Carpathian Gold Inc.

Consolidated Financial Statements
December 31, 2013 and 2012

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Corporation for the years ended December 31, 2013 and 2012 have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and, where relevant, the choice of accounting principles. Management develops and maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records are maintained.

The Audit Committee of the Board of Directors has met with the Corporation's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

The Corporation's independent auditors, PricewaterhouseCoopers LLP, Chartered Accountants, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

(signed)	(signed)
Guy Charette - Interim Chief Executive Officer	Rishi Tibriwal - Chief Financial Officer

Toronto, Canada
June 17, 2014

June 17, 2014

Independent Auditor's Report

To the Shareholders of
Carpathian Gold Inc.

We have audited the accompanying consolidated financial statements of Carpathian Gold Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise 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 (IFRS), 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, www.pwc.com/ca

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Carpathian Gold Inc. and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt about Carpathian Gold Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

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

As at

Assets	Note	**December 31, 2013 $**	December 31, 2012 $
Current assets			
Cash and cash equivalents		**3,011,774**	18,956,650
Restricted deposits	5	**2,431,521**	1,282,168
Derivative contracts	20	**18,010,647**	-
Prepaid expenses and sundry receivables		**625,179**	780,320
Inventory	6	**5,827,543**	-
		29,906,664	21,019,138
Non-current assets			
Deposits and receivables		**4,711,205**	13,634,327
Deferred costs		**-**	319,631
Property, plant and equipment	4 and 7	**92,259,611**	54,215,259
Software license costs	8	**703,001**	455,188
Derivative contracts	20	**58,542,775**	-
Exploration and evaluation assets	4 and 9	**53,795,226**	52,370,068
Mine development assets	4 and 9	**34,433,849**	17,749,605
Total Assets		**274,352,331**	159,763,216
Liabilities			
Current liabilities			
Trade and other payables	14	**24,670,145**	8,531,932
Project loan facility– short-term	15	**122,738,454**	-
Derivative contracts	20	**8,613,628**	7,863,024
		156,022,227	16,394,956
Non-current liabilities			
Rehabilitation provisions	19	**5,125,296**	2,965,613
Derivative contracts	20	**53,901,516**	46,407,712
Deferred income taxes	22	**830,538**	370,088
Total Liabilities		**215,879,577**	66,138,369
Equity attributable to Shareholders			
Share capital	10	**196,773,069**	179,623,924
Warrants	10	**3,256,109**	-
Contributed surplus		**10,894,939**	10,158,970
Accumulated deficit		**(150,598,613)**	(100,587,050)
Accumulated other comprehensive income (loss)		**(1,852,750)**	4,429,003
Total Equity		**58,472,754**	93,624,847
Total Liabilities and Equity		**274,352,331**	159,763,216

Nature of operations and 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 years ended December 31, 2013 and 2012
(In United States Dollars)

	Note	**2013** **$**	2012 $
General and administrative expenses	11(a)	**4,523,861**	3,909,498
Depreciation and amortization		**134,667**	123,307
Employee compensation expense	11(b)	**3,225,369**	4,801,979
Impairment	4	**116,177,638**	-
Realized loss on derivative contracts	20	**3,699,900**	-
Unrealized (gain) loss on derivative contracts	20	**(72,039,014)**	22,271,701
Other (income) expense	11(c)	**(6,171,308)**	2,438,993
Loss for the year before income tax provision		**49,551,113**	33,545,478
Income tax provision (recovery)	22	**460,450**	(170,345)
Loss for the year		**50,011,563**	33,375,133
Other comprehensive loss (income)			
Items that may be reclassified subsequently to profit or loss:			
Cumulative translation adjustments		**6,281,753**	(3,180,843)
Other comprehensive loss (income) for the year		**6,281,753**	(3,180,843)
Total comprehensive loss for the year		**56,293,316**	30,194,290
Basic and diluted loss per share	12	**0.08**	0.06

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

Carpathian Gold Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2013 and 2012
(In United States Dollars)

	Share capital (Note 10) $	Warrants (Note 10) $	Contributed surplus $	Accumulated deficit $	Total Accumulated other comprehensive income (loss) $	Total $
Balance, January 1, 2012	179,137,481	254,257	8,029,223	(67,211,917)	1,248,160	121,457,204
Comprehensive loss				(33,375,133)	3,180,843	(30,194,290)
Exercise of common share purchase warrants	26,971	(2,276)				24,695
Expiry of common share Purchase warrants		(251,981)	251,981			-
Exercise of options	459,472		(129,927)			329,545
Amortization of options			2,007,693			2,007,693
Balance, December 31, 2012	179,623,924	-	10,158,970	(100,587,050)	4,429,003	93,624,847
Comprehensive loss				(50,011,563)	(6,281,753)	(56,293,316)
Issue of common share Purchase warrants		3,256,109				3,256,109
Issue of common shares Private Placement (net of share issuance costs	17,149,145					17,149,145
Amortization of options			735,969			735,969
Balance, December 31, 2013	196,773,069	3,256,109	10,894,939	(150,598,613)	(1,852,750)	58,472,754

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

Carpathian Gold Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2013 and 2012
(In United States Dollars)

	2013 $	2012 $
Cash flows from operating activities		
Loss for the year	**(50,011,563)**	(33,375,133)
Depreciation and amortization	**134,667**	123,307
Unrealized foreign exchange (gain) loss	**(6,020,087)**	2,862,843
Share-based payments	**508,003**	1,416,640
Impairment	**116,177,638**	-
Deferred income tax	**460,450**	(170,345)
Loss on sale of property, plant and equipment	**25,031**	-
Interest income	**(247,669)**	(672,273)
Deferred share unit costs	**(511,746)**	(55,693)
Unrealized (gain) loss on derivative contracts	**(72,039,014)**	22,271,701
Changes in non-cash working capital balances		
Deferred costs	**319,631**	-
Prepaid expenses and sundry receivables	**155,142**	1,053,815
Inventories	**(5,827,543)**	-
Due from related party	**-**	220,599
Trade and other payables	**2,527,202**	538,773
	(14,349,858)	(5,785,766)
Cash flows from investing activities		
Restricted deposits	**(1,149,353)**	12,184,557
Deferred costs	**-**	(39,367)
Interest income	**247,669**	672,273
Acquisition of property, plant and equipment	**(107,393,294)**	(45,197,272)
Acquisition of software licensing	**(384,535)**	(125,890)
Exploration and evaluation assets	**(4,527,756)**	(11,758,339)
Mine development assets	**(22,543,450)**	(12,306,986)
	(135,750,719)	(56,571,024)
Cash flows from financing activities		
Gold stream funds	**-**	15,000,000
Proceeds from shares issued (net of costs)	**-**	354,240
Proceeds from Project Loan Facility (net of costs)	**117,213,979**	-
Proceeds from Private Placement (net of costs)	**17,149,145**	-
	134,363,124	15,354,240
Effect of exchange rates on cash and cash equivalents	**(207,423)**	323,337
Decrease in cash and cash equivalents	**(15,944,876)**	(46,679,213)
Cash and cash equivalents – Beginning of year	**18,956,650**	65,635,863
Cash and cash equivalents – End of year	**3,011,774**	18,956,650
Supplemental information:		
Interest paid	**1,961,032**	-
Income taxes paid	**-**	-

