

EMGOLD MINING CORP
Form 20-F
May 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or 12(g) OF THE *SECURITIES EXCHANGE ACT OF 1934*

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*

For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF *THE SECURITIES EXCHANGE ACT OF 1934*

For the transition period from _____ to _____

OR

SELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE *SECURITIES EXCHANGE ACT OF 1934*

Date of event requiring this shell company report _____

Commission file number 000-51411

EMGOLD MINING CORPORATION

(Exact Name of Registrant as Specified in its Charter)

BRITISH COLUMBIA, CANADA

(Jurisdiction of incorporation or organization)

Suite 1010, 789 West Pender Street

Vancouver, British Columbia, Canada, V6H 1H2

(Address of principal executive offices)

Grant T. Smith

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Vancouver, British Columbia, Canada, V6H 1H2

Tel: (604) 639-0909 Fax: (778) 375-3109

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

None None

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Common Shares without par Value

(Title of class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of class)

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Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report. 77,832,462 common shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards
as issued by the International Accounting
Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by a check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18 **NOT APPLICABLE**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No þ

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report under the captions “Risk Factors”, “Business Overview”, “Operating and Financial Review and Prospects” and “Quantitative and Qualitative Disclosures about Market Risk” and elsewhere in this Annual Report and the documents attached as exhibits constitute “forward-looking statements” within the meaning of the United States securities laws. Some forward-looking statements may be identified by such terms as “believes,” “anticipates,” “intends” or “expects.” These forward-looking statements are based on the Company’s current expectations and projections about future events and financial trends affecting the financial condition of its business and the industry in which it operates. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company, or industry results to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements and the Company expressly disclaims any obligation to revise or update forward-looking statements in respect of actual results, performance or achievements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, impact demand for gold and other metals; industry capacity; the ability of the Company to implement its business strategy; changes in, or the unintentional failure to comply with, government regulations (especially safety and environmental laws and regulations); changes in the uses of gold and other metals; gold and commodity price volatility; increased competition; mining risks; exploration programs not being successful; inability to obtain financing; inability to obtain or, cancellation of, government permits; changes to regulations and mining law; increased reclamation obligations; title defects with respect to properties; risks associated with international operations; and foreign exchange and currency fluctuations.

Conversion of metric units into imperial equivalents is as follows:

Conversion Factors (Metric and Imperial Units)

Metric units Multiply by Imperial units

Hectares	2.471	= acres
Metres	3.281	= feet
Kilometres	0.621	= miles (5,280 feet)
Grams	0.032	= ounces (troy)
Tonnes	1.102	= tons (short) (2,000 lbs)
grams/tonne	0.029	= ounces (troy)/ton

CAUTIONARY NOTE TO U.S. INVESTORS

This Annual Report uses the terms "measured resources" and "indicated resources." We advise U.S. investors that while such terms are recognized and permitted under Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. U.S. investors are cautioned not to assume that any part or all of the mineral deposits in these categories will ever be converted into reserves.

This Annual Report may use the term "inferred resources." We advise U.S. investors that while such term is recognized and permitted under Canadian regulations, it is not recognized by the U.S. Securities and Exchange Commission. "Inferred resources" have a significant amount of uncertainty as to their existence, and uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian rules estimates of inferred mineral resources may not form the basis of feasibility or other economic studies. **U.S. investors are cautioned not to assume that any part or all of an inferred resource exists, or is economically or legally mineable.**

S.E.C. Industry Guide 7

Reserve: That part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The United States Securities and Exchange Commission requires a final or full Feasibility Study to be completed in order to support either Proven or Probable Reserves and does not recognize other classifications of mineralized deposits. Note that for industrial mineral properties, in addition to the Feasibility Study, "sales" contracts or actual sales may be required in order to prove the project's commerciality and reserve status.

Proven Reserves: Reserves for which a quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling of the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well defined that size, shape, depth and mineral content of reserves are well established.

Probable Reserves: Reserves for which quantity and grade and/or quality are computed from information similar to that used for proven reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for proven reserves, is high enough to assume continuity between points of observation.

