# Carpathian Gold Inc.

Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2015 and 2014

**Notice of no auditor review of Condensed Interim Consolidated Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statement have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim consolidated financial statements by an entity's auditor.

# Carpathian Gold Inc.
## Consolidated Statements of Financial Position
## (In United States Dollars)
(Unaudited)

**As at**

| | Note | March 31, 2015 $ | December 31, 2014 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **639,827** | 310,736 |
| Restricted deposits | 5 | **1,248,004** | 1,248,017 |
| Derivative contracts | 20 and 21 | **1,710,218** | 5,221,708 |
| Trade receivables | | **3,433,348** | 1,913,427 |
| Prepaid expenses and sundry receivables | | **1,226,448** | 2,909,929 |
| Inventory | 6 | **31,129,505** | 25,271,591 |
| | | **39,387,350** | 36,875,408 |
| **Non-current assets** | | | |
| Deposits and receivables | | **3,322,668** | 3,483,837 |
| Property, plant and equipment | 4 and 7 | **25,133,942** | 27,853,937 |
| Software license costs | 4 and 8 | **635,787** | 662,442 |
| Derivative contracts | 20 and 21 | **4,189,212** | 5,557,391 |
| Exploration and evaluation assets | 4 and 9 | **-** | - |
| Mine development assets | 4 and 9 | **11,254,809** | 11,990,493 |
| **Total Assets** | | **93,923,768** | 86,423,508 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **12,740,120** | 16,241,500 |
| Project loan facility– short-term | 15 | **207,753,740** | 194,017,772 |
| Payables from Gold Stream transaction | 16 | **27,549,600** | 27,549,600 |
| Derivative contracts | 20 and 21 | **4,883,023** | - |
| Deferred income | | **-** | 785,039 |
| | | **252,926,483** | 238,593,911 |
| **Non-current liabilities** | | | |
| Rehabilitation provisions | 20 | **5,853,774** | 5,787,969 |
| Derivative contracts | 20 and 21 | **15,067,731** | 4,759,237 |
| **Total Liabilities** | | **273,847,988** | 249,141,117 |
| **(Deficiency) Equity attributable to Shareholders** | | | |
| Share capital | 10 | **196,773,069** | 196,773,069 |
| Warrants | 10 | **3,256,109** | 3,256,109 |
| Contributed surplus | | **10,928,388** | 10,925,856 |
| Accumulated deficit | | **(385,963,572)** | (365,067,022) |
| Accumulated other comprehensive loss | | **(14,918,214)** | (8,605,621) |
| **Total (Deficiency) Equity** | | **(189,924,220)** | (162,717,609) |
| **Total Liabilities and (Deficiency) Equity** | | **83,923,768** | 86,423,508 |

Going concern (Note 1)

**Approved by the Board of Directors**

Director (signed) Guy Charette Director (signed) David Danziger

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

## Carpathian Gold Inc.
## Consolidated Statements of Loss and Comprehensive Loss
## For the three months ended March 31, 2015 and 2014
## (In United States Dollars)
## (Unaudited)

| | Note | 2015<br>$ | 2014<br>$ |
|---|---|---|---|
| **Revenues** | | **22,391,584** | - |
| **Expenses** | | | |
| Costs and expenses of mining operations | | | |
| Operating costs and mine site administrative expenses | | **13,245,202** | - |
| Mine site depreciation and amortization | | **5,699,502** | - |
| Development stage operating costs and mine site administrative expenses | | **-** | 5,649,977 |
| General and administrative expenses | 11(a) | **3,396,577** | 3,046,025 |
| Depreciation and amortization | | **24,647** | 14,984 |
| Employee compensation expense | 11(b) | **997,988** | 453,344 |
| Impairment | 4 | **230,100** | - |
| Net (gain) loss on derivative contracts | 20 and 21 | **20,071,186** | 11,170,354 |
| Finance costs | | | |
| Interest | | **7,281,390** | - |
| Accretion | | **65,804** | - |
| Other income | 11(c) | **(7,724,262)** | (2,132,808) |
| **(Loss) gain for the period before income tax provision** | | **(20,896,550)** | (18,201,876) |
| **Income tax provision (recovery)** | | **-** | 5,054 |
| **Loss for the period** | | **(20,896,550)** | (18,196,822) |
| **Other comprehensive loss** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Cumulative translation adjustments | | **(6,312,593)** | (2,657,194) |
| **Other comprehensive loss for the period** | | **(6,312,593)** | (2,657,194) |
| **Total comprehensive loss for the period** | | **(27,209,143)** | (20,854,016) |
| **Basic and diluted loss per share** | 12 | **(0.03)** | (0.03) |

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

# Carpathian Gold Inc.
# Consolidated Statements of Changes in Shareholders' (Deficiency) Equity
## For the three months ended March 31, 2015 and 2014
## (In United States Dollars)
(Unaudited)

| | Share capital (Note 10) $ | Warrants (Note 10) $ | Contributed surplus $ | Accumulated deficit $ | Total Accumulated other comprehensive income (loss) $ | Total $ |
|---|---|---|---|---|---|---|
| Balance, January 1, 2014 | 196,773,069 | 3,256,109 | 10,894,939 | (150,598,613) | (1,852,750) | 58,472,754 |
| Comprehensive loss | | | | (18,196,822) | (2,657,194) | (20,854,016) |
| Amortization of options | | | 2,397 | | | 2,397 |
| Balance, March 31, 2014 | 196,773,069 | 3,256,109 | 10,897,336 | (168,795,435) | (4,509,944) | 37,621,135 |
| Comprehensive loss | | | | (214,468,409) | (6,752,871) | (221,221,280) |
| Amortization of options | | | 30,917 | | | 30,917 |
| Balance, December 31, 2014 | 196,773,069 | 3,256,109 | 10,925,856 | (365,067,022) | (8,605,621) | (162,717,609) |
| Comprehensive loss | | | | (20,896,550) | (6,312,593) | (27,209,143) |
| Amortization of options | | | 2,532 | | | 2,532 |
| Balance, March 31, 2015 | 196,773,069 | 3,256,109 | 10,928,388 | (385,963,572) | (14,918,213) | (189,924,220) |

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

# Carpathian Gold Inc.
# Consolidated Statements of Cash Flows
# For the three months ended March 31, 2015 and 2014
# (In United States Dollars)
# (Unaudited)

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the period | **(20,896,550)** | (18,196,822) |
| Depreciation and amortization | **5,724,149** | 14,984 |
| Accretion | **65,804** | - |
| Unrealized foreign exchange gain | **(7,731,945)** | (2,128,846) |
| Share-based payments | **2,532** | 2,912 |
| Impairment | **230,100** | - |
| Deferred income tax | **-** | (5,054) |
| Interest income | **(1,021)** | (16,907) |
| Deferred share unit costs | **(3,064)** | 130,435 |
| Unrealized loss on derivative contracts | **20,071,186** | 11,170,354 |
| Changes in non-cash working capital balances | | |
| Trade receivables | **(1,519,921)** | - |
| Prepaid expenses and sundry receivables | **1,683,482** | (185,163) |
| Inventories | **(5,857,914)** | (2,164,466) |
| Trade, other payables and payables from Gold Stream transaction [1] | **(5,472,834)** | (8,320,199) |
| Deferred revenues | **(785,039)** | - |
| | **(14,491,035)** | (19,698,772) |
| **Cash flows from investing activities** | | |
| Restricted deposits | **13** | 1,183,516 |
| Interest income | **1,021** | 16,907 |
| Acquisition of property, plant and equipment | **(2,372,666)** | (5,254,619) |
| Acquisition of software licensing | **(9,733)** | (11,518) |
| Exploration and evaluation assets | **(234,580)** | (628,321) |
| Mine development assets | **(804,321)** | (5,358,198) |
| | **(3,420,266)** | (10,052,233) |
| **Cash flows from financing activities** | | |
| Proceeds from Project Loan Facility (net of costs) | **16,821,040** | 26,319,137 |
| | **16,821,040** | 26,319,137 |
| **Effect of exchange rates on cash and cash equivalents** | **1,419,352** | 675,396 |
| **Decrease in cash and cash equivalents** | **329,091** | (2,756,472) |
| **Cash and cash equivalents – Beginning of period** | **310,736** | 3,011,774 |
| **Cash and cash equivalents – End of period** | **639,827** | 255,302 |
| **Supplemental information:** | | |
| Interest paid | **10,188,508** | 5,550,720 |
| Income taxes paid | **-** | - |

[1] Included in trade and other payables are net of items related capital expenditure for Property, plant and equipment, Exploration and evaluation assets and Mine development assets totaling $1,667,102 (March 31, 2014 – $2,148,262).

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

## 1. Going Concern

Carpathian Gold Inc., together with its subsidiaries (collectively the “Corporation”), is a producing as well as exploration, development company focused primarily on gold production of the Riacho dos Machados (the “RDM Project”) gold project in Brazil as well as gold and copper exploration on its property in Romania.

