10	August 19, 2018
7,606,350	0.10	January 31, 2017
500,000	0.10	January 31, 2017
9,045,510	0.10	September 6, 2016
6,952,698	0.10	September 6, 2016
9,570,000	0.10	December 23, 2016
1,440,000	0.10	December 23, 2016
3,550,000	0.10	December 30, 2016
568,000	0.10	December 30, 2016
<b>39,282,558</b>	<b>\$0.10</b>	

***Options***

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **12. Reserves (cont'd)**

#### ***Options (cont'd)***

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model.

- a) On June 6, 2014, the Company granted 500,000 stock options to a consultant of the Company. The options vested immediately on the date of the grant. The fair value of these options estimated on the date of the grant using the Black-Scholes option pricing model was \$8,000.
- b) On July 23, 2014, the Company granted 5,800,000 stock options to directors, officers, employees and consultants of the Company, at an exercise price of \$0.05 per share. Other than 300,000 options which will vest in stages over 12 months, the options vested immediately on the date of grant. The options are exercisable for a term of five years.
- c) On August 5, 2014, the Company granted 300,000 stock options to a consultant of the Company, at an exercise price of \$0.05 per share. The options vested immediately on the date of grant, and are exercisable for a term of five years.
- d) On September 4, 2014, the Company granted 550,000 stock options to marketing and investor relations consultants of the Company, at an exercise price of \$0.10 per share. The options will vest in stages over twelve months with no more than one-quarter of the options vesting in any three-month period. These options are exercisable for a period of 12 months.
- e) On January 19, 2015, the Company granted 600,000 stock options to a consultant of the Company, at an exercise price of \$0.05 per share. The options vested immediately on the date of grant, and were exercisable for a term of two years. The consultant's agreement was terminated effective March 31, 2015 and therefore under the terms of the Company's option plan these options expired on June 29, 2015.
- f) On May 14, 2015, the Company granted 400,000 stock options to a consultant of the Company, at an exercise price of \$0.05 per share. The options vested immediately on the date of grant, and are exercisable for a term of five years.
- g) On May 4, 2015, the Company entered into an Investor Relations Agreement to engage the services of Stirling Merchant Capital Inc. ("Stirling") to provide investor relations and marketing services to the Company. In consideration for services provided the Company has agreed to pay Stirling \$5,000 per month and to grant to Stirling 300,000 stock options at an exercise price of \$0.05 per share. The options were granted on May 21, 2015 and will vest in stages over twelve months with no more than one-quarter of the options vesting in any three month period. These options are exercisable for a period of 12 months.

**GOLD BULLION DEVELOPMENT CORP.**  
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**12. Reserves (cont'd)**

***Options (cont'd)***

For the year ended June 30, 2015, the Company recorded stock-based compensation expense of \$338,475 (June 30, 2014 - \$33,650). The following weighted-average assumptions were used for the Black-Scholes option pricing model:

	2015	2014
Risk-free interest rate	1.25%	1.06%
Expected volatility	114% to 151%	125%
Expected dividend yield	0.00	0.00
Expected life (years)	1 to 5 years	2 years
Estimated fair value at grant date	\$0.01 to \$0.049	\$0.016

A summary of the Company's outstanding stock options issued to directors, officers, employees and key consultants as at June 30, 2015 is presented below. Each option entitles the holder to purchase one common share:

Number of Options	Options Vested	Exercise Price	Expiry Date
200,000	200,000	\$0.47	September 22, 2015
900,000	900,000	0.48	October 6, 2015
1,200,000	1,200,000	0.65	January 5, 2016
250,000	250,000	0.35	March 25, 2016
300,000	300,000	0.35	July 14, 2016
3,650,000	3,650,000	0.13	January 4, 2022
200,000	200,000	0.15	March 9, 2017
150,000	150,000	0.10	March 11, 2018
600,000	600,000	0.10	March 11, 2018
600,000	600,000	0.10	June 12, 2018
500,000	500,000	0.05	June 6, 2016
4,900,000	4,900,000	0.05	July 23, 2019
300,000	281,096	0.05	July 23, 2019
300,000	300,000	0.05	August 5, 2019
550,000	450,548	0.10	September 4, 2015
400,000	400,000	0.05	May 14, 2020
300,000	32,787	0.05	May 21, 2016
<u>15,300,000</u>	<u>14,914,431</u>	<u>\$0.17</u>	

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

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### 13. Related Party Transactions

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group. The Board of Directors (executive and non-executive), President and Chief Executive Officer and Chief Financial officer are key management personnel.

