

# **AMERICAN CREEK RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - FORM 51-102F**

For the period ended June 30, 2015

This Management's Discussion and Analysis ("MD&A") provides a discussion on the financial and operating results of American Creek Resources Ltd. ("American Creek" or the "Company") for the three- and six- month periods ended June 30, 2015 (the "second quarter 2015" and "first half 2015") and compares the results with the three- and six- month periods ended June 30, 2014 (the "second quarter 2014" and "first half 2015"). In order to gain a more complete understanding of the Company's financial condition and results of operations, this MD&A should be read in conjunction with the June 30, 2015 unaudited financial statements and the December 31, 2014 audited financial statements and accompanying notes which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed with the appropriate provincial regulatory bodies. Copies of all relevant documents can be located on the SEDAR website at [www.sedar.com](http://www.sedar.com).

The date of this MD&A is August 27, 2014 (the "Report Date").

All monetary amounts are expressed in Canadian dollars, unless otherwise noted.

### **1. Business Overview**

American Creek's business purpose is to acquire and explore mineral properties, principally for precious metal deposits. The company was incorporated and commenced operations in British Columbia pursuant to the *Companies Act* (British Columbia) on February 12, 2004. In late August 2005, the Company was continued under the provisions of the *Business Corporations Act* (Alberta). American Creek has no producing property and no earnings and therefore has financed its activities to date by the sale of common shares.

The Company completed an Initial Public Offering ("IPO") of its common shares on August 31, 2006 and trading of its common shares commenced on the TSX Venture Exchange (symbol "AMK") on September 6, 2006.

Since 2010, the Company has been focused on a legal battle to secure its 51% interest in the highly prospective Treaty Creek property which is located in the "Golden Triangle" northeast of Stewart, British Columbia. In 2014, the Supreme Court of British Columbia confirmed that the Company met its obligation under the option agreement and that Teuton Resources Corp. ("Teuton") breached the agreement in refusing to transfer title. The Court ordered Teuton to transfer 100% of legal title to all of the mineral claims comprising the Treaty Creek property to the Company which includes Teuton's 49% interest in those mineral claims held in trust pursuant to the parties' original agreement. In 2015, the British Columbia Court of Appeal upheld the decision of the Court and dismissed the appeal entirely. The Company is extremely pleased with the outcome of this very long and arduous process and looks forward to continuing exploration on this highly prospective property. Past exploration programs and significant development of surrounding properties continue to demonstrate the significant potential of the Treaty Creek property (see section 2 of this MDA for more details).

From the inception of the Company, a number of other prospective mineral exploration properties have been acquired and have had varying amounts of exploration work completed. Since the latter part of 2007, capital markets have been affected by fluctuating precious metal prices and tenuous investor interest in the mining sector as a whole. This has resulted in unpredictable and limited access to capital funding for exploration programs. Though these circumstances have

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created challenges in funding ongoing operations, they have also created opportunities to acquire exploration properties of merit that are significantly undervalued.

With limited resources, the Company has been actively reviewing potential properties for its portfolio while continuing to maintain existing projects that continue to be prospective. As a result, during the second quarter 2015, the Company acquired the Gold Hill property and the D-1 McBride property. These properties have had limited exploration in the past but each appear to merit further exploration. A small initial exploration program was completed in the second quarter 2015.

Further exploration on existing properties including the Company's flagship Treaty Creek Project and newly acquired properties will be considered in the context of the market and whether the Company is able to fund them in the future. The Company will also continue to pursue opportunities to option out these properties and where suitable as a method to fund further exploration programs of significant size and scope. Maintaining and building a strong portfolio of exploration assets will position the Company and its shareholders for significant growth. Treaty Creek, along with the Company's other prospective properties, offer current and potential investors a unique opportunity for investing in highly prospective, politically stable areas of precious and base metals exploration.

## **2. Exploration Projects**

All of American Creek's exploration projects are located in British Columbia, Canada.

During the first half 2015, the Company acquired exploration properties totaling \$386,100. Exploration expenses were also incurred in the first half 2015 in the amount of \$3,074 which represented the completion of a preliminary exploration program on the newly acquired Gold Hill property designed to target areas for further exploration. Samples taken from the property will be sent for assay.

A detailed schedule of costs, capitalized on the Company's balance sheet by property name, can be referenced in note 6 of the June 30, 2015 unaudited financial statements. A more detailed summary of the exploration progress for other current properties of interest is provided below:

### **Treaty Creek Project (51% interest)**

The Treaty Creek Project covers approximately 114 square km in the Skeena Mining District of northern British Columbia. The property is situated approximately 70 km north of Stewart. It is directly north of and adjoining the Kerr-Sulphurets-Mitchell property held by Seabridge Gold Inc. Also, immediately to the south, is Pretivm Resources Inc.'s, highly prospective Brucejack Project which includes the area known as the Valley of the Kings.