Carpathian Gold Inc. was incorporated under the laws of Canada on January 17, 2003, is domiciled in Canada and its common shares are listed on the Toronto Stock Exchange (“TSX”) trading under the symbol “CPN”. The address of its registered office is 365 Bay Street, Suite 300, Toronto, Ontario.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities as they become due in the normal course of business for the foreseeable future. For year ended March 31, 2015, the Corporation incurred a net loss $20,896,551 and as at March 31, 2015 reported an accumulated deficit of $385,963,572, and negative working capital of $213,539,133.

As a result of delays in the completion of the construction at the RDM Project in 2013, Mineração Riacho dos Machados Ltda. (“MRDM”), as borrower, and the Corporation (as guarantor) in 2013 defaulted on certain covenants under the Project Loan Facility (the “Project Facility”) arrangement with Macquarie Bank Limited (“Macquarie Bank“). These covenant defaults related to financial and operational difficulties experienced by the Corporation, including delays in commencement of production and unplanned cost overruns. As a result, on October 18, 2013, MRDM and the Corporation entered into a Forbearance and Amendment Agreement, as amended, (the “Forbearance Agreement”) with Macquarie Bank, under which the lenders agreed to continue forbearing from exercising their rights under the Project Facility through May 29, 2015. Under the terms of the Forbearance Agreement, Macquarie Bank agreed, at its discretion, to provide an additional Tranche 3 under the Project Facility (Note 15), the availability of which shall be in the absolute discretion of the Macquarie Bank. The events of defaults have resulted in the Corporation reclassifying all borrowings under the Project Facility as current liabilities as at March 31, 2015 and recording an impairment charge in 2013 and 2014. In addition, Macquarie Bank is not obligated to deliver or make payments in respect of the derivative contracts per the agreements. This has resulted in the Corporation not being able to settle its derivative contracts.

Subsequent to year-end, the amount of rain during the first quarter of 2015 has to date fallen considerably short of annual averages. Consequently, due to the restriction on the availability of water, which is required for the operations at MRDM, the Corporation, in consultation with Macquarie Bank, is assessing a temporary reduction in levels of mining and processing activities at MRDM for the next several months.

The Corporation has $639,827 in cash and cash equivalents. These available funds are not sufficient to fund the operations of Riacho dos Machados, the exploration in Romania, working capital requirements or corporate administration costs. The Corporation will need to secure significant additional financing in the immediate term in order to meet the Corporation’s requirements for funding of operations and Project Facility repayments on an ongoing basis. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. These circumstances lead to significant doubt as to the ability of the Corporation to meet its obligations as they become due and, accordingly, the ultimate appropriateness of use of the accounting principles applicable to a going concern.

These unaudited condensed interim consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities or reported expenses and balance sheet classifications that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

## 2. Basis of Preparation

The Corporation prepares its unaudited condensed interim consolidated financial statements in accordance with IFRS as issued by the IASB applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*. These statements are condensed and do not include all of the information required for full annual financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2014.

These condensed interim consolidated financial statements were approved by the Board of Directors on May 15, 2015.

## 3. Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared on the basis of and using the accounting policies consistent with those applied and disclosed in Note 3 to the Corporation's annual financial statements for the year ended December 31, 2014.

### Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments.

### Principles of consolidation

The financial statements of the Corporation consolidate the accounts of Carpathian Gold Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities which Carpathian Gold Inc. controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Carpathian Gold Inc. controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Carpathian Gold Inc. and are de-consolidated from the date that control ceases.

**(In United States Dollars unless otherwise indicated)**

The Corporation's financial statements consolidate its subsidiaries which comprise the following:

| Name of entity | Country of incorporation | Ownership |
|---|---|---|
| OLV Cooperatie U.A. | The Netherlands | 100% |
| OLC Holdings B.V. | The Netherlands | 100% |
| Mineração Riacho dos Machados Ltda. ("MRDM") | Brazil | 100% |
| Ore-Leave Capital (Brazil) Limited | Barbados | 100% |
| Ore-Leave Capital (Barbados) Limited | Barbados | 100% |
| Carpat Gold S.R.L | Romania | 100% |
| Carpathian Gold Limited | British Virgin Islands | 100% |
| HUMEX Magyar-Angol Kutatasies Banyaszati Kft ("HUMEX Kft") | Hungary | 100% |
| SAMAX Romania Limited | British Virgin Islands | 100% |
| SAMAX Romania S.R.L. | Romania | 100% |

**Critical accounting estimates and judgments**

In preparing the condensed interim consolidated financial statements in accordance with the IFRS, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses for the period end. Critical accounting estimates represent estimated that are uncertain and for which changes to those estimates could materially impact the Corporation's condensed interim consolidated financial statement. Actual future outcomes may differ from present estimates. Management reviews its estimated and assumptions on an ongoing basis using the most current information available.

The judgements, estimates, assumptions and risks during the three months ended March 31, 2015 are the same as those disclosed in Note 3 to the Corporations' annual consolidated financial statements for the year ended December 31, 2014.

**New Accounting Standards**

The Corporation has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable provisions.

*IAS 36 – Impairment of Assets* clarifies the disclosure requirements of IAS 36, requiring disclosure, in certain instances, of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs to disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed.

*IAS 32 – Financial Instruments: Presentation* clarifies the right of set off and disclosure requirements for offsetting of financial assets and financial liabilities.

Following amendment to the standards was not applied in preparing these consolidated financial statements by the Corporation.

*IFRIC 21 – Levies* sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligation event is that gives rise to pay a levy and when should a liability be recognized. Based on the Corporation's review, there was no material impact on the Corporation's consolidated financial statements upon the adoption of IFRIC 21.

### Future Accounting Standards issued but not yet effective

*IFRS 9 – Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 - Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact of adopting this standard on the consolidated financial statements.

*IFRS 15 – Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2017, with earlier application permitted. The Corporation is currently assessing the impact of adopting this standard on the consolidated financial statements.

## 4. Impairment

As at March 31, 2015, a number of impairment indicators were noted by the Corporation in accordance with IAS 36 for its property, plant and equipment and mine assets and in accordance with IFRS 6 for its exploration and evaluation assets. Consequently, the Corporation undertook an impairment test on each of its identified CGUs, focused on MRDM and Romania ("Rovina Valley Project"). A CGU is generally an individual operating mine or development project.

*Romania*

During 2014, the key impairment indicators noted for this CGU were a reduction in the scope of the Rovina Valley Project to a less capital intensive build and smaller scale operations due to decline in commodity prices since the first Preliminary Economic Assessment completed on the project in March 2010 and increasing uncertainty as to whether the draft amended mining law in Romania will be passed enabling construction of mine in Romania.

The FVLCD method was used to determine the recoverable amount as this was determined to be a higher valuation than a value in use calculation. The recoverable amount as determined by the Corporation for the CGU was $nil.

The key assumptions and estimates used in determining the FVLCD were the probability of the mining law being passed in Romania and estimate of value a market participant would be willing to pay for the CGU based on recent marketing efforts by the Corporation.

Based on the test described above, as at March 31, 2015, exploration and evaluation assets was impaired by $230,100. These impairment charges were included within the loss for the period in the statement of comprehensive loss. The fair value of the CGU was measured using market approach and Level 3 inputs.

*MRDM*

During 2014, the key impairment indicators noted for this CGU were the delays of the Company to achieve production levels in accordance with its initial life of mine plan, market capitalization below the carrying value of the net assets of the Corporation as a whole, negative cash flows from operating activities, and a significant debt facility with Macquarie repayable on demand due to the Corporation defaulting on covenants. Subsequent to year-end further indicators of impairment were identified a forecast significant reduction in planned production capacity due to shortfall in availability of water required for the production process.

FVLCD was used to determine the recoverable amount as this was determined to be a higher valuation than a value in use model. The recoverable amount as determined by the Corporation for the CGU was $57,510,816.

For MRDM CGU, for the three months ended March 31, 2015, impairment charges totaled $Nil, of which property, plant and equipment were written down by $Nil (December 31, 2014: $81,940,336) exploration and evaluation assets were written down by $Nil (December 31, 2014: $3,921,466) and mine development assets were written down by $Nil (December 31, 2014: $34,740,628). These impairment charges were included within the loss for the year in the statement of comprehensive loss.

The fair value of the CGU was measured using a weighted probability method based on market approach and Level 3 inputs. At March 31, 2015, the fair value of the CGU was measured using discounted after-tax cash flows based on cash flow projections in the Corporation's current life of mine plans. There has been a change in the valuation technique as the Corporation expects to realize the value of the CGU from a sale rather than through continued operations of the CGU. Accordingly in 2014, Corporation has used a market approach to value the CGU.