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

1. Nature of Operations and Going Concern

Carpathian Gold Inc., together with its subsidiaries (collectively the "Corporation"), is an exploration and development company focused primarily on gold exploration and development 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 audited 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 the year ended December 31, 2013, the Corporation incurred a net loss $50,011,563 and as at December 31, 2013 reported an accumulated deficit of $150,598,613, and negative working capital of $126,115,563.

As a result of delays in the completion of the construction at the RDM Project, Mineração Riacho dos Machados Ltda. ("MRDM"), as borrower, and the Corporation (as guarantor) have defaulted on certain covenants under the Project Loan Facility (the "Project Facility") arrangement with Macquarie Bank Limited ("Macquarie Bank"). These covenant defaults relate 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 June 30, 2014. The events of default have resulted in the Corporation reclassifying all borrowings under the Project Facility as current liabilities as at December 31, 2013 and recording an impairment charge as outlined in Note 4. In addition, under the terms of the Forbearance Agreement, Macquarie Bank has 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 Corporation has $3,011,774 in cash and cash equivalents. These available funds are not sufficient to fund the completion of Riacho dos Machados, the exploration in Romania, working capital requirements nor 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 construction 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 audited 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.

(In United States Dollars unless otherwise indicated)

2. Basis of Preparation

The Corporation prepares its financial statements, including comparatives, using accounting policies in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors on June 17, 2014.

3. Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

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.

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 (Brazil) Inc.	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

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting estimates or judgments

(i) *Property, plant and equipment*

Estimated useful lives

Management estimates the useful lives of property, plant and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for amortization of property, plant and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at each reporting date and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Corporation's property, plant and equipment in the future.

(ii) *Financial Instruments*

Fair value of derivatives

Management estimates the fair values of its derivatives using valuation techniques which determine their present value based on available market data including expected future gold prices, future exchange rates and interest rates.

(iii) *Rehabilitation provisions*

The Corporation records Management's best estimate of the present value of the future cash requirements of any rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs based on the net present value of the estimated future costs. This obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used.

(iv) *Share-based payments*

The Corporation grants stock options to directors, officers, employees and consultants of the Corporation under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, Management is required to make certain assumptions and estimates such as the life of options, volatility and forfeiture rates. Changes in assumptions used to estimate fair value could result in materially different results.

(v) Carrying value of mineral properties and exploration and development properties

The Corporation carries its mineral properties at cost less any impairment losses. The Corporation capitalizes exploration costs, which are related to specific projects, until the commercial feasibility of the project is determinable or the project is determined to be impaired. The costs of each property and related capitalized exploration and development expenditures are amortized over the economic life of the property on a units-of-production basis. Costs are charged to operations when a property is abandoned or when impairment in value that is other than temporary has been determined.

The Corporation reviews the carrying values of mining properties and related expenditures whenever events or changes in circumstances indicate that their carrying values may not be recoverable. In undertaking this review, management is required to make significant estimates of, amongst other things, future production and sale values, unit sales prices, future operating and capital costs and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties, which may ultimately have an effect on the expected recoverability of the carrying values of the mining properties and related expenditures.

The Corporation performs impairment testing on an annual basis, as at December 31, and more frequently if there are indicators of impairment. As at December 31, 2013, the carrying amount of the Corporation's net assets exceeded its market capitalization which is an indicator of potential impairment of the carrying amount of the Corporation's net assets. Accordingly, the Corporation assessed the recoverable amounts of each cash-generating unit ("CGU").

For the impairment test, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount since it is higher than value in use. FVLCD was calculated using discounted after-tax cash flows based on cash flow projections in the Corporation's most recent current of life of mine plans. These projected cash flows were changed for current metal prices, future capital expenditures, production costs estimates, discount rates and exchange rates.

(vi) Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial statement carrying values of assets and liabilities and their respective income tax bases ("temporary differences"), and losses carried forward.

The determination of the ability of the Corporation to utilize loss carry-forwards to offset deferred tax payable requires management to exercise judgment and make certain assumptions about the future performance of the Corporation. Management is required to assess whether it is "probable" that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Translation of Foreign Currency

These consolidated financial statements are presented in U.S. dollars, which is the Corporation's presentation currency.

Items included in the financial statements of Carpathian Gold Inc. (the "Parent") and each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of loss and comprehensive loss.

The functional currency of the Parent is the Canadian dollar and the functional currency of each of its subsidiaries is the U.S. dollar.

Assets and liabilities of entities with functional currencies other than the U.S. dollar are translated into the presentation currency at the period end rates of exchange, and the results of their operations are translated at the average rates of exchange for the period. The resulting translation adjustments are recognized in other comprehensive income as cumulative translation adjustments. There is no tax impact on this translation.

Financial Instruments

Financial assets and liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount is recorded in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle on a net basis, or realize the asset and settle the liability simultaneously.

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

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.
Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.
Available-for-sale investments are recognized initially at fair value plus transaction costs and are

subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of loss as part of other gains and losses when the Corporation's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of loss and are included in other gains and losses.

(iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Corporation's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

(iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables and Project Loan Facility. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

Inventories

Gold production inventories, concentrate inventory and ore stockpiles are measured at the lower of weighted average production cost and net realizable value. Mine supplies are measured at the lower of average purchase cost and net realizable value. Net realizable value is calculated as the difference between the estimated selling price and estimated costs to complete processing into a saleable form and variable selling expenses.

Production costs include the cost of materials, labour, mine site production overheads and depreciation to the applicable stage of processing.

The cost of ore stockpiles is increased based on the related current cost of production for the period, and decreases in stockpiles are charged to cost of sales using the weighted average cost per tonne.