In April 2007, American Creek signed an earn-in agreement with Teuton Resources Inc. ("Teuton") allowing American Creek to earn up to a 60% interest in the Treaty Creek property. All obligations under the agreement have been completed which vests the Company's 51% interest in the property. The Company has the option to purchase certain royalty interests for \$1,000,000. The Company also has the option, and in certain circumstances is required, to

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purchase other royalty interests for \$6,000,000 (see note 6 in both the June 30, 2015 unaudited financial statements and December 31, 2014 audited financial statements).

American Creek is the Operator of the Treaty Creek project.

In 2007, the Company carried out an exploration program designed to confirm and replicate historic drill hole results indicating grades similar to Seabridge's Mitchell deposit located immediately to the south and to test several large anomalies generated by previously-flown airborne geophysical surveys. A total of 5,471 metres were drilled in 30 drill holes across four separate zones: Eureka; ND; Copper Belle; and GR2. Assay results were published in the Company's news releases issued December 11, 2007, March 17, 2008 and March 8, 2013, copies of which can be found on the SEDAR website.

The exploration program conducted in 2009 was designed to further test the extent of known mineralized zones (Eureka, Copper Belle and GR2) drilled in 2007 and to drill test an additional zone (Treaty Ridge). A total of 9,520 meters were drilled in 32 holes across the four zones. Assay results were published in the Company's news releases issued November 30, 2009 and January 13, 2010, copies of which can be found on the SEDAR website.

In late 2010, the Company initiated legal action against Teuton Resources Corp in the Supreme Court of British Columbia for failure to transfer title to the property under the terms of the initial earn-in. Teuton disputed that all terms of the contract had been met by American Creek. On April 14, 2014 the Court found that American Creek has met its obligations under the option agreement with Teuton and that it has earned its 51% interest in the Treaty Creek property. The Court found that Teuton breached the agreement in refusing to transfer title to the Treaty Creek mineral claims to American Creek and ordered Teuton to transfer legal title of all of the mineral claims comprising the Treaty Creek property to American Creek. Teuton has since transferred 100% of the mineral claims to American Creek representing its 51% interest and Teuton's 49 percent interest held in trust pursuant to the parties' original agreement.

Teuton unsuccessfully appealed the Court's decision the BC Court of Appeal in March of 2015. A decision was received was received on April 27, 2015 from the BC Court of Appeal which upheld the decision of the trial judge and dismissed the appeal entirely.

#### **Electrum Project (100% interest)**

The Electrum Project consists of six claims located approximately 40 km north of Stewart, British Columbia. This property lies in a valley containing four historical commercially producing mines, and hosts the historic East Gold Mine which had intermittent small-scale production producing approximately 46 tons of hand-picked ore with average grades of 1,661 g/t (48.5 oz/t) gold and 2,596 g/t (75.7 oz/t) silver (Pre NI 43-101 smelter records). American Creek completed its acquisition of a 100% interest in the Electrum property in 2007 pursuant to an option agreement entered into effective September 15, 2004. The optionors have retained a 2% NSR royalty interest in the project, which the Company may purchase for \$1,000,000.

Since 2006, the Company has conducted multiple exploration programs which include surface sampling, geological mapping and modeling and diamond drill programs at the Electrum Project. The most recent drill program in 2011 was restricted due to budgetary constraints

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however, the holes that were drilled indicate that there is potential for expanding the bulk mining gold grades exemplified in the quartz stockwork type of mineralization and the potential of expanding the hydrothermal veins that have been encountered. Further drilling has been recommended. Assay results from these various programs were published in the Company's news releases. Copies of these results can be found on both the Company and SEDAR websites.

### **Gold Hill and D-1 McBride Project (100% interest)**

The Gold Hill property is located near Fort Steele, British Columbia and was purchased on March 9, 2015 along with the D-1 McBride property which is located near Dease Lake, British Columbia. Consideration paid consisted of 3,900,000 shares issued to the vendor and 390,000 shares issued as an arms-length finders fee with a fair value of \$0.09 per share. The Company completed a preliminary exploration program on the Gold Hill property in the second quarter 2015 designed to target further exploration targets. Samples taken from the property as part of this program will be sent for assay.

### **3. Results of Operations**

The Company adopted International Financial Reporting Standards ("IFRS") effective January 1, 2011. The financial information in this MD&A has been prepared using accounting policies consistent with IFRS.