The key assumptions and estimates used in determining the FVLCD were indicative offers received by the Corporation to purchase MRDM and forecast cash flows associated with the plan of operating the mine at a lower planned production capacity due to the identified forecasted water shortfall. The projected cash flows cover a 12 month period based on the latest expectation of future metal prices, future capital expenditures, production cost estimates and exchange rates. Based on observable market or publicly available data, including spot and forward metal prices, we make an assumption on future gold prices to estimate future revenues.  The key assumptions used by the Corporation in the projected cash flows for their impairment testing are: a future gold price of $1,200 per ounce; a Brazilian Reais to US$ exchange rate of 3.2:1; and on ore grade of 1.8 g Au/t.

The key assumptions that impact the forecasted cash flows are commodity price, exchange rate and ore grade.  A 10% decrease in the gold price holding all other assumptions constant would result in a decrease in the fair value of MRDM from $57,510,816 to $56,694,955 as at March 31, 2015.  A 10% decrease in the exchange rate, holding all other assumptions constant, would result in a decrease in the fair value of MRDM from $57,510,816 to $56,056,783 as at March 31, 2015.  A negative 30% change in the ore grade, holding other variables constant, reduces the fair value of MRDM to $55,766,927. Should there be a significant decline in commodity price, exchange rate or ore grade, the Corporation would take actions to assess the implications on carrying value of the assets, production plan and cost structure for MRDM.

## (In United States Dollars unless otherwise indicated)

### 5. Restricted Deposits

As at March 31, 2015 the Corporation's restricted deposits totaled $1,248,004 (December 31, 2014 - $1,248,017), representing an employee trust fund of $1,248,000 (December 31, 2014 - $1,248,000) and currency held in US$ which will be available to fund the operations of MRDM once it is converted to Brazilian Reais through execution of an exchange contract.

### 6. Inventory

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Finished products | **787,891** | 1,242,867 |
| Work-in-process | **25,153,610** | 19,557,191 |
| Stockpiles | **704,977** | 773,948 |
| Mine supplies | **4,483,027** | 3,697,585 |
| | **31,129,505** | 25,271,591 |

### 7. Property, Plant and Equipment

| | **Land** | **Plant and Other Constructions** | **Buildings** | **Leasehold Improvements** | **Office Equipment** | **Computer Equipment** | **Vehicles** | **Machinery & Equipment** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Cost** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| Balance, December 31, 2013 | 398,226 | 75,330,248 | 449,824 | 378,740 | 793,820 | 539,940 | 601,129 | 18,845,005 | 97,336,932 |
| Additions | - | 25,136,343 | 1,190,210 | 316 | 61,035 | 26,163 | - | 177,614 | 26,591,681 |
| Impairment (Note 4) | (9,825) | (81,940,336) | (395,697) | - | (6,365) | (15,958) | (54,439) | (8,596) | (82,431,216) |
| Disposals | - | - | - | - | (30,239) | - | (44,624) | - | (74,863) |
| Balance, December 31, 2014 | **388,401** | **18,526,255** | **1,244,337** | **360,549** | **812,578** | **547,092** | **502,066** | **19,012,382** | **41,393,660** |
| Additions | **-** | **2,011,354** | **448,177** | **-** | **4,385** | **24,810** | **-** | **45,468** | **2,534,19** |
| Effect of changes in foreign exchange rates | **-** | **-** | **-** | **(9,178)** | **(2,157)** | **(2,599)** | **-** | **(1,080)** | **(15,014)** |
| Balance, March 31, 2015 | **388,401** | **20,537,609** | **1,692,514** | **351,371** | **814,806** | **569,303** | **502,066** | **19,056,770** | **43,912,840** |

**(In United States Dollars unless otherwise indicated)**

| **Accumulated depreciation** | **Land**<br>**$** | **Plant and Other Constructions**<br>**$** | **Buildings**<br>**$** | **Leasehold Improvements**<br>**$** | **Office Equipment**<br>**$** | **Computer Equipment**<br>**$** | **Vehicles**<br>**$** | **Machinery & Equipment**<br>**$** | **Total**<br>**$** |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | - | - | 37,879 | 132,279 | 177,150 | 266,770 | 342,986 | 4,120,257 | 5,077,321 |
| Depreciation | - | 3,956,478 | 102,133 | 65,700 | 82,247 | 74,052 | 91,867 | 4,257,264 | 8,629,741 |
| Impairment (Note 4) | - | - | (37,515) | - | (1,146) | (10,941) | (44,830) | (4,119) | (98,551) |
| Disposals | - | - | - | - | (9,150) | - | (44,624) | - | (53,774) |
| Effect of changes in foreign exchange rates | - | - | - | (9,178) | (2,157) | (2,599) | - | (1,080) | (15,014) |
| Balance, December 31, 2014 | **-** | **3,956,478** | **102,497** | **188,801** | **246,944** | **327,282** | **345,399** | **8,372,322** | **13,539,723** |
| Depreciation | **-** | **4,174,534** | **100,844** | **15,244** | **21,240** | **19,109** | **21,606** | **910,921** | **5,263,498** |
| Effect of changes in foreign exchange rates | **-** | **-** | **-** | **(2,053)** | **(19,306)** | **(1,742)** | **-** | **(1,222)** | **(24,324)** |
| Balance, March 31, 2015 | **-** | **8,131,012** | **203,341** | **201,992** | **248,878** | **344,649** | **367,005** | **9,282,021** | **18,778,898** |

| **Net book value** | **Land**<br>**$** | **Plant and Other Constructions**<br>**$** | **Buildings**<br>**$** | **Leasehold Improvements**<br>**$** | **Office Equipmen t**<br>**$** | **Computer Equipment**<br>**$** | **Vehicles**<br>**$** | **Machinery & Equipment**<br>**$** | **Total**<br>**$** |
|---|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | 388,401 | 14,569,777 | 1,141,840 | 171,748 | 565,634 | 219,810 | 156,667 | 10,640,060 | 27,853,937 |
| Balance, March 31, 2015 | **388,401** | **12,406,59** | **1,489,173** | **149,3** | **565,928** | **224,654** | **135,061** | **9,774,749** | **25,133,942** |

As at March 31, 2015 the carrying value of property, plant and equipment is comprised of $143,718 in corporate and other (December 31, 2014 - $144,641) and $24,990,224 in Brazil (December 31, 2014 - $27,709,296).

## 8. Software License Costs

| | **Cost**<br>**$** | **Accumulated Amortization**<br>**$** | **Net Book Value**<br>**$** |
|---|---|---|---|
| Balance, December 31, 2013 | 1,065,297 | 362,296 | 703,001 |
| Additions | 98,245 | 115,706 | (17,461) |
| Impairment (Note 4) | (24,500) | (11,244) | (13,256) |
| Effect of changes in foreign exchange rates | (30,454) | (20,612) | (9,842) |
| Balance, December 31, 2014 | **1,108,588** | **446,146** | **662,442** |
| Additions | **16,711** | **36,389** | **(19,678)** |
| Effect of changes in foreign exchange rates | **(28,025)** | **(21,047)** | **(6,978)** |
| Balance, March 31, 2015 | **1,097,274** | **461,488** | **635,786** |

As at March 31, 2015 the carrying value of software licensing fees is comprised of $69,193 in corporate and other (December 31, 2014 - $90,585), $566,594 in Brazil (December 31, 2014 - $571,857).

**(In United States Dollars unless otherwise indicated)**

## 9. Exploration and Evaluation and Mine Development Assets

| Exploration and evaluation assets | Romania $ | Brazil $ | Total $ |
|---|---|---|---|
| Balance at December 31, 2013 | 50,483,191 | 3,312,035 | 53,795,226 |
| Additions | 1,240,169 | 609,431 | 1,849,600 |
| Impairment (Note 4) | (51,723,360) | (3,921,466) | (55,644,826) |
| Balance at December 31, 2014 | - | - | - |
| Additions | **230,100** | **-** | **230,100** |
| Impairment (Note 4) | **(230,100)** | **-** | **(230,100)** |
| Balance at March 31, 2015 | **-** | **-** | **-** |

| Mine development assets | Brazil $ |
|---|---|
| Balance at December 31, 2013 | **34,433,849** |
| Additions [1] | **13,706,977** |
| Amortization | **(1,409,705)** |
| Impairment | **(34,740,628)** |
| Balance at December 31, 2014 | **11,254,809** |
| Additions | **2,275,688** |
| Amortization | **(1,540,004)** |
| Impairment | **-** |
| Balance at March 31, 2015 | **11,254,809** |

[1] 18,226,963 in borrowing costs were capitalized in Development assets during the year ended December 31, 2014, of which $15,728,136 related to interest on the Project Facility and $2,498,827 facility fees related to the Project Facility (Note 15). Pre-production revenues and associated costs have been capitalized in Development assets.