National Instrument 43-101

Mineral Reserve: The economically mineable part of a Measured or Indicated Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Proven Mineral Reserve: The economically mineable part of a Measured Mineral Resource demonstrated by at least a Preliminary Feasibility study. This study must include adequate information on mining, processing, metallurgical, economic, and other relevant factors that demonstrate, at the time of reporting, that economic extraction is justified.

Probable Mineral Reserve: The economically mineable part of an indicated, and in some circumstances, a Measured Mineral Resource, demonstrated by at least a Preliminary Feasibility Study. This study must include adequate information on mining, processing, metallurgical, economic and other relevant factors that demonstrate, at the time of reporting, that economic extraction can be justified.

Glossary of Abbreviations

AA	Annexation Application
Ag	Silver
Au	Gold
Ba	Barium
Co	Cobalt
Cu	Copper
EM	Electromagnetic
Fe	Iron
gpm	Gallons per minute
gpt	Grams per tonne
g/t	Grams per tonne
IP	Induced Polarization geophysical survey
Ni	Nickel
NSR	Net smelter returns royalty
oz	Troy ounce
Pb	Lead
Pd	Palladium
ppb	Parts per billion
ppm	Parts per million
Pt	Platinum
S	Sulphur
ton	Short ton (2,000 pounds)
tonne	Metric ton (1000 kilograms - 2204.62 pounds)
tpd	Tons per day
VLF	Very low frequency electromagnetic geophysical survey
VMS	Volcanogenic massive sulphide

All currency amounts in this Annual Report are stated in United States dollars unless otherwise indicated.

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PART 1

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

(a) Directors and Senior Management

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

(b) Advisers

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

(c) Auditor

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

This form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended and as such, there is no requirement to provide any information under this item.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial data of Emgold Mining Corporation (“Emgold” or the “Company”) for the years ended December 31, 2014, 2013, 2012, 2011, and 2010 was derived from the Company’s consolidated financial statements as audited by MNP LLP, Chartered Accountants for 2014, 2013, and 2012, and MSCM LLP, Chartered Accountants for 2011 and PricewaterhouseCoopers LLP, Chartered Accountants for the year 2010, as indicated in the audit reports included elsewhere in this Annual Report. The financial reporting represents consolidated reporting for Emgold’s 100%

subsidiary companies Emgold U.S. Corporation (“Emgold U.S.”), Idaho-Maryland Mining Corporation (“IMMC”), and Golden Bear Ceramics Company (“GBC”).

The selected consolidated statement of income data and the selected consolidated statement of cash flows data set forth below for the year ended December 31, 2010 are derived from our audited consolidated financial statements not included in this Annual Report. Our consolidated financial statements as of and for the years ended December 31, 2014, 2013, 2012, and 2011 have been prepared in conformity with IFRS. We adopted IFRS effective as of and for the fiscal year ended December 31, 2011 by applying IFRS 1: First Time Adoption of International Reporting Standards. Our consolidated financial statements as of and for the year ended December 31, 2010 were originally prepared in accordance with generally accepted accounting principles in the United States, or US GAAP, and were restated in accordance with IFRS for comparative purposes only.

The selected financial information as of and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 set forth below should be read in conjunction with, and is qualified in its entirety by reference to “Item 5. Operating and Financial Review and Prospects” and our audited consolidated financial statements and the notes thereto.

The Company has not declared any dividends on its common shares since incorporation and does not anticipate that it will do so in the foreseeable future. The present policy of the Company is to retain future earnings for use in its operations and the expansion of its business.

Selected Consolidated Statement of Financial Position**Amount in conformity with IFRS****(Year End December 31, United States Dollars)**

	2014	2013	2012	2011	2010
Total assets	1,383,981	\$1,290,459	\$1,677,936	\$2,198,166	\$2,207,283
Total liabilities	760,678	671,063	1,125,067	1,543,237	661,707
Contributed surplus	7,062,781	7,062,781	7,035,197	6,800,722	6,629,389
Share capital	43,935,360	43,687,315	43,390,203	42,817,739	41,490,268
Warrants	686,349	686,349	686,349	1,219,617	1,271,008
Deficit	(51,061,187)	(50,817,049)	(50,558,880)	(50,183,149)	(47,845,089)
Equipment and mineral property interests	1,668	1,231,071	1,474,581	1,053,339	1,120,075
Shareholders' equity (deficiency)	623,303	619,396	552,869	654,929	1,545,576
Number of outstanding common shares	77,823,462	72,587,462	66,651,462	58,714,504	38,552,444

No cash or other dividends have been declared on common shares.