#### **Three months ended June 30, 2015**

The Company's net loss for the three month period ended June 30, 2015 was \$76,353 or \$0.00 per common share, as compared to a net loss of \$593,639 or \$0.00 per common share for the same period in 2014 resulting in an overall decrease in net loss of \$517,286. Significant variances are described in the paragraph below.

In the second quarter 2015, the Company's legal fees related to the Teuton litigation decreased by \$244,108 in comparison to the same period in 2014. This was due to the completion of the Teuton litigation appeal and the subsequent reimbursement of legal fees from Teuton as a result of the judgement received in favor of the Company. Management fees also decreased by \$229,325 due to the one time retention payment made in 2014 to contractors. Additionally, contract work for the Company's CFO has been reduced and is reflected in the amounts paid during the first half 2015. Office and administration costs were also reduced from 2014 by \$49,019 due to the reduction in office staff required since the completion of the law suit and a retention payment to an additional contractor in 2014. Offsetting these decreases is the stock based compensation expense representing the value of options granted in the second quarter 2015 of \$39,354.

#### **Six months ended June 30, 2015**

The Company's net loss for the first half 2015 was \$872,023 or \$0.00 per common share, as compared to the net loss of \$812,097 or \$0.00 per common share for the same period in 2014.

The increased loss is the result of a number of factors which included reductions in legal fees in total in the amount of \$45,011. Legal fees continued to be significant in the first half 2015 as the Company expended effort to collect legal fees from Teuton as awarded by the court. The receipt of reimbursed legal fees during the first half of 2015 was approximately \$320,000 which offset

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the actual costs during the period. Management fees and office and administration costs were reduced over the first half of 2015 by \$252,150 for the same reasons discussed in the previous section. Offsetting these decreases is the stock based compensation expense representing the value of options granted in the second quarter 2015 of \$442,763.

### 4. Summary of Quarterly Results

The following table summarizes information derived from the Company's financial statements for the eight most recent fiscal quarters.

<b>Quarter Ended:</b>	<b>June 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sep. 30</b>	<b>June 30</b>	<b>Mar. 31</b>	<b>Dec. 31</b>	<b>Sep. 30</b>
<b>Year:</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
Net sales or total revenue (000s)	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
Total Assets (000s)	\$14,447	\$14,447	\$14,090	\$14,104	\$14,237	\$14,237	\$14,337	\$14,312
Net loss:								
(i) in total (000s)	\$76	\$796	\$469	(\$28)	\$594	\$218	\$333	\$551
(ii) per share <sup>(1)</sup>	(0.00)	(0.00)	(0.00)	(0.00)	0.00	0.00	0.00	0.00

(1) Fully diluted loss per share amounts have not been calculated as they would be anti-dilutive.

While the information set out in the foregoing table is mandated by *National Instrument 51-102*, it is Management's view that the variations in financial results that occur from quarter to quarter are not particularly helpful in analyzing the Company's performance. It is in the nature of the business of junior exploration companies that unless they sell a mineral interest for a sum greater than the costs incurred in acquiring such interest, they have no significant net sales or total revenue. Because the majority of such companies' expenditures consist of exploration costs that are capitalized, their quarterly losses usually result from costs that are of a general and administrative nature.

Significant variances in the Company's reported loss from quarter to quarter most commonly arise from factors that are difficult to anticipate in advance or to predict from past results. They are as follows: (i) decisions to write off deferred exploration costs when management concludes there has been an impairment in the carrying value of a mineral property, or the property is abandoned, and (ii) the granting of incentive stock options, which results in the recording of amounts for stock-based compensation expense that can be quite large in relation to other general and administrative expenses incurred in any given quarter. A third factor that can have a major influence on quarterly results of junior exploration companies that finance a portion of their activities through the issuance of flow-through shares is the renunciation of qualifying Canadian Exploration Expenses to the investors who purchased the flow-through shares.

American Creek is in the minerals exploration business, and has not generated any sales or revenues since its formation in early 2004. Consequently, the Company has experienced operating losses from quarter to quarter. These losses include expenditures on general and administrative activities, advertising and promotion, and depreciation of investments in property and equipment, all of which result from the Company's ongoing exploration activities. Superimposed on regular quarterly operating costs are (a) the write-offs of deferred exploration costs when property values are considered impaired or claims are abandoned for failing to meet

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the Company's criteria for continued capitalization, (b) the recording of stock-based compensation expense associated with the granting of incentive stock options and, (c) renunciation of qualified Canadian exploration expenses to investors who have purchased the Company's offerings of flow-through shares resulting in income tax recovery.