### Romania

The Corporation owns 100% of the Rovina Valley Project, which is held through its subsidiary SAMAX Romania S.R.L.

### Brazil

The Corporation owns 100% of the Riacho dos Machados gold project located in Minas Gerais State, Brazil, which is held through its subsidiary Mineração Riacho dos Machados, and is comprised of seventeen exploration licenses and a mining concession.

**(In United States Dollars unless otherwise indicated)**

## 10. Share Capital

(a) Authorized

Unlimited number of Common Shares, without par value.

Unlimited number of Preference Shares, without par value.

(b) Issued Common Shares

| | | Number of shares | $ |
|---|---|---|---|
| Balance at December 31, 2013 | | 555,419,911 | 179,623,924 |
| Common Shares issued on private placement (net of costs of $1,317,329) | 10(c) | 138,750,000 | 17,149,145 |
| Balance at March 31, 2015 and December 31, 2014 | | 694,169,911 | 196,773,069 |

(c) On August 29, 2013, pursuant to an agreement with Cormark Securities Inc. and Macquarie Capital Markets Canada Ltd. (collectively the “Co-Lead Underwriters”), the Corporation completed a bought deal private placement of shares of the Corporation at an issue price of Cdn$0.14 per share. On August 29, 2013, the Corporation issued a total of 57,871,429 common shares for gross proceeds of $7,699,076 (Cdn$8,102,000). On September 5, 2013, the Corporation issued a total of 80,878,571 common shares for gross proceeds of $10,767,397 (Cdn$11,323,000). In total, the Corporation issued an aggregate of 138,750,000 common shares under both tranches of the private placement for aggregate gross proceeds of $18,466,473 (Cdn$19,425,000). Costs of the issue were $1,317,329.

(d) The following table shows the continuity of stock options for the periods noted below:

| | Number of Options | Weighted Average Exercise Price Cdn$ |
|---|---|---|
| Balance at December 31, 2013 | **29,437,000** | 0.43 |
| Expired during the period | **(4,870,000)** | 0.26 |
| Forfeited during the period | **(15,306,000)** | 0.43 |
| Granted during the period | **1,400,000** | 0.03 |
| Balance at March 31, 2015 and December 31, 2014 | **10,661,000** | 0.44 |

**(In United States Dollars unless otherwise indicated)**

As at March 31, 2015, stock options held by directors, officers, employees and consultants are as follows:

| | Options Outstanding | Fair Value at Grant Date | Exercise Price Cdn$ | Remaining Contractual Life | Options Exercisable |
|---|---|---|---|---|---|
| Directors | 200,000 | 71,579 | 0.56 | 213 days | 200,000 |
| Directors, officers and employees | 5,241,000 | 1,810,603 | 0.58 | 1 year 139 days | 5,241,000 |
| Directors, officers and employees | 3,520,000 | 327,527 | 0.40 | 2 years 136 days | 3,520,000 |
| Employee | 300,000 | 41,849 | 0.40 | 2 years 193 days | 300,000 |
| Employees | 1,400,000 | 27,115 | 0.03 | 4 years 81 days | 466,667 |
| Balance at March 31, 2015 | 10,661,000 | 2,278,673 | | 2 years 36 days | 9,727,667 |

As at March 31, 2015 the number of stock options available for exercise was 9,727,667 at a weighted average exercise price of Cdn$0.48 and the aggregate remaining unamortized value of unvested stock options granted was $7,498.

Using the fair value method, total share-based compensation for stock options issued and outstanding for the three months ended March 31, 2016 was $2,532 (March 31, 2014 - $2,396).

(e) Common Share Purchase Warrants

The following table shows the continuity of warrants for the periods noted below:

| | Number of Warrants | Weighted Average Exercise Price Cdn$ |
|---|---|---|
| Issued on Finalization of Project Facility | **20,000,000** | **0.40** |
| Balance at March 31, 2015 and December 31, 2014 | **20,000,000** | **0.40** |

The fair value of the Common share purchase warrants granted to Macquarie Bank (Note 15) was estimated at $3,256,109 using the Black Scholes valuation model using the exercise price of Cdn$0.40, expiry of January 11, 2016 and volatility of 65.0%.

**(In United States Dollars unless otherwise indicated)**

## 11. Expense Breakdown

(a) General and administrative expenses

| | Period Ended March 31, **2015** $ | 2014 $ |
|---|---|---|
| Professional fees | **1,451,038** | 2,524,204 |
| Investor relations and advertising | **24,821** | 23,071 |
| Travel, business and development | **97,492** | 51,427 |
| Office and general | **1,823,226** | 447,323 |
| | **3,396,577** | 3,046,025 |

(b) Employee compensation expense

| | Period ended March 31, **2015** $ | 2014 $ |
|---|---|---|
| Salaries and benefits | **998,520** | 580,867 |
| Share-based payments | **2,532** | 2,912 |
| Deferred share unit costs | **(3,064)** | (130,435) |
| | **997,988** | 453,344 |

(c) Other (income) expense

| | Period ended March 31, **2015** $ | 2014 $ |
|---|---|---|
| Foreign exchange gain | **(7,731,945)** | (2,128,846) |
| Interest income | **(1,021)** | (16,907) |
| Other expense | **8,704** | 12,333 |
| Interest expense | **-** | 612 |
| | **(7,724,262)** | (2,132,808) |

## 12. Loss per Share

Basic loss per share is calculated based on the weighted average number of Common Shares issued and outstanding during the period. Basic and diluted weighted average shares for the three months ended March 31, 2015 is 694,169,911 (2014 - 694,169,911). Stock options and warrants are considered anti-dilutive and therefore are excluded from the calculation of diluted earnings per share.

(In United States Dollars unless otherwise indicated)

## 13. Deferred Share Units

Effective January 21, 2010, the Corporation established a Deferred Share Unit ("DSU") Plan for directors or officers of the Corporation or any affiliate thereof ("Eligible Person"). Under the DSU Plan, no less than one-third of bonuses awarded to management will be paid in DSUs and any future increases in directors' remuneration will be paid in DSUs. A DSU is a unit equivalent in value to one common share of the Corporation based on the five-day average trading price of the Corporation's common shares on the TSX immediately prior to the date on which the value of the DSU is determined (the "Market Value"). Upon termination, an eligible person receives a cash payment equivalent to the Market Value of a common share on the termination date multiplied by the number of DSUs held by them. The following transactions occurred during the periods noted below:

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Number of DSUs outstanding, beginning of period | **948,669** | 2,395,434 |
| Redeemed (at weighted average market price of Cdn$0.04) | **-** | (1,446,765) |
| Number of DSUs outstanding, end of period | **948,669** | 948,669 |
| Liability, end of period | **$5,911** | $8,975 |
| Compensation recovery for the period | **(3,064)** | (157,572) |

## 14. Trade and other payables

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Trade payables | **9,700,261** | 10,627,988 |
| Accrued liabilities | **3,039,859** | 5,613,512 |
| | **12,740,120** | 16,241,500 |

## 15. Project Loan Facility

On January 11, 2013, the Corporation, through its wholly owned subsidiary, MRDM and Macquarie Bank signed a definitive agreement for a Project Facility loan with Macquarie Bank. The Project Facility agreement is a five year agreement with standard commercial terms as is customary in agreements of this nature. Subject only to interest breakage costs, the Corporation may repay the Project Facility at any time, with no adverse penalties. The Corporation has granted Macquarie Bank 20 million common share purchase warrants at an exercise price of Cdn$0.40 per warrant for a period of three years. The fair value of these warrants was estimated at $3,256,109 using a Black-Scholes model. In addition, the Corporation granted Macquarie Bank a call option on 10,000 ounces of gold exercisable at $2,000 per ounce for a three year period from the date of commencement of operations (the "Gold Option A"). The Gold Option A had a fair value of $1,400,000 liability on the date of grant

(Note 21). Total cost of debt issuance amounted to $7,097,513, which includes $1,800,000 fee to Macquarie and $641,404 of other costs and have been netted against the Project Facility balance.

On August 28, 2013, the Corporation entered into an agreement with Macquarie Bank to amend the Facility as follows:

a) The Corporation granted Macquarie Bank Gold Option B to acquire 10,000 ounces of gold at $1,600 per ounce for a three year period from the date of commencement of operations; and

b) Amended the strike price of the previous Gold Option A to acquire 10,000 ounces of gold at $2,000 per ounce for a three year period to $1,600 per ounce.