The remuneration to key management personnel during the years ended June 30, 2015 and 2014 is as follows:

	June 30, 2015	June 30, 2014
Key management compensation	\$ 766,753	\$ 746,946
Stock-based compensation	139,650	-
	<u>\$ 906,403</u>	<u>\$ 746,946</u>

- a) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the year ended June 30, 2015, the total amount for such services provided was \$440,001 (2014 – \$451,167) of which \$440,000 (2014 – \$418,367) was recorded in exploration expenses and \$1 (2014 - \$32,800) in management fees. As at June 30, 2015, an amount of \$60,266 (2014 – \$nil) was included in trade and other payables, and an amount of \$nil (2014 - \$70,000) was included in prepaid expenses. The amount included in trade and other payables is unsecured, non interest-bearing, and generally due by 30 days.
- b) The Company retains the services of two directors and an officer to carry out administrative services. During the year ended June 30, 2015, the total amount for such services provided was \$326,753 (2014 – \$295,780) which was recorded in management and consulting fees. As at June 30, 2015, an amount of \$69,286 (2014 – \$1,622) was included in trade and other payables. The amount is unsecured, non interest-bearing, and generally due by 30 days.
- c) As part of the October 21, 2013 private placement, a corporation controlled by an officer and director of the Company subscribed for 1,000,000 flow-through units. See note 11.
- d) As part of the January 31, 2014 private placement, a corporation controlled by an officer and director of the Company subscribed for 2,800,000 flow-through units, and two directors of the Company subscribed for 570,000 and 480,000 flow-through units, respectively. See note 11.
- e) As part of the September 4, 2014 private placement, a director of the Company subscribed for 438,461 flow-through units and as part of the December 2014 private placement, a director of the Company subscribed for 1,140,000 flow-through units. See note 11.

### 14. Contingencies

- a) The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. As at June 30, 2015 and to the best knowledge of its management, the Company is, at the present, in conformity with the laws and regulations.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

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### **14. Contingencies (cont'd)**

- b) The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- i) Two years following the flow-through investment;
- ii) One year after the Company has renounced the tax deductions relating to the exploration work.

During the year ended June 30, 2015, the Company received \$2,835,551 (2014 – \$1,730,639) from flow-through share issuances. According to the tax rules, the Company has until December 31, 2015 to spend this amount on qualified exploration expenditures. As at June 30, 2015, the Company had an unspent amount of \$1,616,106.

The Company has indemnified the subscribers of current and previous flow-through offerings against any tax related amounts that become payable by shareholders in the event the Company does not meet its expenditure commitment. As at June 30, 2015, in relations to renunciation shortfalls from fiscal years 2006 to 2008, the Company has accrued \$385,852 (2014 – \$367,478) for Part XII.6 taxes and penalties on the \$1,759,590 shortfall. In addition, \$1,098,004 (2014 - \$1,045,718) has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors. The Company had reviewed the reassessment proposed by the CRA, and had filed objections on certain of the claims. In relations to renunciation shortfall from fiscal year 2012, the Company has accrued \$113,732 (2014 – \$108,316) for Part XII.6 taxes and penalties on the \$765,495 shortfall. In addition, \$350,000 has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors.

- c) On March 15, 2012, Genivar Inc. (“Genivar”) instituted a lawsuit against the Company in the Quebec Superior Court, claiming approximately \$785,000 in unpaid fees. The action relates to work which Genivar performed for Gold Bullion, primarily with respect to its Granada gold property in northwestern Quebec.

Gold Bullion will vigorously defend the action and has instituted a counter-claim against Genivar, under which Gold Bullion has claimed damages from Genivar, claiming poor quality of the work performed by Genivar and the costs incurred by Gold Bullion to have portions of the work redone.

Examinations on the claim and counter-claim began to take place on May 23, 2013. As at June 30, 2015, the outcome of these procedures cannot be reasonably determined. The Company had accrued an amount of \$815,772 as part of the trade and other payables balance.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

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### **15. Commitments**

#### **(a) Consulting service agreements**

The Company has consulting service agreements with related parties (certain officers and directors).