Notably, in recent years, administrative activities have accounted for a larger percentage of the Company's overall costs due to increased professional fees incurred in the legal proceedings against Teuton Resources Corp. The Company has also allocated management and contractor resources towards support for legal counsel in preparation for litigation. While this has reduced, where possible, the costs paid to outside legal counsel it has resulted in reduced exploration activities during the past number of years.

The third quarter 2013 loss of \$551,075 reflected a decrease of \$764,630 as compared to the previous quarter. The decrease is due to trial costs in the litigation against Teuton Resources Corp which increased professional fees in the second quarter 2013. The remainder of court proceedings were finalized requiring less legal representation in the third quarter 2013 which reduced professional fees between these quarters by \$683,437. Office and administration expenses were also higher by \$42,199 in the second quarter along with an impairment of exploration assets in the amount of \$36,662.

The final quarter in 2013 produced a reduced loss of \$333,398 which was less than the previous quarter by \$254,339. The difference is mainly a result of legal fees that were down by \$253,611.

During the first quarter 2014, the Company's net loss decreased from \$333,398 to \$218,458 for a total decrease of \$114,940 as compared to the fourth quarter 2013. The difference is partly attributed to a decrease in professional fees of \$87,734 as the Company awaited a decision in the Treaty Creek lawsuit. Office and administrative expenses also decreased by \$66,651 due to increased expenses incurred in the fourth quarter 2013 for geological contractors that assisted in the litigation. Also, in the fourth quarter 2013, business development and property investigation included a mining exploration tax credit that reduced expenses in that category was received in the amount of \$25,169. Office rental costs decreased due to the more efficient office and storage space secured by the Company and management fees also increased by \$19,375 in the first quarter 2014.

The second quarter of 2014 resulted in a net loss of \$593,639 increased from \$218,458 in the previous quarter of 2014. Management fees and office administration accounts for \$262,190 of the increase and is related to an increased amounts owed under new management contracts and a one-time retention payment made to management and key employees for their efforts related to the Treaty Creek lawsuit. Professional fees also increased by \$88,960 due to legal fees related to defending the appeal and seeking costs.

In the third quarter 2014, the Company showed a net income of \$27,549 compared to a net loss in the previous quarter of \$593,639. The difference is explained by the following; 1) a decrease of \$31,942 in advertising and promotion expenses from efforts made in the previous period to promote the Company's favorable decision in the Treaty Creek lawsuit; 2) a decrease in management fees due to a renegotiation of management contracts and a contractual retention payment agreed to for management and key employees in the previous period; 3) the receipt of an advance payment towards costs received from Teuton Resources Corp. during the period in the

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amount of \$300,000 which offset legal costs during the period and; 4) a gain on sale of land and buildings in Stewart, B.C. in the amount of \$125,270 during the period.

During the fourth quarter of 2014, the Company incurred a net loss of \$469,311 as compared to a net income of \$27,549 in the previous quarter. The differences include the following factors which occurred in the third quarter but not in the fourth quarter; 1) the receipt of an advance payment towards costs received from Teuton Resources Corp. during the period in the amount of \$300,000 which offset legal costs during the previous period and; 2) the accrual of interest costs related to increased accounts payable balances throughout the year and; 3) a gain on sale of land and buildings in Stewart, B.C. in the amount of \$125,270 during the previous period.

In the first quarter 2015, the Company incurred a net loss of \$795,670 as compared to a net loss of \$469,311 in the previous quarter. Interest charges in the previous quarter were higher by \$190,281 as the Company was invoiced by vendors for charges on significant outstanding balances which decreased the net loss while an increase in professional fees in the amount of \$93,471 due to Teuton's appeal of the Treaty Creek trial decision increased the net loss. The Company also granted options to directors and key contractors which resulted in stock-based compensation expense in the amount of \$403,409. Other smaller variances in listing and transfer fees and advertising and promotion and depreciation expense increased the net loss further.

In the second quarter 2015, the Company incurred a net loss of \$76,353 as compared to a net loss of \$795,670 in the first quarter 2015. In the previous quarter, costs incurred to finalize the appeal by Teuton over the Treaty Creek property and to initiate collection proceedings for court awarded costs resulted in legal fees being higher by \$354,244. This difference also accounts for amounts collected from Teuton in the second quarter 2015 of approximately \$320,000. Additionally, the reduction of stock based compensation, which represents the value of options granted during the first quarter 2015, contributed to reducing the comparative loss by \$364,055.