The additional Gold Option B had a fair value of $1,525,000 liability on the date of the amendment and the previously issued Gold Option A had an additional fair value of $805,000 on the day of amendment (Note 21). Total cost of amended debt terms amounted to $2,378,200, which includes the increase in fair value of original 10,000 ounces of gold and the fair value of the options for the additional 10,000 ounces of gold, and $48,200 other costs and have been netted against the Project Facility balance. The cost of the amendment offset against the balance of the Project Facility as the extension was determined to be a modification of the existing agreement rather than an extinguishment for accounting purposes. As a result of delays in the completion of the construction at the Corporation's project MRDM, as borrower, and the Corporation (as guarantor) defaulted on certain covenants under the Project Facility arrangement with Macquarie Bank, as detailed in Note 1. Due to the Forbearance Agreement all deferred debt issuance costs were written off to Mine Development assets, resulting in financing costs of $9,475,713 for year ended December 31, 2013.

As at March 31, 2015, the principal balance outstanding on the Project Facility was $205,212,870. Interest accrued during the three months ended March 31, 2015 were $7,281,390 (March 31, 2014 - $4,042,241) and facility fees paid for the three months ended March 31, 2015 were $801,052 (March 31, 2014 - $1,315,957). Interest paid for the three months ended March 31, 2015 was $10,188,508 (March 31, 2014 - $5,550,720).

The Corporation entered into a Forbearance Agreement on October 18, 2013, whereby Macquarie Bank agreed to forebear exercising their rights and remedies under this facility agreement with respect to the defaults during the forbearance period from October 18, 2013 to October 31, 2013 (Note 1). This period was amended from time to time, with the last amendment providing for a forbearance period to May 29, 2015. Pursuant to the Forbearance Agreement, funds drawn under Tranche 3 of the Project Facility must be repaid by May 29, 2015.

This Project Facility bore interest at LIBOR plus a margin of 5.5% for Tranche 2 and 5.0% for Tranche 1 prior to entering into the Forbearance Agreement on October 18, 2013. These were to be reduced to LIBOR plus 5.0% and 4.5%, respectively on commencement of production.

Under the terms of the Forbearance Agreement, as amended from time to time, Macquarie Bank has agreed to provide up to $122.0 million, at its discretion, of additional financing under a "Tranche 3" of the Project Facility. Tranche 3 of the Project Facility is repayable on May 29, 2015 and bears interest at 20% per annum. In addition, facility fees of 5% are payable on each drawdown against Tranche 3. As a result of the defaults under the terms of the Project Facility (Note 1), the interest rate payable for the $90 million drawn under Tranche 1 and 2 has been increased to LIBOR plus margins of 9.0% and 9.5%, respectively until such defaults are remedied.

(In United States Dollars unless otherwise indicated)

As at March 31, 2015, the Corporation had drawn an aggregate of $205,212,870 against the Project Facility as follows:

| Draw down date | Tranche 1 | Tranche 2 | Tranche 3 | Total |
|---|---|---|---|---|
| February 2, 2013 | - | 25,000,000 | - | 25,000,000 |
| March 20, 2013 | 10,000,000 | - | - | 10,000,000 |
| April 22, 2013 | 10,000,000 | - | - | 10,000,000 |
| May18, 2013 | 10,000,000 | - | - | 10,000,000 |
| May 31, 2013 | 7,500,000 | - | - | 7,500,000 |
| June 19, 2013 | 16,000,000 | - | - | 16,000,000 |
| July 17, 2013 | 10,000,000 | - | - | 10,000,000 |
| July 31, 2013 | 1,500,000 | - | - | 1,500,000 |
| October 23, 2013 | - | - | 4,000,000 | 4,000,000 |
| October 31, 2013 | - | - | 3,000,000 | 3,000,000 |
| November 4, 2013 | - | - | 1,000,000 | 1,000,000 |
| November 7, 2013 | - | - | 3,000,000 | 3,000,000 |
| November 13, 2013 | - | - | 3,000,000 | 3,000,000 |
| November 20, 2013 | - | - | 2,000,000 | 2,000,000 |
| November 27, 2013 | - | - | 1,000,000 | 1,000,000 |
| November 29, 2013 | - | - | 2,000,000 | 2,000,000 |
| December 4, 2013 | - | - | 3,000,000 | 3,000,000 |
| December 11, 2013 | - | - | 3,250,000 | 3,250,000 |
| December 20, 2013 | - | - | 2,250,000 | 2,250,000 |
| December 31, 2013 | - | - | 2,500,000 | 2,500,000 |
| January 27, 2014 | - | - | 2,800,000 | 2,800,000 |
| January 31, 2014 | - | - | 387,822 | 387,822 |
| February 6, 2014 | - | - | 1,310,400 | 1,310,400 |
| February 7, 2014 | - | - | 3,860,853 | 3,860,853 |
| February 18, 2014 | - | - | 7,475,308 | 7,475,308 |
| February 25, 2014 | - | - | 486,473 | 486,473 |
| February 28, 2014 | - | - | 614,249 | 614,249 |
| March 4, 2014 | - | - | 1,970,578 | 1,970,578 |
| March 11, 2014 | - | - | 2,344,186 | 2,344,186 |
| March 18, 2014 | - | - | 2,011,889 | 2,011,889 |
| March 25, 2014 | - | - | 1,918,397 | 1,918,397 |
| March 28, 2014 | - | - | 1,138,982 | 1,138,982 |
| April 2, 2014 | - | - | 2,272,465 | 2,272,465 |
| April 8, 2014 | - | - | 1,471,886 | 1,471,886 |
| April 15, 2014 | - | - | 2,440,928 | 2,440,928 |
| April 22, 2014 | - | - | 283,720 | 283,720 |
| April 23, 2014 | - | - | 1,564,565 | 1,564,565 |
| April 30, 2014 | - | - | 535,392 | 535,392 |
| May 15, 2014 | - | - | 3,114,359 | 3,114,359 |
| May 22, 2014 | - | - | 1,625,146 | 1,625,146 |
| May 28, 2014 | - | - | 747,500 | 747,500 |
| June 3, 2014 | - | - | 933,076 | 933,076 |
| June 11, 2014 | - | - | 95,327 | 95,327 |
| June 19, 2014 | - | - | 1,547,770 | 1,547,770 |
| June 26, 2014 | - | - | 1,554,493 | 1,554,493 |
| July 7, 2014 | - | - | 3,641,339 | 3,641,339 |
| July 18, 2014 | - | - | 613,473 | 613,473 |
| July 31, 2014 | - | - | 60,298 | 60,298 |
| August 8, 2014 | - | - | 210,072 | 210,072 |
| August 13, 2014 | - | - | 458,122 | 458,122 |
| August 21, 2014 | - | - | 241,310 | 241,310 |
| August 28, 2014 | - | - | 269,623 | 269,623 |

(In United States Dollars unless otherwise indicated)

| Draw down date | Tranche 1 | Tranche 2 | Tranche 3 | Total |
|---|---|---|---|---|
| October 2, 2014 | - | - | 1,473,684 | 1,473,684 |
| October 22, 2014 | - | - | 9,010,170 | 9,010,170 |
| October 31, 2014 | - | - | 735,068 | 735,068 |
| November 7, 2014 | - | - | 358,006 | 358,006 |
| November 28, 2014 | - | - | 3,000,000 | 3,000,000 |
| December 3, 2014 | - | - | 1,106,303 | 1,106,303 |
| December 12, 2014 | - | - | 1,417,515 | 1,417,515 |
| December 19, 2014 | - | - | 851,083 | 851,083 |
| December 24, 2014 | - | - | 440,000 | 440,000 |
| January 9, 2015 | - | - | 1,067,686 | 1,067,686 |
| January 30, 2015 | - | - | 803,979 | 803,979 |
| February 20, 2015 | - | - | 619,128 | 619,128 |
| February 27, 2015 | - | - | 717,378 | 717,378 |
| March 6, 2015 | - | - | 12,812,869 | 12,812,869 |
| March 31, 2015 | - | - | 800,000 | 800,000 |
| | 65,000,000 | 25,000,000 | 115,212,870 | 205,212,870 |

## 16. Payables form Gold Stream Transaction

*Gold Stream Transaction*

On May 20, 2010, the Corporation closed the gold stream transaction for $30 million with Macquarie Bank for its Riacho dos Machados gold project (the “Project”) in Brazil. Under the terms of the purchase and sale agreement (the “Agreement”), Macquarie made upfront cash payments (the “Upfront Payments”) totaling $30 million in return for which it will have the right to purchase 12.5% of the gold produced from the Project at a price of $400 per ounce of payable gold delivered (“Delivered Gold Ounce”). The price per Delivered Gold Ounce to Carpathian will be subject to an inflation escalator. Macquarie also has the right to extend its participation to purchase 12.5% of the additional gold produced from any underground operation within the mining concession and five contiguous exploration licenses, as well as any open pit and/or underground operation on the balance of the property outside of the existing mining concession and five contiguous exploration licenses referred to above (the “Expanded Production”), by contributing 12.5% of the capital required to develop the Expanded Production and paying $450 per Delivered Gold Ounce. This price per ounce will also be subject to adjustment by the price escalation and inflation factors described above. The transaction has been recorded as a sale of a partial mineral property interest and the Upfront Payments are being accounted for as a recovery of exploration and development costs. Accordingly, no immediate gain or loss has been recognized on the transaction. As of March 31, 2015, the full $30 million had been received as Upfront Payment.