Provisions are recorded to reduce the carrying amount of inventory to net realizable value to reflect changes in grades, quantity or other economic factors and to reflect current intentions for the use of redundant or slow-moving items. Provisions for redundant and slow-moving items are made by reference to specific items of inventory. The Corporation reverses write-downs where there is a subsequent increase in net realizable value and where the inventory is still on hand.

Spare parts, stand-by and servicing equipment and consumable material held are generally classified as inventories. Major capital spare parts are classified as a component of Property, plant and equipment.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced. Repairs and maintenance costs are charged to the statement of loss during the period in which they are incurred.

During the year the Corporation depreciated property, plant and equipment on the straight line depreciation method. The assets' useful lives are as follows:

Buildings	-	25 years
Office Equipment	-	10 years
Computer Equipment	-	5 years
Machinery & Equipment	-	5-10 years
Vehicles	-	5 years
Leasehold Improvements	-	5-8 years

Software Licensing Costs

Software licensing costs are stated at cost less accumulated depreciation and accumulated impairment losses. The costs of assets are amortized over their useful life which is 5 years.

Borrowing Costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the statement of loss in the period in which they are incurred.

Share-based Payments

The Corporation has established a stock option plan (the "Plan") to grant non-transferable options to purchase Common Shares to directors, officers, employees of and consultants to the Corporation. The number of Common Shares reserved for issuance will not exceed 10% of the total issued and outstanding Common Shares of the Corporation. Options are granted for a maximum period of ten years from the date of grant.

Stock options vest over periods ranging from one to two years. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model and recorded as a compensation expense or capitalized to exploration and development costs, as appropriate, in the period the options are vested or the performance is complete. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Any consideration paid by directors, officers, employees and consultants on exercise of stock options or purchases of shares is credited to share capital.

Deferred Costs

Costs incurred to raise capital are written off as a charge to capital upon completion of each capital raising. Costs incurred on debt financings are netted against the carrying value of the loans and charged to the consolidated statement of income over the term of the related loans.

Exploration and Evaluation Assets

Exploration and evaluation activities involve the search for mineral resources/reserves, the assessment of technical and operational feasibility and the determination of an identified mineral reserve's commercial viability. Once the legal right to explore has been acquired, exploration and evaluation expenditures less recoveries are capitalized by property.

Exploration properties that contain estimated proven and probable ore reserves, but for which a development decision has not yet been made, are subject to periodic review for impairment when events or changes in circumstances indicate the project's carrying value may not be recoverable.

Exploration and evaluation assets are reclassified to mine development costs when the technical feasibility and commercial viability of extracting a mineral reserve are demonstrable. Exploration and evaluation assets are assessed for impairment, and the impairment loss, if any, is recognized before reclassification to mine development costs.

Mine Development Assets

Mine development assets are accumulated separately for each area of interest in which economically recoverable reserves have been identified. These costs comprise of expenditures directly attributable to the construction of a mine and the related infrastructure.

General and administration costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant areas of interest.

A development property is reclassified as "mining interest" under property, plant and equipment at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No amortization is recognized in respect of development properties until they are classified as "mining interests".

Development assets are assessed for impairment, and the impairment loss, if any, is recognized before reclassification to "mining interests".

Income Taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss, which may differ from earnings reported in the statement of operations due to items of income or expense that are not currently taxable or deductible for tax purposes, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not recognized if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by the Corporation and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

The Corporation records foreign exchange gains or losses representing the impacts of movements in foreign exchange rates on the tax bases of non-monetary assets and liabilities which are denominated in foreign currencies. Foreign exchange gains and losses relating to deferred income taxes are included in deferred income tax expense or recovery in the statement of operations and comprehensive income.

The Corporation recognizes uncertain tax positions in its financial statements when it is considered more likely than not that the tax position shall be sustained.

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments, such as guaranteed investment certificates and deposit accounts with Canadian chartered banks and Brazilian banks, cashable within 30 days of the date of original issue.

Gold Stream transaction

The Corporation has entered into an agreement with Macquarie Bank Limited ("Macquarie") which has resulted in the receipt of upfront payments of cash from Macquarie.

The transaction has been accounted for as a sale of a partial mineral property interest and the upfront payments are accounted for as a recovery of exploration and development costs upon receipt. Upon delivering the gold to Macquarie under the agreement, the Corporation will recognize revenue for services provided based on the cash received as defined in the Gold Stream agreement.

Derivatives

The Corporation may enter into derivative instruments to mitigate economic exposures to commodity price and currency exchange rate fluctuations. Unless the derivative instruments qualify for hedge accounting, and management undertakes appropriate steps to designate them as such, they are designated as fair value through profit or loss and recorded at their fair value with realized gains or losses arising from changes in the fair value recorded in the statement of loss in the period they occur. Fair values for derivative instruments classified as fair value through profit or loss are determined using valuation techniques. The valuations use assumptions based on prevailing market conditions on the reporting date.

Embedded derivatives identified in non-derivative instrument contracts are recognized separately unless closely related to the host contract. All derivative instruments, including certain embedded derivatives that are separated from their host contracts, are recorded on the consolidated balance sheets at fair value and mark–to–market adjustments on these instruments are included in the consolidated statement of loss.

Deferred Share Unit Plan

Non-executive directors and executives are granted Deferred Share Units (“DSUs”) under the terms of the Corporation’s DSU Plan. The fair value of DSUs at the time of conversion or award, as applicable, is determined with reference to the weighted average trading price of the Corporation’s common shares over the five trading days immediately preceding the date of conversion or award, as applicable. The fair value of the DSUs, which are settled in cash, is recognized as a share based compensation expense with a corresponding increase in liabilities, over the period from the grant date to settlement date. The fair value of the DSUs is marked to the quoted market price of the Corporation’s common shares at each reporting date with a corresponding change in the statement of loss and comprehensive loss.

Loss per Share

Basic loss per share is calculated by dividing net loss (income) attributable to equity owners of the Corporation by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method, whereby the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options and warrants, if dilutive.

Provisions

(a) General

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of loss and comprehensive loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance expense in the statement of loss and comprehensive loss.

(b) Decommissioning and site rehabilitation

The Corporation records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The liability incorporates consideration of risk by way of adjusting the cash flows and is discounted using a risk free discount rate. The nature of these restoration activities include dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and re-vegetation of affected areas.

The obligation is generally considered to have been incurred when the mine assets are constructed or the environment is disturbed at the Corporation's operations. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased based on the unwind of the discount rate.