### 5. Liquidity and Capital Resources

The Company's cash and working capital positions at the dates indicated were as follows:

	<b>June 30 2015</b>	<b>December 31 2014</b>
	<b>\$</b>	<b>\$</b>
Cash	8,185	19,637
Working capital (deficiency)	(2,303,711)	(2,480,519)

Working capital to fund the Company's ongoing operations for the six month period ended June 30, 2015 was provided by an increase in accounts payable to the Company's legal advisors and management contractors as well as a private placement for \$480,000 and an agreement to issue shares for debt to a contractor in the amount of \$120,000.

During the year ended 2014, the disposal of land, buildings and equipment in the amount of \$286,596, the receipt of an advance payment toward the reimbursement of legal costs by Teuton Resources Corp. in the amount of \$300,000, a private placement which provided net proceeds of approximately \$463,000 and increased accounts payable extended through specific vendors funded ongoing operations.

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The Company currently requires additional funding to reduce its working capital deficiency, continue operations, and to investigate existing and future exploration and evaluation assets. Efforts to recover additional legal costs related to the Treaty Creek litigation continue and are expected to result in further reductions to its working capital deficiency. Other alternatives to secure additional funding are ongoing and include private placements and optioning out or disposing of existing properties.

The Company's properties in good standing have been kept current.

The Company does not use financial derivatives.

The Company has not entered into any off balance sheet financing arrangements.

## **6. Financial Instruments and Risk and Capital Management**

### ***Fair value***

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2015, the Company's financial instruments are comprised of cash, receivables, deposits, reclamation bonds, accounts payable and accrued liabilities and debt instruments. The carrying value of cash, receivables, deposits, accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of these financial instruments.

### ***Risk Management***

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### ***Credit risk***

Credit risk is the risk of potential loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the statement of financial position and arises from the Company's cash, receivables and reclamation bonds.

The Company's cash is held through a Canadian chartered bank which is a high-credit quality financial institution. The Company's receivables primarily consist of harmonized sales tax rebates due from the Government of Canada. Long-term receivables are considered past due but the Company does not consider them to be impaired.



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#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2015, the Company had a cash balance of \$8,185 and short term receivables of \$18,229 to settle current liabilities of \$2,340,771. The Company forecasts its cash needs on a regular basis and seeks additional financing based on those forecasts. Since inception, the Company has financed its cash requirements primarily through issuance of securities and long-term debt. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. In certain circumstances extended credit arrangements have been negotiated with vendors. All arrangements are on terms less than one year. See note 1 in the June 30, 2015 unaudited financial statements for further discussion on going concern and its impact on liquidity.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

##### (a) Interest rate risk

According to the Company's current policy, the Company holds all cash balances on deposit in highly rated banking institutions. Interest on short and long term debt arrangements are fixed and are specifically disclosed.

##### (b) Foreign currency rate risk

The Company is domiciled in Canada and its capital is raised in Canadian dollars and does not conduct regular business in any foreign country.

#### *Capital Management*

The Company's capital management objectives, policies and processes have not been changed over the period presented. The Company is not subject to any externally imposed capital requirements, including covenants on its loans.

The Company manages its cash and common shares as capital. The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the on-going business objectives including, but not limited to pursuing the exploration of its exploration and evaluation assets, funding of future growth opportunities, and pursuit of new acquisitions; and
- to maximize shareholder return through enhancing the share value.

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The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company manages its capital structure by issuing new shares, adjusting capital spending or disposing of assets. In addition, management of the Company's capital structure is facilitated through its financial and operational forecasting processes. The forecast of the Company's future cash flows is based on estimates of commodity prices, forecast capital and operating expenditures, and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes, which the Company views as critical in the current environment. See above and section 5 for further discussion of capital and liquidity planning.

### **7. Going Concern**

These financial statements have been prepared using International Financial Reporting Standards as they apply to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of operations. The Company is in the exploration stage and has not generated revenue from operations. The Company showed a net loss of \$872,023 during the first half 2015 and as of June 30, 2015 the Company's deficit was \$22,436,194 and a working capital deficiency of \$2,303,711. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. These circumstances cause material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

During the first half 2015, the Company's legal advisors and management contractors further extended payment terms to the Company. The Company also prevailed against Teuton to obtain legal title to the highly-prospective Treaty Creek property and received payment of approximately \$621,000 for the reimbursement of legal costs from Teuton Resources Corp with additional amounts to be collected of approximately \$118,000. The favourable decision in the litigation with Teuton by both the trial judge in 2014 and from the BC Court of Appeal on April 27, 2014 which dismissed the appeal should improve the Company's appeal to investors and increase its ability to attract investment in the form of private placements. These undertakings, while significant, are not sufficient in and of themselves to enable the Company to fund all aspects of its current operations and, accordingly, management is pursuing other financial alternatives which include raising additional funds through private placements, and the sale of exploration and evaluation assets to fund the Company's exploration and development programs so it can continue as a going concern. There is no assurance that these initiatives will be successful.