In addition, the Agreement provides that, if during the period from July 1, 2013 to June 30, 2014, MRDM has not produced a minimum of 80,000 ounces of refined gold (of which 10,000 ounces would be deliverable to Macquarie Bank), then Macquarie Bank, shall have the right to require MRDM and the Corporation, jointly and severally, to refund to Macquarie Bank an amount (the “Production Shortfall Payment”) equal to that percentage of the Upfront Payments which is equal to the percentage of underproduction of refined gold over such 12-month period compared with that which was projected for such 12-month period as set out in the life of mine plan agreed at the time of closing of these transactions. MRDM and the Corporation have received notice from Macquarie Bank for payment of the Production Shortfall Payment. During said 12-month period, MRDM produced a total of 8,168 ounces of refined gold, compared to the 100,000 ounces of refined gold that was projected to be produced under the life of mine plan that was agreed to at the time of closing of the gold stream transactions. Given the forgoing, the underproduction of refined gold during the 12-month period ending June 30, 2014 is equal to 91.8% and, therefore, a Production Shortfall Payment of US$27,549,600 is owed to Macquarie under the gold stream transactions.

(In United States Dollars unless otherwise indicated)

Notwithstanding the foregoing, if any Production Shortfall Payment becomes due to Macquarie Bank under the Agreement, and at such time both the Corporation and MRDM are in violation or default of any debt covenant under the credit, debt or loan facility for the Project debt, or the payment of such amounts by the Corporation and/or MRDM would each constitute a default under such credit, debt or loan facility, then MRDM and the Corporation shall have the right to defer payment of such Production Shortfall Payment to Macquarie Bank until the later of the date upon which such violation or default of such credit, debt or loan facility has been remedied and the date on which the amount owing to Macquarie Bank may be paid by the Corporation and/or MRDM without constituting a default under such credit, debt or loan facility. MRDM and the Corporation have elected to defer payment of the Production Shortfall Payment accordingly. Until paid in full to Macquarie Bank, the Production Shortfall Payment shall bear interest at the Default Rate (as defined in the Agreement). In respect of MRDM, Macquarie Bank has agreed to forebear its rights to charge or accrue interest on the refund amount or exercise any such rights with respect to interest until May 29, 2015.

The Corporation acts as a guarantor of MRDM's obligations under the Agreement. In light of the above, the Corporation has recorded a liability of $27,549,600 as the Production Shortfall Payment.

## 17. Segmented Information

The Corporation has two operating segments: the acquisition, exploration and development of mineral properties primarily situated in Romania and in Brazil.

| Operating Segment | Corporate and Other | Brazil | Romania | Total |
|---|---|---|---|---|
| **Consolidated Statement of Financial Position** | | | | |
| **As at March 31, 2015** | | | | |
| Total Assets | **2,984,730** | **80,907,330** | **31,708** | **83,923,768** |
| Total Liabilities | **583,278** | **273,254,921** | **9,789** | **273,847,988** |
| **As at December 31, 2014** | | | | |
| Total Assets | 2,349,192 | 84,039,313 | 35,003 | 86,423,508 |
| Total Liabilities | 948,327 | 248,177,506 | 15,284 | 249,141,117 |

**(In United States Dollars unless otherwise indicated)**

| **Operating Segment** | **Corporate and Other** | **Brazil** | **Romania** | **Total** |
|---|---|---|---|---|
| **Consolidated Statements of (Income) Loss and Comprehensive (Income) Loss** | | | | |
| **For the three months ended March 31, 2015** | | | | |
| **Revenues** | **-** | **(22,391,584)** | **-** | **(22,391,584)** |
| **Expenses** | | | | |
| Cost and expenses of mining operations | | | | |
| Operating costs and mine site administrative expenses | **-** | **13,245,202** | **-** | **13,245,202** |
| Mine site depreciation and amortization | **-** | **5,699,502** | **-** | **5,699,502** |
| General and administrative expenses (Including depreciation and amortization) | **1,332,164** | **2,089,060** | **-** | **3,421,224** |
| Employee compensation costs | **244,894** | **753,094** | **-** | **997,988** |
| Impairment | | **-** | **230,100** | **230,100** |
| Net (gain) loss on derivative contracts | **-** | **20,071,186** | **-** | **20,071,186** |
| Foreign exchange loss (gain) | **(6,307,826)** | **(1,433,526)** | **9,407** | **(7,731,945)** |
| Interest income, net of expenses | **(296)** | **(725)** | **-** | **(1,021)** |
| Finance costs | | | | |
| Interest | **-** | **7,281,390** | **-** | **7,281,390** |
| Accretion | **-** | **65,804** | **-** | **65,804** |
| Other expense | **-** | **8,704** | **-** | **8,704** |
| Loss for the period | **(4,731,064)** | **25,388,107** | **239,507** | **20,896,550** |
| Other Comprehensive loss for the period | **6,312,593** | **-** | **-** | **6,312,593** |
| Total comprehensive loss for the period | **1,581,529** | **25,388,107** | **239,507** | **27,209,143** |
| **For the three months ended March 31, 2014** | | | | |
| Development stage operating costs and mine site administrative expenses | - | 5,649,977 | - | 5,649,977 |
| General and administrative expenses (Including depreciation and amortization) | 2,562,485 | 498,524 | - | 3,061,009 |
| Employee compensation costs | 163,592 | 289,752 | - | 453,344 |
| Unrealized loss on derivative contracts | - | 11,170,354 | - | 11,170,354 |
| Foreign exchange (gain) loss | (2,679,244) | 557,042 | (6,644) | (2,128,846) |
| Interest income, net of expenses | 1 | (16,296) | - | (16,295) |
| Other expense | - | 12,333 | - | 12,333 |
| Income tax provision | - | - | (5,054) | (5,054) |
| Loss (income) for the period | 46,834 | 18,161,686 | (11,698) | 18,196,822 |
| Other Comprehensive loss for the period | 2,657,194 | - | - | 2,657,194 |
| Total comprehensive loss for the period | 2,704,028 | 18,161,686 | (11,698) | 20,854,016 |

(In United States Dollars unless otherwise indicated)

## 18. Related Parties

As at March 31, 2015 there were no amounts due to or from related parties (December 31, 2014 - $Nil).

## 19. Rehabilitation Provisions

The Corporation's rehabilitation provisions arise from its obligations to undertake site reclamation and remediation in connection with its mining activities. The following table summarizes the movements in the provisions:

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Balance at beginning of period | **5,787,969** | 5,125,296 |
| Provision | **-** | 320,195 |
| Accretion | **65,804** | 65,804 |
| Change in estimate | **-** | 276,674 |
| | **5,853,773** | 5,787,969 |

As at March 31, 2015, the Corporation estimated the total undiscounted amount of the estimated cash flows required to settle the decommissioning and other rehabilitation obligations of the Corporation's Brazilian subsidiary to be approximately $8,200,000 with the most significant expected outflows commencing in approximately 7.75 years. As at March 31, 2015 the rehabilitation provision has been discounted using a discount rate of 4.60%. A 1% increase in the discount rate would result in a decrease of rehabilitation provision by $402,531 and a 1% decrease in the discount rate would result in an increase in the rehabilitation provision by $436,702, while holding the other assumptions constant.

## 20. Derivative Contracts

*Currency and Commodity gold contracts*

In conjunction with the Project Facility (Note 15), the Corporation through Macquarie Bank, also entered into price protection programs in the form of currency swaps for the Project's capital expenditures ("CAPEX") (R$1.9 to US$1.00) and estimated operating expenditures ("OPEX") (R$1.983 to US$1.00) as well as a gold price protection program ("Gold Contracts") comprised of 193,800 ounces of gold at a price of $1,600 per ounce and 11,400 ounces of gold at a price of $1,211.

The CAPEX currency swap was arranged to mitigate the risk associated with fluctuations in the Brazilian Reais (R$) during the mine construction period relative to the US$. The OPEX currency swaps were arranged to cover R$/US$ currency fluctuations during the initial years of the mine operations for a notional amount of R$359,495,800. The Gold Contracts were arranged to mitigate the risk of fluctuations in the price of gold and has a notional amount of $337,588,200.The Corporation is subject to an enforceable master netting arrangement in the form of an ISDA Master Agreement with derivative counterparty. Under the terms of this agreement, offsetting of the derivative contracts is permitted (Note 22).

**(In United States Dollars unless otherwise indicated)**

Macquarie Bank is not obligated to deliver or make payments in respect of the derivative contracts per the agreements. This has resulted in the Corporation not being able to settle its derivative contracts.