Selected Consolidated Statement of Comprehensive Income (Loss)**Amount in conformity with IFRS****(Year End December 31, United States Dollars)**

	2014	2013	2012	2011	2010
Revenue	\$ --	\$ --	\$ --	\$ --	\$ --
Investment and other income	--	--	--	--	--
General and administrative expenses	242,375	508,195	704,970	1,030,920	402,596
Exploration expenses	43,601	106,529	1,187,329	1,307,140	670,491
Loss according to financial statements	244,138	258,169	(375,731)	(2,338,060)	(1,073,087)
Loss per share – basic and diluted	(0.00)	(0.00)	(0.01)	(0.06)	(0.05)

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors**Financial Risk Factors**

Readers should carefully consider the risks and uncertainties described below before deciding whether to invest in shares of the Company's common stock.

Emgold currently has no source of operating cash flow, a negative working capital position, and has a history of operating losses. Emgold currently has no revenue from operations and all of its mineral property interests are in the exploration or development stages. The Company does not expect to receive significant revenue from operations at

any time in the near future, and Emgold has had no prior years' history of earnings or operating cash flow. Neither Emgold nor its predecessors have paid dividends on their shares since incorporation and the Company does not anticipate doing so in the foreseeable future.

Emgold has no source of revenue other than interest income and advance royalty payments. The Company has potential to generate income by advancing its exploration and development properties into production or by conducting the sale, joint venture, or other business transactions related to its properties. A mining project can typically require ten to twenty years or more between discovery, definition, development construction, and eventually operation. As a result, no production revenue is expected from any of the Company's exploration properties for at least 4 or more years. All of Emgold's short to medium-term operating and exploration expenses must be paid from its existing cash position or external financing. At December 31, 2014, Emgold had working capital deficiency of \$727,000, compared to a working capital deficit of \$627,000 at December 31, 2013. Working capital is defined as current assets less current liabilities.

The Company has taken significant steps to reduce operating costs since 2008. The Company is currently exploring all options that have potential to generate cash for the Company, including equity investment, sale of assets, joint ventures, mergers, or other types of business transactions. The Company cannot guarantee the success of any of these transactions.

Emgold may be unable to obtain the funds necessary to hold or conduct further exploration or permitting activities for its properties. Emgold has been undergoing a three phase permitting process to complete an Environmental Impact Report and to obtain a Conditional Mine Use Permit for the I-M Project, located in Grass Valley, California. On October 26, 2011, Phase 3 of the permitting process was placed on hold by the Company pending resurgence of the junior mining equity markets. On September 10, 2012, the Company's permitting application was "deemed withdrawn" by the City due to inactivity and the Company was instructed it would have to re-file its applications when it had the funds to move forward. It is unknown if and when additional funds will be available to advance the I-M Project and the Company has stated that if necessary, the Company will drop the I-M Project to focus on other assets the Company currently has in its portfolio (see October 26, 2011, September 07, 2012, and February 1, 2013 press releases).

On February 1, 2013, a Lease Option to Purchase Agreement with the BET Group for 91 acres of surface rights and 2,750 acres of mineral rights associated with the I-M Project expired. The Company has proposed to extend this Agreement on more favourable terms. Should negotiations to extend the agreement be unsuccessful, Emgold has stated it will terminate the Project and focus on the other assets the Company currently has in its portfolio (see February 1, 2013 press release).

In 2014, the BET Group listed the surface and mineral rights associated with the I-M Project for sale and indicated to Emgold that their preference is to sell the surface and mineral rights, as opposed to leasing them. The purchase price was listed as \$2.7 million. If funding is not available to complete an acquisition or lease of the surface and mineral rights, or the surface and mineral rights are purchased by others, Emgold will terminate the I-M Project and focus on other assets the Company currently has in its portfolio.