The Company's ability to continue as a going concern is dependent upon the existence of recoverable reserves and the ability to obtain necessary funds to develop properties with potential for profitable production in order to support its ongoing operating activities and exploration programs. These financial statements do not reflect the adjustments to the carrying values and classifications of assets and liabilities, or to the reported revenues and expenses that would be necessary if the Corporation were unable to realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

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#### **8. Transactions with Related Parties**

Included in accounts payable and accrued liabilities is \$761,733 (2014 – \$789,847) due to related parties. Amounts due to related parties are unsecured, have no specific terms of repayment and bear interest consistent with conventional market rates in similar circumstances.

During the period ended June 30, 2015, the Company entered into the following related party transactions:

- Accrued fees in the amount of \$88,800 (2014 – \$165,000) to a company controlled by an officer of the Company for providing services to act as the Company's Chief Executive Officer. Expenses reimbursed in the amount of \$6,000 (2014 – \$6,000) were expensed as business development.
- Accrued fees in the amount of \$88,800 (2014 – \$165,000) to an officer or company controlled by an officer of the Company for providing services to act as the Company's Chief Operating Officer. Expenses reimbursed in the amount of \$6,000 (2014 – \$6,000) in aggregate which were expensed as business development.
- Accrued fees in the amount of \$28,000 (2014 – \$133,750) to a company controlled by an officer of the Company for providing services to act as the Company's Chief Financial Officer. Expenses reimbursed in the amount of \$Nil (2014 – \$6,690) in aggregate which were expensed as business development.

The amounts charged to the Company for the transactions provided have been determined by negotiations amongst the parties. These transactions were in the normal course of operations.

#### **9. Commitments and contingencies**

In 2009, the Company exceeded its requirements under an option agreement to acquire a 51% interest the Treaty property by incurring in excess of \$5,000,000 of exploration related expenditures on the property. The Company initially elected to earn an additional 9% interest in the property by performing and paying all expenses related to providing the optionor with a positive feasibility study but has recently notified Teuton that it will not be completing this additional earn-in under the agreement.

The Company initiated legal action in 2010 against Teuton Resources Corp. for failure to transfer title to the property under the terms of the initial earn-in agreement and for damages the Company may have been subject to as a result. Teuton disputed that all terms of the contract had not been met by American Creek.

The trial of this matter was heard in Vancouver, British Columbia and was concluded on October 3, 2013. On April 14, 2014, a judgment was handed down by the British Columbia Supreme Court finding that the Company had met its obligations under the agreement with Teuton and that it has earned its 51% interest in the Treaty Creek property. The Court also found that Teuton breached the agreement in refusing to transfer title to the Treat Creek property to the Company. The Court ordered, and Teuton has since transferred, legal title of all of the mineral claims

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comprising the Treaty Creek property to the Company which includes Teuton's 49% interest in those mineral claims held in trust pursuant to the parties' original agreement.

Teuton appealed the Court's decision which was heard in the B.C. Court of Appeal on March 19-21, 2015. On April 27, 2015 a decision was received from the BC Court of Appeal which upheld the decision of the trial judge in 2014 and dismissed the appeal entirely.(See note 15 of the June 30, 2015 unaudited financial statements).

The Company proceeded with its claim that Teuton pay the Company costs related to the litigation and has been successful in recovering approximately \$621,000. Additional costs are expected to be recovered of approximately \$118,000.

### **10. Risk Factors Relating to the Company's Business**

The Company is exposed to a number of risks. The following discussion is intended to be an illustrative, but not exhaustive, enumeration of such risks.

#### *Exploration Stage Operations*

All of the Company's properties are still in the exploration stage. Mineral exploration and exploitation involves a high degree of risk, which even a combination of experience, knowledge and careful evaluation may not be able to avoid. Few properties that are explored are ultimately developed into producing mines.

Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labour are some of the risks involved in mineral exploration and exploitation activities. Substantial expenditures are required to establish mineral reserves and resources through drilling, to develop metallurgical processes to extract the metal from the material processed and to develop the mining and processing facilities and infrastructure at any site chosen for mining.