Foreign exchange changes in the decommissioning liability are considered a change in estimated cash flow and are added to or subtracted from the liability and related assets.

The periodic unwinding of the discount is recognized in the statement of loss and comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation costs attributable to development will be recognized as changes to the corresponding assets and rehabilitation liability when they occur.

Where a closure and environmental obligation arises from production activities, the costs are expensed as incurred because there are no associated economic benefits.

Changes in accounting policies

IFRS 10, *Consolidated Financial Statements* replaces the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affects its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Corporation assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 11, *Joint Arrangements*, supersedes IAS 31, Interests in Joint Ventures, and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a corporation recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28, Investments in Associates and Joint Ventures (amended in 2011). The other amendments to IAS 28 did not affect the Corporation. The Corporation has no joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for joint arrangements.

IFRS 12, *Disclosure of Interests in Other Entities* requires a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e. special purpose entities). The Corporation has assessed the disclosure of interests in other entities and concluded that the adoption of IFRS 12 did not result in any changes in disclosures.

IFRS 13, *Fair value measurement*, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Corporation adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013. The Corporation has assessed the disclosure of fair value measurement and concluded that the adoption of IFRS 13 did not result in any changes in disclosures.

IFRS 7, *Financial Instruments: Disclosures*, requiring more enhanced disclosure requirements relating to offsetting of financial assets and financial liabilities. The Corporation has adopted the amendments to IFRS7 effective January 1, 2013. It did not have a material impact on the results or disclosure of the Corporation.

IAS 1, *Amendment, Presentation of Items of Other Comprehensive Income,* requires the Corporation to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. The Corporation has adopted the amendments to IAS1 effective January 1, 2013.

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* provides guidance on the accounting for the costs of stripping activity in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: useable ore that can be used to produce inventory and improved access to further quantities of material that will be mined in future periods. The Corporation will assess the impact of adopting IFRIC 20 on the condensed interim consolidated financial statements on commencement of production.

New Accounting Standards

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except the following:

IFRS 9 - Financial Instruments

In November 2009, the IASB issued IFRS 9 - Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset.

Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. IFRS 9 amends some of the requirements of IFRS 7 - Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and de-recognition of financial instruments. In December 2011, the IASB issued an amendment that adjusted the mandatory effective date of IFRS 9 from January 1, 2013 to January 1, 2015.

IAS 36 – Impairment of Assets

In May 29, 2013, the IASB made amendments to 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. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014 and will be applied prospectively.

IFRIC 21 - Levies

In May 2013, the IASB issued IFRIC 21 Levies, which 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.

The Corporation is currently assessing the impact of adopting these standards on the consolidated financial statements.

4. Impairment

As at December 31, 2013 the carrying amount of the Corporation's net assets exceeded its market capitalization, which is an indicator of potential impairment. Consequently, the Corporation undertook an impairment test on each of its identified cash generating unit ("CGU"), primarily focused on MRDM. A CGU is generally an individual operating mine or development project. For the impairment test, fair value less costs of disposal ("FVLCD") was used to determine the recoverable amount as this was expected to be higher than a value in use model.

(a) The key assumptions and estimates used in deterring the FVLCD was calculated using discounted after-tax cash flows based on cash flow projections in the Corporation's current life of mine plans. These projected cash flows were based on the latest expectation of future metal prices, future capital expenditures, production costs estimates, discount rates and exchange rates. FVLCD was determined by calculating the net present value ("NPV") of the future cash flows expected to be generated by the mine. The estimates of future cash flows were derived from the most recent LOM plans. Based on observable market or publicly available data, including spot and forward prices and equity sell-side analyst forecasts, we make an assumption on future gold prices to estimate future revenues. The key assumptions used by the Corporation for their impairment testing are: gold price per ounce $1,300; discount rate of 12%; LOM years of 10; and Brazilian Reais to US$ exchange rate of 2.35.

For the year ended December 31, 2013, impairment charges totaled $116,177,638 (2012 - $Nil) for MRDM, of which $84,043,979 related to Property, plant and equipment, $3,086,629 related to Exploration and evaluation assets and $29,047,030 related to Mine development assets.

In the third quarter of 2013, the Corporation defaulted on certain financial and operational covenants, as outlined in Note 1 and recorded in an impairment charge of $56,769,875.

(In United States Dollars unless otherwise indicated)

In the fourth quarter of 2013, with the further delay in commencement of production to March 2014, the Corporation recorded an additional impairment charge of $59,407,763.

(b) Sensitivities

The Corporation performed a sensitivity analysis on commodity price, which is the key assumption that impacts the impairment calculation. The Corporation assumed a negative 10% change for the assumption, taking gold sales prices from $1,300 per ounce down to $1,170 per ounce, while holding all other assumptions constant. Based on the results of the impairment testing performed in the third quarter and fourth quarter of 2013 for MRDM, the fair value of MRDM would have been reduced from $129,917,986 to $76,618,900 as at December 31, 2013. The Corporation noted that this sensitivity identifies the key assets where the decrease in the sales prices, in isolation, could cause the carrying value of MRDM to exceed its recoverable amount for purposes of the non-current asset impairment test where an indicator of impairment for the non-current asset was identified.

Should there be a significant decline in commodity prices, the Corporation would take actions to assess the implications on our LOM plans, including determination of reserves and resources, and the appropriate cost structure for MRDM.

5. Restricted Deposits

As at December 31, 2013 the Corporation's restricted deposits totaled $2,431,521 (December 31, 2012 - $1,282,168), representing currency held in US$ 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

	December 31, 2013	December 31, 2012
Finished products	**344,197**	-
Work-in-process	**2,522,592**	-
Stockpiles	**2,937,679**	
Mine supplies	**23,075**	-
	5,827,543	-

(In United States Dollars unless otherwise indicated)