Derivatives arising from the currency swaps and gold contracts are intended to manage the Corporation's risk management objectives associated with changing market values, but they do not meet the strict hedge effectiveness criteria designated in a hedge accounting relationship. Accordingly, these derivatives have been classified as "non-hedge derivatives".

*Gold options*

The fair value of the Gold Option A granted to Macquarie Bank in 2013 and the Gold Option B (Note 15) was estimated at $460,000 liability on March 31, 2015 and is included in the long-term derivative liability.

***Summary of Derivatives at March 31, 2015***

| | Notional Amount by Term to Maturity ($) | | | | Fair Value ($) |
|---|---|---|---|---|---|
| | Within 1 year | 2 to 3 years | 4 to 5 years | Total | |
| **Currency contracts:** | | | | | |
| OPEX contract | 42,656,201 | 85,312,402 | 53,320,252 | 181,288,855 | (83,563,310) |
| **Commodity contracts**: | | | | | |
| Gold contract | 82,228,300 | 145,920,000 | 91,200,000 | 319,348,200 | 69,971,986 |
| Gold Options | - | 32,000,000 | - | 32,000,000 | (460,000) |

***Summary of Derivatives at December 31, 2014***

| | Notional Amount by Term to Maturity ($) | | | | Fair Value ($) |
|---|---|---|---|---|---|
| | Within 1 year | 2 to 3 years | 4 to 5 years | Total | |
| **Currency contracts:** | | | | | |
| OPEX contract | 31,992,151 | 85,312,402 | 63,984,302 | 181,288,855 | (66,104,760) |
| **Commodity contracts**: | | | | | |
| Gold contract | 68,525,970 | 145,920,000 | 109,440,000 | 323,885,970 | 72,584,622 |
| Gold Options | - | 32,000,000 | - | 32,000,000 | (460,000) |

(In United States Dollars unless otherwise indicated)

***Fair Values of Derivative Instruments***

| | Balance Sheet Classification | **Fair Value as at March 31, 2015** | Fair Value as at December 31, 2014 | Balance Sheet Classification | **Fair Value as at March 31, 2015** | Fair Value as at December 31, 2014 |
|---|---|---|---|---|---|---|
| **Currency contracts:** | | | | | | |
| OPEX contract | | **-** | **-** | Current liabilities | **17,176,960** | 9,212,007 |
| OPEX contract | | **-** | **-** | Non-current liabilities | **66,386,350** | 52,892,753 |
| **Commodity contracts**: | | | | | | |
| Gold contract | Current assets | **14,004,155** | 14,433,715 | Current liabilities | **-** | - |
| Gold contract | Non-current assets | **55,967,831** | 58,150,907 | Non-current liabilities | **-** | - |
| Gold Options | | - | **-** | Non-current liabilities | **460,000** | 460,000 |

Changes in the fair value of the Gold Options derivative in the Agreement and the Currency and Gold Contract derivatives are recognized in the consolidated statement of loss as net gains or losses on non-hedge derivatives.

Unrealized gains or losses arising from the changes in fair value of the Gold Options derivatives and currency and commodity contracts derivatives for the three months ended March 31, 2015 amounted to a loss of $20,071,186 (March 31, 2014 – loss of $11,170,354). Realized gains or losses arising from settlement of currency and commodity contract derivatives for the three months ended March 31, 2015 amounted to $Nil (March 31, 2014 – $Nil). These realized and unrealized gains and losses are recognized in the consolidated statement of loss as net gains or losses on derivative contracts.

***Net realized and unrealized (gains) losses on Derivatives***

| | **March 31, 2015 $** | March 31, 2014 $ |
|---|---|---|
| **Currency contracts**: | | |
| OPEX contract | **17,458,550** | (6,130,044) |
| **Commodity contracts**: | | |
| Gold contract | **2,612,636** | 17,154,398 |
| Gold Options | **-** | 146,000 |

## 21. Offsetting financial assets and financial liabilities

The Corporation is subject to enforceable ISDA for Multiple Payment Netting with the derivative counterparty. Under the terms of this agreement, offsetting of the derivative contracts is permitted in respect of two or more transactions and a net amount and payment obligation is determined in respect of all amounts payable on the same date in the same currency in respect of those transactions, regardless of whether such amounts are payable in respect of the same transaction.

The Corporation has Gold and OPEX contracts, majority of which have the same maturity dates and therefore subject to this netting arrangement. Gold Options A and B are not subject to this netting arrangement as they do not have the same maturity date.

In 2013, the Corporation and Macquarie Bank did not intend to settle net and therefore they do not meet the offsetting criteria. The following table presents the financial instruments that are offset as at

(In United States Dollars unless otherwise indicated)

March 31, 2015, financial instruments that cannot be offset and total amount recognized on the Corporation's statement of financial position:

| **Financial Assets** | **Amounts subject to offsetting** | | | **Amounts not subject to offsetting** | **Total amount recognized on the statement of financial position** |
|---|---|---|---|---|---|
| | **Gross assets** | **Gross liabilities offset** | | **Financial assets** | |
| **March 31, 2015** | | | | | |
| Derivative assets (current)[1] | 18,887,178 | 17,176,960 | 1,710,218 | - | **1,1710,218** |
| Derivative assets (Non- current)[2] | 51,778,619 | 51,778,618 [3] | - | 4,189,212 | **4,189,212** |
| **December 31, 2014** | | | | | |
| Derivative assets (Current)[1] | 14,130,058 | 9,212,007 | 4,918,051 | 303,657 | **5,221,708** |
| Derivative assets (Non- current)[2] | 54,206,200 | 52,593,516 [3] | 1,612,684 | 3,944,707 | **5,557,391** |

| **Financial Liabilities** | **Amounts subject to offsetting** | | | **Amounts not subject to offsetting** | **Total amount recognized on the statement of financial position** |
|---|---|---|---|---|---|
| | **Gross assets** | **Gross liabilities offset** | | **Financial liabilities** | |
| **March 31, 2015** | | | | | |
| Derivative liabilities (Current)[1] | - | - | - | 4,883,023 | **4,883,023** |
| Derivative liabilities (Non- current)[3] | - | 9,349,065 | 9,349,065 | 5,718,666 | **15,067,731** |
| **December 31, 2014** | | | | | |
| Derivative liabilities (Current) | - | - | - | - | **-** |
| Derivative liabilities (Non- current)[3] | - | - | - | 4,759,237 | **4,759,237** |

1 Includes current Gold contracts of $14,004,155 (December 31, 2014 – $14,433,715) and current OPEX contracts of $17,176,960 (December 31, 2014 $9,212,007). (Note 20).

2 Includes non- current Gold contracts of $55,967,831 (December 31, 2014 - $58,150,907). (Note 20)

3 Includes non-current OPEX contracts of $66,846,350 (December 31, 2014 - $56,892,753) and non-current Gold Options of $460,000 (December 31, 2014 – $460,000). (Note 20).

## 22. Financial Instruments and fair values

*Measurement categories*

Financial assets and liabilities have been classified into categories that determine their basis of measurement and, for items measured at fair value, whether changes in fair value are recognized in the statement of loss or comprehensive loss. The following table shows the carrying amounts and fair values of assets and liabilities for each of these categories at March 31, 2015 and December 31, 2014.

(In United States Dollars unless otherwise indicated)

| | Level | March 31, 2015 Carrying amount | March 31, 2015 Estimated fair value | December 31, 2014 Carrying amount | December 31, 2014 Estimated fair value |
|---|---|---|---|---|---|
| **Financial Assets** | | | | | |
| Loans and receivables | | | | | |
| Cash and cash equivalents[1] | **1** | **639,827** | **639,827** | 310,736 | 310,736 |
| Restricted deposits[1] | **1** | **1,248,004** | **1,248,004** | 1,248,017 | 1,248,017 |
| Trade receivables[1] | **2** | **3,433,348** | **3,433,348** | 1,913,427 | 1,913,427 |
| Sundry Receivables[1] | **2** | **95,460** | **95,460** | 52,207 | 52,207 |
| **Financial Liabilities** | | | | | |
| Amortized cost | | | | | |
| Trade and other payables[1] | **2** | **12,734,208** | **12,734,208** | 16,232,525 | 16,232,525 |
| Project Loan Facility[3] | **2** | **207,753,740** | **207,753,740** | 194,017,772 | 194,017,772 |
| Production shortfall payable[1] | **2** | **27,549,600** | **27,549,600** | 27,549,600 | 27,549,600 |
| Deferred revenues[1] | **2** | **-** | **-** | 785,039 | 785,039 |
| **Fair value through profit and loss** | | | | | |
| Derivative contracts | **2** | **14,051,324** | **14,051,324** | 6,019,862 | 6,019,862 |
| Deferred Share Units[2] | **1** | **5,911** | **5,911** | 8,975 | 8,975 |

[1] Fair value approximates the carrying amount due to the short-term nature.
[2] Based on market price of the Corporation's common shares at period end.
[3] Fair value represents the aggregate of face value of the loan facility and accrued interest.