There is no assurance that commercial quantities of ore will be discovered. Even if commercial quantities of ore are discovered, there is no assurance that the properties will be brought into commercial production or that the funds required to exploit mineral reserves and resources discovered by the Company will be obtained on a timely basis or at all. The commercial viability of a mineral deposit once discovered is also dependent on a number of factors, some of which are the particular attributes of the deposit, such as size, grade and proximity to infrastructure, as well as metal prices. Most of the above factors are beyond the control of the Company.

There can be no assurances that the Company will be able to successfully execute its exploration programs on its proposed schedules and within its cost estimates, whether due to increasingly stringent environmental regulations and other permitting restrictions, unresolved First Nations' land claims or other factors, such as a shortage or unavailability of essential supplies and services. In the event that such commercial viability is never attained, the Company may seek to transfer its property interests or otherwise realize value or may even be required to abandon its business and fail as a "going concern".

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#### *Financial Markets*

In addition, the Company has no operating cash flow and must access the capital markets to finance its activities. There can be no assurances American Creek will continue to be able to access the capital markets for the funding necessary to acquire and maintain its exploration properties and to carry out its desired exploration programs. If the Company is unable to tap the capital markets at some future time, not only could this adversely affect its wholly-owned projects, but American Creek could find itself in a position where it could be unable to fund payments to which it may be liable under option agreements or its share of costs incurred under joint venture agreements to which it may become a party. The Company's interest in such option agreements and joint ventures could be reduced or eliminated as a result.

#### *Competition*

The mining industry is intensely competitive in all of its phases, and the Company competes with other companies with greater technical and financing resources than itself with respect to acquiring properties of merit, the recruitment and retention of qualified management, employees and other persons to carry out its mineral exploration activities. Competition in the mining industry could adversely affect the Company's prospects for mineral exploration in the future.

#### *Environmental and Government Regulation*

Mining and exploration activities are subject to various laws and regulations relating to the protection of the environment, historical and archaeological sites and endangered and protected species of plants and animals. Although the exploration activities of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a substantial adverse impact on the Company. Failure to comply with laws, regulations and permit conditions could result in fines and/or stop work orders, costs for conducting remedial actions and other expenses.

#### *Inflation*

In the recent past, while inflation had not been a significant factor, the ongoing efforts of many governments to improve the availability of credit and stimulate domestic economic growth while incurring substantial deficits may be sowing the seeds for a period of substantial inflation and/or currency depreciation in the future.

#### *Contractual Agreements*

Acquisition of exploration projects within the mining industry are often structured as option agreements. The contractual nature of these agreements can be subject to interpretation by the respective parties and as such can result in disagreements. If these differences are not resolved outside the legal system, related costs can be significant placing the financial viability of each company at risk. Additionally, if the outcome of the legal process is unfavorable to either party,

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potential ownership of exploration assets may be in question further jeopardizing the viability of the companies.

### **11. Outlook**

The continued decrease in market prices from all time highs of many commodities, particularly copper and precious metals, continue to cause difficult market conditions in the mineral exploration sector. Investors continue to be cautious and the Company's lawsuit against Teuton Resources had softened prospects for potential financings. With both the trial judgement and the appeal judgement against Teuton in the Treaty Creek litigation, the Company is confident that it provides a good opportunity for current and future investors.

The Company is optimistic that commodity prices will show renewed strength and that investor interest will be revived towards exploration companies and the opportunity they provide to capitalize on strong metal prices. The Company is pleased to either completely own or own controlling interest subject to applicable NSR agreements in all its properties, several of which hold considerable promise for discoveries. Current market conditions also present opportunities for companies like American Creek to accumulate quality exploration projects that have been undervalued due to the industry's difficulty in raising capital. The Company continues to look for these types of projects, where possible, to supplement its existing portfolio. As market conditions continue to improve, greater emphasis will be placed on further exploration of the most promising properties within the Company's portfolio where possible.

### **12. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in the annual financial statements, except as disclosed under the Standards, Amendments and Interpretations Not Yet Effective (See also note 3 of the December 31, 2014 audited financial statements for the full disclosure of the Company's significant accounting policies).

#### **Financial instruments**

##### *Financial assets*

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired, as follows:

*Fair value through profit or loss* - This category comprises derivatives (if any), or assets acquired or incurred principally for the purpose of selling or repurchasing such financial assets in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss or income.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of comprehensive loss or income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

#### *Financial liabilities*

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired, as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing such financial liabilities in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss or income.

*Other financial liabilities:* This category includes accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company's cash, receivables and reclamation bonds are classified as loans and receivables. The Company's accounts payable and accrued liabilities, are classified as other financial liabilities.