7. Property, Plant and Equipment

Cost	Land $	Assets under construction $	Buildings $	Leasehold Improvements $	Office Equipment $	Computer Equipment $	Vehicles $	Machinery & Equipment $	Total $
Balance, December 31, 2011	398,226	3,624,787	206,850	332,027	439,467	276,938	432,941	10,054,279	15,765,515
Additions	-	38,835,133	217,411	6,868	46,205	175,723	-	4,129	39,285,469
Reclassification	-	(4,269,552)	-		106,556		49,015	4,032,661	(81,320)
Effect of changes in foreign exchange rates	-	-	-	24,404	1,728	1,064	-	959	28,155
Balance, December 31, 2012	**398,226**	**38,190,368**	**424,261**	**363,299**	**593,956**	**453,725**	**481,956**	**14,092,028**	**54,997,819**
Additions	**-**	**125,604,832**	**25,563**	**87,963**	**44,158**	**59,499**	**-**	**718,139**	**126,540,154**
Impairment (Note 4)	**-**	**(84,043,979)**	**-**	**-**	**-**	**-**	**-**	**-**	**(84,043,979)**
Disposals	**-**	**-**	**-**	**(75,167)**	**(15,574)**	**-**	**-**	**-**	**(90,741)**
Reclassification	**-**	**(4,420,973)**	**-**	**19,493**	**176,445**	**29,494**	**119,173**	**4,036,332**	**(40,036)**
Effect of changes in foreign exchange rates	**-**	**-**	**-**	**(16,848)**	**(5,165)**	**(2,778)**	**-**	**(1,494)**	**(26,285)**
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**

Accumulated depreciation	Land $	Assets under construction $	Buildings $	Leasehold Improvements $	Office Equipment $	Computer Equipment $	Vehicles $	Machinery & Equipment $	Total $
Balance, December 31, 2011	-	-	13,629	71,126	81,357	117,587	182,451	26,743	492,893
Depreciation		-	18,129	69,399	29,347	58,431	74,174	38,612	288,092
Effect of changes in foreign exchange rates	-	-	-	411	491	633	-	40	1,575
Balance, December 31, 2012	**-**	**-**	**31,758**	**140,936**	**111,195**	**176,651**	**256,625**	**65,395**	**782,560**
Depreciation		**-**	**6,121**	**59,642**	**70,491**	**92,509**	**86,361**	**4,055,522**	**4,370,646**
Disposals	**-**	**-**	**-**	**(62,608)**	**(3,103)**	**-**	**-**	**-**	**(65,711)**
Reclassification	**-**	**-**	**-**	**-**	**-**	**184**	**-**	**-**	**184**
Effect of changes in foreign exchange rates	**-**	**-**	**-**	**(5,691)**	**(1,433)**	**(2,574)**	**-**	**(660)**	**(10,358)**
Balance, December 31, 2013	**-**	**-**	**37,879**	**132,279**	**177,150**	**266,770**	**342,986**	**4,120,257**	**5,077,321**

Net book value	Land $	Assets under construction $	Buildings $	Leasehold Improvements $	Office Equipment $	Computer Equipment $	Vehicles $	Machinery & Equipment $	Total $
Balance, December 31, 2012	398,226	38,190,368	392,503	222,363	482,761	277,074	225,331	14,026,633	54,215,259
Balance, December 31, 2013	**398,226**	**75,330,248**	**411,945**	**246,461**	**616,670**	**273,170**	**258,143**	**14,724,748**	**92,259,611**

As at December 31, 2013 the carrying value of property, plant and equipment is comprised of $243,080 in corporate and other (December 31, 2012 - $288,932), $91,621,795 in Brazil (December 31, 2012 - $53,523,582) and $394,736 in Romania (December 31, 2012 - $402,745).

(In United States Dollars unless otherwise indicated)

8. Software License Costs

	Cost $	Accumulated Amortization $	Net Book Value $
Balance, December 31, 2011	541,998	122,819	419,179
Additions	118,679	90,881	27,798
Effect of changes in foreign exchange rates	9,211	1,000	8,211
Balance, December 31, 2012	**669,888**	**214,700**	**455,188**
Additions	**414,549**	**136,722**	**277,827**
Reclassification	**3,033**	**-**	**3,033**
Effect of changes in foreign exchange rates	**(22,173)**	**10,874**	**(33,047)**
Balance, December 31, 2013	**1,065,297**	**362,296**	**703,001**

As at December 31, 2013 the carrying value of software licensing fees is comprised of $136,990 in corporate and other (December 31, 2012 - $248,857), $550,306 in Brazil (December 31, 2012 - $185,725) and $15,706 in Romania (December 31, 2012 - $20,606).

9. Exploration and Evaluation and Mine Development Assets

Exploration and evaluation assets	Romania $	Brazil $	Total $
Balance at December 31, 2011	37,719,149	2,454,674	40,173,823
Additions	9,638,747	2,557,498	12,196,245
Balance at December 31, 2012	**47,357,896**	**5,012,172**	**52,370,068**
Additions	**3,125,295**	**1,386,228**	**4,511,523**
Reclassification	**-**	**264**	**264**
Impairment (Note 4)	**-**	**(3,086,629)**	**(3,086,629)**
Balance at December 31, 2013	**50,483,191**	**3,312,035**	**53,795,226**

Mine development assets	Brazil $
Balance at December 31, 2011	21,306,965
Additions	11,361,320
Reclassifications	81,320
Gold Stream transactions	(15,000,000)
Balance at December 31, 2012	**17,749,605**
Additions [1]	**45,694,271**
Impairment (Note 4)	**(29,047,030)**
Reclassification	**37,003**
Balance at December 31, 2013	**34,433,849**

[1] $15,980,634 in borrowing costs were capitalized in Development assets during the year ended December 31, 2013, of which $4,699,483 related to interest on the Project Facility, $305,438 for commitment fees, $1,500,000 facility fees and $9,475,713 for the financing costs related to the Project Facility (Note 15).

Romania

Carpathian has a 100% interest in the Rovina Exploration License which is held by SAMAX Romania SRL.

Brazil

Carpathian 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.

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 December 31, 2013, the full $30 million had been received as Upfront Payment.

10. Share Capital

(a) Authorized

Unlimited number of Common Shares, without par value.

Unlimited number of Preference Shares, without par value.