On September 4, 2013, the Company announced it sold 18 acres of non-core real estate in Grass Valley for proceeds of \$450,000. This decreased the number of acres of real estate owned by the Company in Grass Valley from 52 to 34 acres. Emgold has listed the 34 acres of remaining properties for sale. Should these properties be sold, Emgold will terminate the I-M Project and focus on other assets the Company currently has in its portfolio. Alternatively, if funding is raised to acquire or lease the surface and mineral rights for the I-M Project, Emgold would retain these properties.

In 2012, 2013, and 2014, Emgold announced a series of transactions with Rawhide Mining LLC ("RMC") whereby RMC provided Cdn\$1.0 million in equity financing to Emgold in a series of tranches (See November 14, 19, and 26, 2012 press releases; December 28, 2012 press release; January 30, 2013 press release; and July 11 and 18, 2014 press release). Part of these financings, totalling \$510,000, were used to purchase the underlying property and royalty rights to 52 claims that are part of the Buckskin Rawhide East Property, NV (see July 28, 2014 press release). Upon completion of these transactions, the Buckskin Rawhide East Property was leased to RMC, who will explore the Property (see August 21, 2014 press release). The lease will include:

1. The Lease Term is 20 years.
2. Advance royalty payments will be \$10,000 per year, paid by RMC to Emgold, with the first payment due at signing and subsequent payments due on the anniversary of the Lease Agreement.
3. During the Lease Term, RMC will make all underlying claim fees to keep the claims in good standing.
4. RMC will conduct a minimum of US\$250,000 in exploration activities by the end of Year 1.
5. RMC will conduct an additional minimum of US\$250,000 in exploration activities by the end of Year 3, for a total of US\$500,000 in exploration activities by the end of Year 3.
6. RMC will have the option of earning a 100% interest in the Property by bringing it into commercial production. Upon bringing the Property into commercial production, RMC will make "Bonus Payments" to Emgold.
7. Bonus Payments will be US\$15 per ounce of gold when the price of gold ranges between US\$1,200 per ounce and US\$1,799 per ounce. If the price of gold exceeds US\$1,800 per ounce, the Bonus Payment will increase to US\$20 per ounce

After meeting its exploration requirements, should RMC subsequently elect to drop the Property or decide not to advance it, the Property will be returned to Emgold. Should Emgold subsequently advance the Property into production, RMC shall then be entitled to the same type of Bonus Payments as contemplated in 7 above.

In 2014, Emgold elected not to conduct additional exploration work on its Stewart and Rozan properties in B.C. The Company's retains title for these properties until 2023 without additional exploration work.

Property payments for the Koegel Rawhide and Buckskin Rawhide West properties, both of which are leases, remain small at this point in time. Payments can be made in Emgold stock at this point in time, allowing them to be retained without the need for cash in the short term.

Emgold presently does not have sufficient financial resources to undertake all of the Company's plans as outlined in previous periods, and will require additional financing to complete the permitting of the I-M Project and start the engineering studies to enable the I-M Project to enter the feasibility stage of development. The Company also requires additional funds to complete exploration of its properties, excluding Buckskin Rawhide assuming the above transactions are completed. Currently the Company is reviewing strategies for equity financings, joint ventures, mergers, or other business transactions that may be able to carry the Company through the next year of operations and into the future. The Company cannot guarantee the success of any of these transactions. The transactions, if completed, could result in dilution of the Company's shares.

In spite of the current relatively high market price of gold, the market conditions in the junior mining and exploration sector are very depressed and therefore it is very difficult raising additional capital. Emgold has been successful in the past in obtaining financing through the sale of equity securities, but as an exploration stage company, it may be difficult to obtain adequate financing in the future or financings with favourable terms. If Emgold fails to obtain additional financing on a timely basis, the Company could forfeit its interest in its mineral property interests, dilute its interests in the properties and/or reduce or terminate operations. Exploration programs would have to be prioritized to fit within cash availability.

Changes in the market prices of gold, which have fluctuated widely, will affect our operations and can negatively impact the economic viability of the mineral properties. Emgold has no history of mining or current source of revenue. The Company is exploring for gold, and historically, the prices of the common shares of junior mining companies are very volatile. This volatility may be partly attributed to the volatility of gold prices, and also to the success or failure of the Company's exploration programs. The market price of gold may not remain at current levels. In particular, an increase in worldwide supply and consequent downward pressure on prices may result over the longer term from increased gold production from mines developed or expanded as a result of current metal price levels.