#### **Significant accounting judgments and estimates**

The preparation of these audited financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following (note references below refer to the December 31, 2014 audited financial statements):

- Measurement of compensation cost attributable to the Company's share based compensation plan is subject to the estimation of fair value using the Black-Scholes

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- option pricing model. The valuation is based on significant assumptions such as: i) the volatility of the share price; ii) the life of the option; iii) the risk-free interest rate for the life of the option (see note 12);
- Deferred income tax assets are assessed by Management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings (see note 19);
  - The Company evaluates the circumstances that may give rise to the various commitments and contingencies along with the likelihood they will occur to estimate any amount that are accrued in the balance sheet (see note 18);
  - Impairment of the Company's development and production assets is evaluated at the CGU level. The determination of CGU's requires judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU's have been determined based on similar geological structure, shared infrastructure, geographical proximity, commodity type and similar exposures to market risks. In testing for impairment, the recoverable amount of the Company's CGU's is determined based on the greater of the value-in-use and fair value less costs of disposal. There is no comparison available of quoted market prices for mineral properties therefore, the recoverable amount is based on estimates of reserves (if any), future precious metal prices, geographical location, prospective potential, and other relevant assumptions;
  - As described in Note 18, the Company was involved in litigation in regards to title transfer for its Treaty Creek property. In the judgment issued by the Supreme Court of British Columbia, the Court held overwhelmingly that the Company has fulfilled its spending requirements under the agreement with the counterparty to earn a 51% interest in the property. The counterparty is disputing that the Company has fulfilled its obligations under the agreement. Costs incurred in relation to the property remain capitalized on the balance sheet as at December 31, 2013 based on the Court's findings that the Company has title to 100% interest in the property, holding the counterparty's 49% interest in trust. The counterparty appealed the judgment and on April 27, 2015 a decision was received from the BC Court of Appeal which upheld the decision of the trial judge and dismissed the appeal entirely.

### **New standards and interpretations issued but not yet adopted**

The following are standards issued but not yet effective up to the date of issuance of these financial statements. The Company reasonably expects these standards to be applicable at a future time and intends to adopt these standards when they become effective.

- IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, "Financial Instruments: Recognition and Measurements" that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value



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- changes due to an entity's own credit risk is recorded in other comparative income rather than the income statement, unless this creates an accounting mismatch. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting IFRS 9 on its financial statements.
- IFRS 15 'Revenue from Contracts with Customers', effective for annual accounting periods beginning on or after 1 January 2018. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'. The Company is currently assessing the impact on the financial statements.
  - Amendments to IAS 16 and IAS 38, clarification of acceptable methods of depreciation and amortization, effective for annual accounting periods beginning on or after 1 January 2016. The Company is currently assessing the impact on the financial statements.

### **13. Securities Outstanding at the Report Date**

The Company had 181,544,074 common shares, options on 17,835,000 common shares and warrants on 19,332,000 common shares outstanding at the Report Date. Options are exercisable at \$0.10 per share and expire between March 1, 2016 and April 24, 2025. The warrants are exercisable at prices ranging between \$0.08 and \$0.10 per common share depending upon the exercise date and expire between December 1, 2016 and April 24, 2017. If all options and warrants were to be exercised, the Company's treasury would increase by approximately \$3,700,000 and the Company would have 218,711,074 common shares issued and outstanding.

### **Forward-looking information**

Certain information contained in this document constitutes forward-looking statements regarding the Corporation's mineral properties. Forward looking statements are frequently characterized by words such as "plan", "expect", "project", "intend", "believe", "anticipate" or statements that certain events or conditions "may" or "will" occur. Forward-looking statements are based on the reasonable opinions and estimates of management of American Creek and are subject to a variety of risks, uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements. These factors include: the inherent risks involved in the exploration and development of mineral properties, uncertainties involved in the interpretation of drill results and other geological data, fluctuating commodity prices, unforeseen permitting requirements, changes in environmental laws or regulations, the possibility of project cost overruns or unanticipated costs and expenses, weather conditions, the availability of contractors for equipment and services, the availability of future financing and general business and economic conditions. Such statements are also based on a number of assumptions which may prove to be incorrect, including assumptions about general business and economic conditions being accurate, the timing and receipt of regulatory approvals for projects and operations, the availability of financing, the ability to secure equipment and labour, and American Creek's ongoing relationship with third parties. The foregoing factors, risks and assumptions are not exhaustive. Events or circumstances could cause actual events or results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. These forward-looking statements are as of the date they are made and

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American Creek disclaims any obligation to update any forward-looking statements, except as required by law.