(In United States Dollars unless otherwise indicated)

(b) Issued Common Shares

		Number of shares	$
Balance at December 31, 2011		553,787,411	179,137,481
Common Shares issued on exercise of options	10(d)	1,557,500	459,472
Common Shares issued on exercise of purchase warrants	10(e)	75,000	26,971
Balance at December 31, 2012		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 December 31, 2013		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, 2011	**29,199,500**	0.45
Granted during the period	**9,230,000**	0.40
Exercised during the period	**(1,557,500)**	0.21
Expired during the period	**(1,245,000)**	0.95
Forfeited during the period	**(1,500,000)**	0.42
Balance at December 31, 2012	**34,127,000**	0.42
Expired during the period	**(4,525,000)**	0.45
Forfeited during the period	**(165,000)**	0.51
Balance at December 31, 2013	**29,437,000**	0.43

(In United States Dollars unless otherwise indicated)

As at December 31, 2013, 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
Employees	420,000	27,896	0.20	3 days	420,000
Directors, officers and employees	2,570,000	210,285	0.20	42 days	2,570,000
Directors, officers and employees	6,090,000	969,557	0.30	301 days	6,090,000
Directors	200,000	71,579	0.56	1 years 303 days	200,000
Directors, officers and employees	10,992,000	3,797,392	0.58	2 years 229 days	10,992,000
Directors, officers and employees	7,765,000	716,515	0.40	3 years 226 days	5,176,667
Consultants	400,000	13,912	0.40	226 days	400,000
Officer and employee	1,000,000	139,498	0.40	3 years 283 days	666,667
Balance at December 31, 2013	29,437,000	5,946,634		2 years 97 days	26,515,334

As at December 31, 2013 the number of stock options available for exercise was 26,515,334 at a weighted average exercise price of Cdn$0.43 and the aggregate remaining unamortized value of unvested stock options granted was $90,656.

Using the fair value method, total share-based compensation for stock options issued and outstanding for the year ended December 31, 2013 was $735,969 (December 31, 2012 - $2,007,693), of which $205,989 has been capitalized to exploration and development costs (December 31, 2012 - $591,053).

(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$
Balance at December 31, 2011	**8,377,717**	**0.33**
Expired purchase warrants	**(8,302,717)**	**0.33**
Exercised by purchase warrant holders	**(75,000)**	**0.33**
Balance at December 31, 2012	**-**	**-**
Issued on Finalization of Project Facility	**20,000,000**	**0.40**
Balance at December 31, 2013	**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

	Year Ended December 31, **2013** $	2012 $
Professional fees	**1,228,788**	1,464,789
Investor relations and advertising	**520,063**	598,424
Travel, business and development	**471,920**	804,839
Office and general	**2,303,090**	1,041,446
	4,523,861	3,909,498

(b) Employee compensation expense

	Year ended December 31, **2013** $	2012 $
Salaries and benefits	**3,229,112**	3,441,032
Share-based payments	**508,003**	1,416,640
Deferred share unit costs	**(511,746)**	(55,693)
	3,225,369	4,801,979

(c) Other (income) expense

	Year ended December 31, **2013** $	2012 $
Foreign exchange loss (gain)	**(6,020,087)**	2,862,843
Interest income	**(247,669)**	(672,273)
Loss on sale of property, plant and equipment	**25,031**	-
Other expense (income)	**71,399**	248,187
Interest expense	**18**	236
	(6,171,308)	2,438,993

12. Loss per Share

Basic earnings/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 year ended December 31, 2013 is 601,385,938 (2012 - 554,936,123). 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:

	December 31, 2013	December 31, 2012
Number of DSUs outstanding, beginning of period	**2,395,434**	1,816,007
Granted to officers	**-**	513,145
Granted to directors	**-**	277,016
Redeemed (at market price of Cdn$0.28)	**-**	(210,734)
Number of DSUs outstanding, end of period	**2,395,434**	2,395,434
Market Value, end of period	**Cdn$0.09**	Cdn$0.31
Liability, end of period	**$201,598**	$745,118
Compensation recovery for the year	**(511,746)**	(55,693)

14. Trade and other payables

	December 31, 2013	December 31, 2012
Trade payables	**14,098,848**	3,486,871
Accrued liabilities	**10,571,297**	5,045,061
	24,670,145	8,531,932

In the above mentioned trade and other payable total, $14,122,761 (2012 - $2,650,995) relates to capital expenditure for to Property, plant and equipment, mine development asset and exploration and evaluation asset.

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 20). 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 20). 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) have 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 have been written off to Mine Development assets, resulting in financing costs of $9,475,713 for year ended December 31, 2013.

(In United States Dollars unless otherwise indicated)

As at December 31, 2013, the Corporation had drawn an aggregate of $120,000,000 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
	65,000,000	25,000,000	30,000,000	120,000,000

As at December 31, 2013, the principal balance outstanding on the Project Facility was $120,000,000. Interest accrued during the year ended December 31, 2013 was $2,738,454. Commitment fees and facility fees for the year ended December 31, 2013 were $305,438 and $1,500,000, respectively. Interest paid for the year ended December 31, 2013 was $1,961,032.

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 June 30, 2014. Pursuant to the Forbearance Agreement, funds drawn under Tranche 3 of the Project Facility must be repaid by June 30, 2014.

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, Macquarie Bank has agreed to provide up to $75 million, at its discretion, of additional financing under a “Tranche 3” of the Project Facility. Tranche 3 of the Project Facility is repayable on June 30, 2014 and bears interest at 19.8% 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)

16. 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	Consolidated Total
Consolidated Statement of Financial Position				
For the year ended December 31, 2013				
Total Assets	**985,766**	**222,437,109**	**50,929,456**	**274,352,331**
Total Liabilities	**1,216,147**	**213,414,877**	**1,248,553**	**215,879,577**
For the year ended December 31, 2012				
Total Assets	13,174,155	98,779,697	47,809,364	159,763,216
Total Liabilities	2,141,329	63,126,585	870,455	66,138,369

Operating Segment	Corporate and Other	Brazil	Romania	Consolidated Total
Consolidated Statement of Loss and Comprehensive Loss				
For the year ended December 31, 2013				
General and administrative expenses	**2,296,080**	**2,362,448**	**-**	**4,658,528**
Employee compensation costs	**1,832,834**	**1,392,535**	**-**	**3,225,369**
Impairment	**-**	**116,177,638**	**-**	**116,177,638**
Realized loss on derivative contracts	**-**	**3,699,900**	**-**	**3,699,900**
Unrealized gain on derivative contracts	**-**	**(72,039,014)**	**-**	**(72,039,014)**
Foreign exchange loss (gain)	**(6,372,849)**	**372,958**	**(20,196)**	**(6,020,087)**
Interest income, net of expenses	**(28,042)**	**(219,609)**	**-**	**(247,651)**
Other expense	**-**	**96,430**	**-**	**96,430**
Income tax recovery	**-**	**-**	**460,450**	**460,450**
Loss (income) for the year	**(2,271,977)**	**51,843,286**	**440,254**	**50,011,563**
Other comprehensive income for the year	**6,281,753**	**-**	**-**	**6,281,753**
Total comprehensive loss for the year	**4,009,776**	**51,843,286**	**440,254**	**56,293,316**