*Fair value hierarchy*

The fair value hierarchy establishes three levels to classify inputs to valuation techniques used to measure fair value. Level 1 inputs are valued at quoted prices in active markets for identical assets or liabilities. Level 2 inputs are valued at quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data or other means. The fair value of Property, plant and equipment, Exploration and evaluation and Mine development assets are determined primarily using a market approach based on unobservable cash flows and a market multiples approach where applicable and as a result is classified within Level 3 of the fair value hierarchy.

*Valuation techniques*

The fair value of derivative instruments is determined using either present value techniques or option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. Currency contracts and commodity forward contracts were in a net asset position and therefore, the Corporation used credit default swap (the "CDS") spread of Macquarie Bank. The fair value of currency swap contracts is determined by discounting contracted cash flows using a discount rate derived from observed LIBOR and swap rate curves and CDS rates. In the case of currency contracts, the Corporation converts non-U.S. dollar cash flows into U.S. dollars using an exchange rate derived from currency swap curves and CDS rates. The fair value of commodity forward contracts is determined by discounting contractual cash flows using a discount rate derived from observed LIBOR and swap rate curves and CDS rates. Contractual cash flows are calculated using a forward pricing curve derived from observed forward prices for each commodity. Gold options are valued based on valuations taken from the CME Group Inc. gold options quote site using American options for strike range of $1,600 and expiry date of December 2016. Derivative instruments are classified within Level 2 of the fair value hierarchy.

**(In United States Dollars unless otherwise indicated)**

## 23. Commitments

Lease Commitment

The Corporation has entered into a Sub-Lease Agreement from December 1, 2010 and expiring on March 31, 2018 for office space. The minimum annual rent is Cdn$35,640 for the entire term of the sub-let plus applicable expenses. In addition, the Corporation has a lease agreement from June 1, 2012 to March 31, 2018 for additional office space. The minimum annual rent is Cdn$39,618, increasing to Cdn$44,020 on October 1, 2014 plus applicable expenses. As at March 31, 2015, the Corporation has finalized and signed contracts for the construction, development and operating activities in Brazil as follows:

| | **Within 1 year** | **2 to 3 years** | **Total** |
|---|---|---|---|
| Construction and supply contracts | 3,078,420 | - | 3,078,420 |
| Office lease | 92,416 | 69,312 | 161,728 |

In addition, the Corporation has signed agreements for services and supplies to be used during the operations of the Project, including for the supply of diesel fuel.

## 24. Capital Disclosures

The Corporation manages its capital structure, defined as shareholders' (deficiency) equity and cash and cash equivalents, to ensure sufficient funds are available to the Corporation to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation has cash and cash equivalents held with large Canadian chartered banks and Brazilian banks.

The properties in which the Corporation currently has an interest are in the production, exploration or development stage and as such the Corporation is dependent on external financing to fund its activities. The Corporation will continue to assess new properties and continue to explore and develop existing properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Corporation's capital items are the following:

| | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Cash and cash equivalents | **639,827** | 3,10,736 |
| Restricted deposits | **1,248,004** | 1,248,004 |
| Project loan facility | **205,212,870** | 188,391,830 |
| Share capital | **196,773,069** | 196,773,069 |
| Warrants | **3,256,109** | 3,256,109 |
| | **407,129,879** | 389,979,761 |

In accordance with the terms of the Project Facility (Note 15), the Corporation is required to maintain certain covenants, most of which will become effective on commencement of production. These covenants relate to financial and operational, including delays in commencement of production and unplanned cost overruns. Due to the delays in the completion of the construction at the RDM Project, the Corporation has defaulted on these covenants. As a result, on October 18, 2013, MRDM and the corporation entered into a Forbearance Agreement as outlined in Note 15.

## 25. Financial Risk Factors

The Corporation's financial instruments are comprised of financial liabilities and financial assets. Financial liabilities include accounts payable, Project Facility, payables form Gold Stream transaction and derivatives arising from its currency and price protection facilities. The Corporation's main financial assets are cash and cash equivalents, restricted deposits, derivative contracts and sundry receivables. The main risks that could adversely affect Carpathian's financial assets, liabilities or future cash flows are as follows:

(a) Credit Risk

The Corporation's credit risk is primarily attributable to cash and cash equivalents, restricted deposits and derivative assets on its various currency swap and gold contracts. Cash and cash equivalents consist of deposit accounts held at various Canadian and Brazilian chartered banks, from which management believes the risk of loss to be remote. For derivatives with a positive fair value, the Corporation is exposed to credit risk equal to the carrying value. The Corporation mitigates credit risk on these derivatives by entering into derivatives with high credit-quality counterparties and monitoring the financial condition of the counterparties on a regular basis.

(b) Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient funds to meet liabilities when due. As at March 31, 2015, the Corporation faces liquidity risk to the extent that it will be unable to settle current liabilities of $225,926,483 with cash and cash equivalents and restricted deposits totalling $1,887,831. Current liabilities consist of trade and other payables, payables from Gold Stream transaction, borrowings and fair value of derivative contracts that are predominantly due within three months to not later than a year. Commitments, consisting of construction contracts and supply contracts for fuel and other material are included in Note 23.

In order to manage this risk, management monitors rolling forecasts of the Corporation's liquidity reserve on the basis of expected cash flows and expenditures.

Due to the events of default and Forbearance Agreement, all borrowings under the Project Facility have been reclassified as current liabilities and borrowings under Tranche 3 of the Project Facility due on May 29, 2015 (Note 1).

The Corporation continues to pursue strategic alternatives, including a possible sale or financial restructuring. Negotiations are on-going and the Corporation is also considering potential new equity capital raising initiatives. However, no firm offers have been received, and there can be no assurance that any completed transaction will result (Note 1).

(c) Market Risk

Market risk is the risk that changes in market factors, such as interest rates, foreign exchange rates or commodity prices will affect the value of the Corporation's financial instruments. Management endeavours to mitigate market risk through the use of currency and gold derivatives.

(i) Interest rate risk

The Corporation's short term investments are interest bearing deposit accounts held at Canadian chartered banks. The Corporation also holds a portion of its funds in bank accounts that earn variable interest rates. The Corporation regularly monitors the investments it makes and is satisfied with the credit ratings of its banks. Interest rate fluctuations could also have a significant impact on the valuation of Carpathian's derivatives. The Corporation is also exposed to interest rate risk with regard to the Project Facility.

As of March 31, 2015, management estimates that if interest rates had changed by 5% the impact on investment income and net loss for the period would have been approximately $7,168. In addition, if interest rates had changed by 5% the impact of the Project Facility interest and net loss for the period would have been approximately $1,163,352.

(ii) Foreign currency risk

The Parent's functional currency is the Canadian dollar. The Corporation is affected by currency transaction and translation risk. The Corporation funds its Romanian exploration and development activities using U.S. dollar currency received from MRDM. The Corporation's liabilities incurred in Canada are primarily payable in Canadian dollars. Liabilities incurred in Romania are settled in Romanian Lei or Euros and liabilities incurred in Brazil are settled in Brazilian Reais. As at March 31, 2015, the Corporation held cash and cash equivalents of $13,815 in Brazilian Reais, $109,342 in Canadian dollars, $485,098 in U.S dollars and $31,572 in various European currencies. Consequently, fluctuations in the U.S. dollar currency against these currencies directly affect the cost of property, plant and equipment assets and operating expenditures for various subsidiaries. Management closely monitors variations in the exchange rates of the currencies in which it transacts business. To further mitigate these inherent risks the Corporation had entered into certain currency swap arrangements effective December 15, 2011, which were amended as of December 24, 2013, covering a substantial portion of its OPEX on the RDM Project in Brazil.

As of March 31, 2015, excluding the effect fluctuations in the R$/US$ exchange rate would have on the valuation of its currency derivatives, management estimates that if foreign exchange rates had changed by 10% against the U.S. dollar, the impact on net loss for the period would have been approximately $1,100,750.

(iii) Commodity price risk

The Corporation is exposed to price risk with respect to commodity pricing primarily for gold and copper. The Corporation has entered into a gold price protection program to mitigate a portion of the downside risk of changes in the market price of gold (Note 20).

### 28. Subsequent Event

(a) Subsequent to March 31, 2015, Macquarie Bank has agreed to increase additional financing under Tranche 3 of the Facility to $122.0 million, resulting in a total Project Facility of $212.0 million and to extend the repayment date for any funds drawn under Tranche 3 of the Facility to May 29, 2015.

(b) As at May 15, 2015, the Corporation drew $121.97 million against the Project Facility's Tranche 3, resulting in a total Project Facility of $211.97 million, as amended by the Forbearance Agreement.