- i) Effective January 1, 2007, and amended December 1, 2010, May 16, 2013 and March 1, 2015, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company to provide management services of Frank Basa in consideration for a nominal annual fee of \$1. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 480 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement.
- ii) Effective January 1, 2014, the Company entered into a management agreement with Mineral Recovery Management Systems Corp. ("MRMSC"), a company controlled by Frank Basa and Elaine Basa, to provide project management, engineering and geological services to the Company in consideration of \$25,000 per month for the services of Frank Basa and \$11,666.67 per month for the services of Elaine Basa. Either party may terminate this agreement by giving a four months' notice to the other, subject to certain provisions of the agreement.
- iii) Effective July 1, 2010 and amended January 1, 2012, and March 1, 2015, the Company entered into a consulting agreement with a director and officer of the Company. The fee for consulting services was \$9,500 per month. Either party may terminate this engagement by giving four months' notice to the other, subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$228,000.
- iv) Effective December 1, 2010 and amended October 1, 2011 and March 1, 2015, the Company entered into an agreement with a director of the Company. The fee for consulting services was \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. The agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant in the amount of \$192,000.
- v) Effective March 1, 2011 and amended February 1, 2012 and March 1, 2015, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$192,000.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

**(Expressed in Canadian Dollars)**

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### **15. Commitments (cont'd)**

#### **(b) Consulting service agreement with non-related parties:**

- vi) Effective December 1, 2010 and amended January 1, 2012 and March 11, 2015, the Company entered into an agreement with a consultant of the Company. The fee for consulting services is \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. The agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant in the amount of \$192,000.
- vii) The Company is committed to pay an annual royalty payment in the amount of \$15,000 to Jubilee Gold Exploration Ltd. See note 7.
- viii) The Company has entered into a Memorandum of Understanding ("MOU") with the Mattagami First Nation community in connection with certain exploration and evaluation programs in their area in return for contributions towards education and environmental activities and the improvement of community facilities. Also, the Company will pay 2% of all costs of the exploration program incurred to date and thereafter to the First Nation community.

In addition, the Company issued 50,000 common shares and 50,000 warrants to the First Nation community during the year ended June 30, 2014. The fair value of these warrants estimated on the date of the issuance using the Black-Scholes option pricing model was \$1,650.

The MOU also includes terms outlining environmental protection, employment, training and business opportunities, and mitigation of impacts on the traditional pursuits of the members of the Mattagami First Nation community.

- ix) As the triggering event disclosed in Note 15 i), iii), iv), v) and vi) has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

### **16. Financial Risk Management**

#### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, including commodity price risk;
- foreign currency exchange risk;
- interest rate risk; and
- operational risk.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

**Years Ended June 30, 2015 and 2014**

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### **16. Financial Risk Management (cont'd)**

#### **Overview (cont'd)**

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### **Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfills its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team. There have been no changes in the risks, objectives, policies and procedures during 2015 and 2014.

#### **Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

#### **a) Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. Management believes the risk of loss to be minimal.

#### **b) Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations. Management believes that the credit risk with respect to financial instruments included in receivables is minimal.

# **GOLD BULLION DEVELOPMENT CORP.**

## **Notes to the Consolidated Financial Statements**

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### **16. Financial Risk Management (cont'd)**

#### **Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation. The Company generates cash flow primarily from its financing activities.

As at June 30, 2015, the Company had cash of \$35,157 (June 30, 2014 - \$152,227) to settle current liabilities of \$3,751,918 (2014 - \$3,371,114).

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

#### **Classification of Financial Instruments**

As at June 30, 2015 and 2014, the Company did not have any financial assets or liabilities measured at fair value.

#### **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate risk, and commodity prices will affect the Company's income, the value of its Evaluation and Exploration properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

##### **a) Commodity price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world. As the Company is still in the exploration and evaluation stage, the fluctuation of gold and silver prices does not have a significant impact on the Company.

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### 16. Financial Risk Management (cont'd)

#### Market Risk (cont'd)

##### b) Foreign currency exchange risk

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's functional and reporting currency is the Canadian dollar. The movement on US rates related to the Canadian dollar may impact the future economic feasibility of the Company's mining interests. As the Company is still in the exploration and evaluation stage, the fluctuation of the US dollar does not have a significant impact on the Company.

##### c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

As at June 30, 2015 and 2014, the Company's exposure to interest rate risk is summarized as follows:

Receivables	Non-interest bearing
Trade and other payables	Non-interest bearing

#### Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- i) The Company receives low interest rates on its cash balances and, as such, the Company does not have significant interest rate risk.
- ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign currency risk.

### 17. Capital Management Disclosures

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation projects. 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 to sustain future development of the business.

The Company considers its capital to be equity, which is comprised of common shares, reserves and deficit, which as at June 30, 2015 totalled a shareholders' deficiency of \$3,307,117 (June 30, 2014 – \$2,730,500).