(In United States Dollars unless otherwise indicated)

Operating Segment	**Corporate and Other**	**Brazil**	**Romania**	**Consolidated Total**
Consolidated Statement of Loss and Comprehensive Loss				
For the year ended December 31, 2012				
General and administrative expenses	2,738,793	1,294,012	-	4,032,805
Employee compensation costs	3,907,900	894,079	-	4,801,979
Unrealized loss on derivative contracts	-	22,271,701	-	22,271,701
Foreign exchange (gain) loss	1,848,237	1,015,898	(1,292)	2,862,843
Interest income, net of expenses	(464,425)	(207,612)	-	(672,037)
Other expense	-	248,187	-	248,187
Income tax recovery	-	-	(170,345)	(170,345)
Loss (income) for the year	8,030,505	25,516,265	(171,637)	33,375,133
Other comprehensive income for the year	(3,180,843)	-	-	(3,180,843)
Total comprehensive loss (income) for the year	4,849,662	25,516,265	(171,637)	30,194,290

17. Related Parties

As at December 31, 2013 there were no amounts due to or from related parties (December 31, 2012 - $Nil). During the three months ended March 31, 2012, the Corporation purchased graphic design and printing services from an entity in which, Dino Titaro, the former Chief Executive Officer of the Corporation is a partner. There have been no other related party transactions since then.

18. Key Management Compensation Disclosure

Key management includes the Corporation's directors and the executive officers. Compensation awarded to key management included:

	2013	2012
Salaries and short term employee benefits	**1,844,182**	2,670,623
Share-based payments [1]	**151,716**	1,755,977
Termination benefits [2]	**-**	300,000
	1,995,898	4,726,600

[1] Share-based payments include the mark-to-market adjustments on DSUs.

[2] Termination benefits include contractual separation payments for the Corporation's former CFO who ceased to be an employee of the Corporation on July 1, 2012.

(In United States Dollars unless otherwise indicated)

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:

	December 31, 2013	December 31, 2012
Balance at beginning of period	**2,965,613**	-
Provision	**-**	2,965,613
Change in estimate	**2,159,683**	-
	5,125,296	2,965,613

As at December 31, 2013, 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 8.5 years. As at December 31, 2013 the rehabilitation provision has been discounted using a discount rate of 5.25%. The Corporation has recorded the rehabilitation provision based on the percentage of completion at 94% of the construction project as at December 31, 2013. A 1% increase in the discount rate would result in a decrease of rehabilitation provision by $373,429 and a 1% increase in the discount rate would result in an increase in the rehabilitation provision by $432,181, 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$1.90 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 216,600 ounces of gold at a price of $1,600 per ounce.

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 notional amount of the CAPEX currency swaps that have not been settled by December 31, 2013 is R$Nil. The OPEX currency swaps were arranged to cover R$/US$ currency fluctuations during the initial years of the mine operations for a notional amount of R$401,789,423. The Gold Contracts were arranged to mitigate the risk of fluctuations in the price of gold and has a notional amount of $346,560,000.

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 only in the event of bankruptcy or default of either party to the agreement.

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.

(In United States Dollars unless otherwise indicated)

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 $1,550,000 liability on December 31, 2013 and is included in the long-term derivative liability.

Summary of Derivatives at December 31, 2013

	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	74,648,352	202,616,955	(60,965,144)
Commodity contracts:					
Gold contract	72,960,000	145,920,000	127,680,000	346,560,000	76,553,422
Gold Options	-	32,000,000	-	32,000,000	(1,550,000)

Summary of Derivatives at December 31, 2012

	Notional Amount by Term to Maturity ($)					Fair Value $
	Within 1 year	2 to 3 years	4 to 5 years	6 to 7 years	Total	
Currency contracts:						
CAPEX contract	79,933,898	-	-	-	79,933,898	(5,376,103)
OPEX contract	18,984,720	69,812,389	86,243,028	18,605,853	193,645,990	(27,674,924)
Commodity contracts:						
Gold contract	22,240,000	142,320,000	146,480,000	35,520,000	346,560,000	(21,219,710)

Fair Values of Derivative Instruments

	Balance Sheet Classification	**Fair Value as at December 31, 2013**	Fair Value as at December 31, 2012	Balance Sheet Classification	**Fair Value as at December 31, 2013**	Fair Value as at December 31, 2012
Currency contracts:						
CAPEX contract	Current assets	**-**	**-**	Current liabilities	**-**	5,376,103
OPEX contract		**-**	**-**	Current liabilities	**8,613,628**	1,377,758
OPEX contract		**-**	**-**	Non-current liabilities	**52,351,516**	26,297,166
Commodity contracts:						
Gold contract	Current assets	**18,010,647**	**-**	Current liabilities	**-**	1,109,163
Gold contract	Non-current assets	**58,542,775**	**-**	Non-current liabilities	**-**	20,110,546
Gold Options		-	**-**	Non-current liabilities	**1,550,000**	-

(In United States Dollars unless otherwise indicated)

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 gains or losses on non-hedge derivatives.

Net realized and unrealized (gains) losses on Derivatives

	December 31, 2013 $	December 31, 2012 $
Currency contracts:		
CAPEX contract	**(2,630,470)**	2,508,262
OPEX contract	**34,244,487**	4,673,563
Commodity contracts:		
Gold contract	**(97,773,131)**	15,089,876
Gold Options	**(2,180,000)**	-

21. 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 December 31, 2013 and 2012.

		December 31, 2013		December 31, 2012	
	Level	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Financial Assets					
Loans and receivables					
Cash and cash equivalents[1]		**3,011,774**	**3,011,774**	18,956,650	18,956,650
Restricted deposits[1]		**2,431,521**	**2,431,521**	1,282,168	1,282,168
Sundry Receivables[1]		**66,694**	**66,694**	241,024	241,024
Financial Liabilities					
Amortized cost					
Trade and other payables[1]		**24,468,548**	**24,468,548**	7,786,814	7,786,814
Project Loan Facility[3]		**122,738,454**	**122,738,454**	-	-
Fair value through profit and loss					
Derivative contracts	**2**	**14,038,278**	**14,038,278**	54,270,736	54,270,736
Deferred Share Units[2]	**1**	**201,598**	**201,598**	745,118	745,118

[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.