# GOLD BULLION DEVELOPMENT CORP.

## Notes to the Consolidated Financial Statements

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### 17. Capital Management Disclosures (cont'd)

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company currently has no significant source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. 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 years ended June 30, 2015 and 2014.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of June 30, 2015, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

### 18. Income Taxes

#### a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory income tax rate of 26.9% (2014 – 26.9%) were as follows:

	Year Ended June 30, 2015 \$	Year Ended June 30, 2014 \$
(Loss) before income taxes	(3,000,053)	(5,533,879)
Combined statutory income tax rate	26.9%	26.9%
Expected income tax recovery based on statutory rate	(807,000)	(1,489,000)
Adjustment to expected income tax benefit:		
Stock-based compensation	91,000	9,000
Flow-through renunciation	370,000	392,000
Non-deductible expenses and other	802,000	144,000
Investment tax credits	-	(18,000)
Changes in benefit of tax assets not recognized	(456,000)	962,000
Deferred income tax provision (recovery)	-	-

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**18. Income Taxes (cont'd)**

b) Deferred income tax

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

	Year Ended June 30, 2015 \$	Year Ended June 30, 2014 \$
Non-capital loss carry-forwards	16,715,000	16,524,000
Exploration and evaluation	21,442,000	22,423,000
Share issuance costs	481,000	647,000
Investment tax credits	987,000	1,019,000
Property, plant and equipment	905,000	886,000
Eligible capital expenditures	1,086,000	1,047,000
	41,616,000	42,546,000
Tax benefits not recognized	(41,616,000)	(42,546,000)

c) Tax loss carry-forwards

As at June 30, 2015, the Company had estimated non-capital losses in Canadian income tax purposes of approximately \$16,715,000 (2014 - \$16,524,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2035.

Expiry	Total \$
2026	204,000
2027	924,000
2028	658,000
2029	584,000
2030	1,329,000
2031	4,611,000
2032	2,700,000
2033	3,113,000
2034	432,000
2035	2,160,000
	<u>16,715,000</u>

As at June 30, 2015, the Company had approximately \$7,379,000 (2014 – \$8,322,000), \$13,622,000 (2014 – \$13,660,000), \$264,000 (2014 – \$264,000) and \$177,000 (2014 – \$177,000) of Canadian development expenditures, Canadian exploration expenditures, foreign resource expenditures and depletion credit, respectively, which, under certain circumstances, may be utilized to reduce taxable income of future years.

In addition, the Company also had approximately \$987,000 (2014 – \$1,019,000) of pre-production mining expenditures, which under certain circumstances, may be used to reduce tax payable in future years.

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### **19. Subsequent Events**

Subsequent to June 30, 2015, the following transactions occurred:

- a) On August 4, 2015, the Company entered into two loan agreements and a Supply and Services agreement for proceeds totaling \$800,000.

The first loan agreement is with an existing shareholder a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should that option become feasible while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the discretion of the lender.

The second loan is from a company owned by a director of the Company and comprises a \$100,000 demand loan also with a three-year term at an interest rate of 8% calculated monthly and payable annually.

The third agreement is a Supply and Services non-interest bearing loan for \$500,000 over the upcoming 12 month period from a company owned by a director of the Company. The lender has the option to obtain loan principal repayments including interest as applicable, in gold valued at US \$800 per ounce if feasible. The Supply and Services loan is to be used for specific projects on the property that will advance the Company forward.

The Granada Gold property is to be registered as security against the three loans.

- b) In September 2015, the Company received regulatory approval from the TSXV and closed the sale of its wholly-owned subsidiary Castle to Takara Resources Inc.

Takara has subsequently acquired all of the issued and outstanding common shares of Castle from the Company in exchange for 10,000,000 units of Takara to be issued in equal amounts of 2,500,000 units with the first issuance on closing of the transaction and the remaining issuances on each anniversary from the closing date for the next 3 years. Each unit comprises of one common share in the capital of Takara and one common share purchase warrant exercisable at \$0.10.

- c) On October 8, 2015, the Company entered into an Assignment Agreement (the "Agreement") with Takara, granting Takara the right to acquire a 100% interest in the Beaver and Violet cobalt and silver properties located in the township of Coleman, in northern Ontario. Pursuant to the Agreement, Takara will pay the Company an aggregate of \$75,000, consisting of \$15,000 payable with ten days upon execution of the Agreement plus four equal instalments of \$15,000 on the first, second, third and fourth anniversary dates of the date of the Agreement.