(In United States Dollars unless otherwise indicated)

Assets measured at fair value on non-recurring basis

	December 31, 2013			
Financial Assets	**Quoted price in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Aggregate fair value**
Property, Plant and equipment[1]	**-**	**-**	**91,621,795**	**91,621,795**
Exploration and evaluation assets[2]	**-**	**-**	**3,312,035**	**3,312,035**
Mine development assets[3]	**-**	**-**	**34,433,849**	**34,433,849**

[1] Property, plant and equipment were written down by $84,043,979 which was included in losses in this period, to their fair value of $91,621,795.
[2] Exploration and evaluation assets were written down by $3,086,629 which was included in losses in this period, to their fair value less costs of disposal of $3,312,036.
[3] Mine development assets were written down by $29,047,030 which was included in losses in this period, to their fair value less costs of disposal of $34,433,849.

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 an income 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 (Note 4).

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 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)

22. Income taxes

The following table shows the components of the current and deferred tax expense:

	December 31, 2013	December 31, 2012
Deferred tax expense (recovery)		
Recognition of temporary differences	**460,450**	(170,345)
	460,450	(170,345)

The reconciliation of the combined federal and provincial statutory income tax rate to the effective tax rate is as follows:

	December 31, 2013	December 31, 2012
Combined statutory income tax rate	**26.50%**	26.50%
Expected tax recovery	**(13,131,046)**	(8,889,551)
Share issue costs	**-**	(459,284)
Non-deductible expenses	**602,184**	410,815
Imputed interest income	**78,183**	83,631
Tax rate differences	**5,936,365**	2,989,125
Benefits of tax attributes not recognized	**6,974,764**	5,694,919
	460,450	(170,345)

The following table summarizes the components of deferred income tax. All are expected to be recovered after more than 12 months.

	December 31, 2013	December 31, 2012
Deferred tax assets		
Accrued expenses and other	**2,616,000**	1,390,268
Loss carry-forwards	**257,377**	1,879,680
	2,873,377	3,269,948
Deferred tax liabilities		
Mineral properties	**(1,087,915)**	(3,144,243)
Property, plant and equipment	**-**	(495,793)
Derivative contracts	**(2,616,000)**	-
Deferred tax liabilities-net	**(830,538)**	(370,088)

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Corporation has a legal right and intent to offset.

The following table summarizes the deductible temporary differences for which no deferred tax asset has been recognized:

(In United States Dollars unless otherwise indicated)

	December 31, 2013	December 31, 2012
Mineral properties	**15,880,861**	-
Derivative contracts	**-**	53,495,552
Share issue costs	**2,965,804**	3,725,564
Property, plant and equipment	**382,464**	150,176
Deferred share units compensation cost	**119,877**	655,170
Non-capital loss carry-forwards and other	**22,028,167**	20,792,018
Unrealized foreign exchange losses	**-**	4,040,718
Capital loss carry-forwards	**60,446**	188,741
	41,437,619	83,047,939

The following table summarizes the Corporation's non-capital losses that can be applied against future taxable profit:

	Type	Amount	Expiry Date
Canada	Non-capital losses	24,664,683	2014 - 2033

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 December 31, 2013, 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**	**4 to 5 years**	**Total**
Construction and supply contracts	2,496,935	-	-	2,496,935
Office lease	160,118	320,235	13,343	493,696

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' 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.

(In United States Dollars unless otherwise indicated)

The properties in which the Corporation currently has an interest are in the 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:

	December 31, 2013	December 31, 2012
Cash and cash equivalents	**3,011,774**	18,956,650
Restricted deposits	**2,431,521**	1,282,168
Project loan facility	**120,000,000**	-
Share capital	**196,773,069**	179,623,924
Warrants	**3,256,109**	-
	325,472,473	199,862,742

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 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 December 31, 2013, the Corporation faces liquidity risk to the extent that it will be unable to settle current liabilities of $156,022,227 with cash and cash equivalents and restricted deposits totalling $5,443,295. Current liabilities consist of trade and other payables, 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 June 30, 2014 (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 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 comprised of guaranteed investment certificates that bear interest at fixed rates to maturity and 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 December 31, 2013, management estimates that if interest rates had changed by 0.5% the impact on investment income and net loss for the period would have been approximately $14,831. In addition, if interest rates had changed by 0.5% the impact of the Project Facility interest and net loss for the period would have been approximately $321,185.

(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 European and Brazilian exploration and development activities using U.S. dollar currency converted from its Canadian dollar bank accounts. 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 December 31, 2013, the Corporation held cash and cash equivalents of $2,618,364 in Brazilian Reais, $335,143 in Canadian dollars, $18,628 in U.S dollars and $39,638 in various European currencies. Consequently, fluctuations in the U.S. dollar currency against these currencies directly affect the cost of our property, plant and equipment assets and operating expenditures for our 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 has entered into certain currency swap arrangements effective December 15, 2011 covering a substantial portion of its CAPEX and OPEX on the RDM Project in Brazil and amended OPEX effective December 24, 2013.

As of December 31, 2013, 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 1% against the U.S. dollar, the impact on net loss for the period would have been approximately $93,594.

(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).

26. Subsequent Event

(a) On January 8, 2014, the Corporation temporarily suspended production at MRDM, following the temporary suspension of the Autorizacao Provisoria de Operacao ("APO"), which was received on December 13, 2013. The APO is a provisional permit allowing MRDM to proceed with the full operation of its gold producing facilities. The APO provides the same legal rights as the Licenca de Operacao ("LO") and allows MRDM to proceed in the interim while arrangement are being performed by the government agencies and related entities for the issuance of the LO. The financial effects of this suspension cannot be estimated.

(b) Effective January 24, 2014, the Corporation's Chief Executive Officer, Executive Vice President and Chief Operating Officer were terminated and a Chief Restructuring Officer was appointed. The former Executive Vice President was appointed as Interim Chief Executive Officer and a new Chief Operating Officer for MRDM was appointed. Total severance payments for statutory termination payments aggregated to $359,915.

(c) The Corporation has received communication from a former employee for additional severance. Legal action has not been initiated. No amounts have been recorded for any potential liability arising from this matter, as the Corporation cannot reasonably predict the outcome and dollar amount cannot be estimated at this time.

(d) On February 24, 2014, the APO was reinstated for the MRDM.

(e) On March 13, 2014, MRDM commenced re-commissioning of the processing plant.

(f) On May 16, 2014, Macquarie Bank agreed to increase the amount of funds made available under Tranche 3 to $75,000,000.

(g) As at June 17, 2014, the Corporation has drawn $71.4 million against the Project Facility's Tranche 3, as amended by the Forbearance Agreement.