The ability to raise funds for exploration and development in a venture capital company is affected by factors such as the price of gold, a factor over which the Company has no control. Annual average, high and low gold prices since 2000 are shown below, demonstrating the fluctuation in the price of gold (source: Kitco.com). Metals prices also affect the rate of return of a mining property that reaches the development stage over the longer term.

Gold Price

2000 to Present \$US

Year	Average Price per ounce (US\$)	High Price per ounce (US\$)	Low Price per ounce (US\$)
2000	279.11	312.70	263.80
2001	271.04	293.25	255.95
2002	309.73	349.30	277.75
2003	363.38	416.25	319.90
2004	409.72	454.20	375.00
2005	444.74	536.50	411.10

2006	603.46	725.00	524.75
2007	695.39	841.10	608.40
2008	871.96	1,011.25	712.50
2009	972.35	1,212.50	810.00
2010	1,224.53	1,421.00	1,058.00
2011	1,571.52	1,895.00	1,319.00
2012	1,668.98	1,791.75	1,540.00
2013	1,411.23	1,693.75	1,195.25
2014	1,266.40	1,385.00	1142.00

Fluctuations in the world markets, including the TSX Venture Exchange, can have a negative impact on the Company's share price, can have a negative impact on the availability of capital for investment in junior mining companies, and can negatively impact the Company's ability to raise funds. The world markets are currently being affected by a poor recovery from a major recession in the U.S., a deficit crisis in the U.S., high oil prices, political turmoil in the Middle East (Syria, Afghanistan, Iraq, Iran), political turmoil in the Ukraine, a European debt crisis, and other international economic and political factors. Over the past several years, there have been major fluctuations in the markets caused by the housing mortgage crisis in the U.S., bail out of several major banks world-wide, bail out of Freddie Mac and Fannie Mae in the U.S., bail out of several major automobile manufacturers world-wide, and bail out of several countries in the world such as Greece. This has caused record deficits in several countries, including the U.S. These crises, which have occurred over a multi-year period, have affected the Company's ability to raise capital and have negatively impacted the stocks of many junior exploration companies. It is likely there will be future turmoil in the world markets over the next several years, and this uncertainty may negatively impact the Company's ability to raise necessary capital and advance the I-M Project or its exploration properties.

Emgold may not be able to find equity investment to further fund GBC to build a recycled stone and ceramics processing facility using commercially available technology to process mine waste at the I-M Project. Emgold has developed and is planning to use commercially available technology in connection with the operation of the I-M Project to process development rock (rock mined to access the gold ore) and mine tailings (the remains of the gold ore after the gold has been removed). Permitting of the I-M Project included a 1,200 ton per day recycled stone and ceramics, processing facility, which may be the first commercial plant of its kind. This technology is being developed in Emgold's wholly owned subsidiary, GBC. The Company is in the process of converting GBC into an independent operating entity. The Company has decided to finance GBC and its recycled stone and ceramics processing facility separately from Emgold, if possible, to allow GBC to pursue opportunities for growth on a global basis and construct a series of production plants.

If the Company is unable to obtain equity or some other form of financing to develop the recycled stone and ceramics processing facilities, the proposed use of such facilities at the I-M Project may be at risk. The I-M Project is not dependent on the use of a recycled stone and ceramics plant and the expected alternative would be to dispose of 100% of the mine tailings from the I-M Project as underground backfill (mine tailings used to backfill the voids created by gold and industrial mineral (aggregate) mining).

If suitable financing is obtained, GBC plans to complete a detailed feasibility study and basic engineering by utilizing independent consultants to design the first commercial plant. GBC will not be able to conduct further research and development or prepare marketing and feasibility studies until it has independently raised sufficient financing for that purpose.

Environmental and Regulatory Risk Factors

Emgold may be unable to obtain necessary permits for the I-M Project. IMMC had submitted applications to acquire a Conditional Mine Use Permit ("CMUP") and other entitlements to allow the Company to dewater, explore, construct, operate, and reclaim the Idaho-Maryland Mine in Grass Valley, California. The Company had a proactive community outreach program to inform local residents and decision makers and stakeholders about the I-M Project and its benefits to the region, as well as to obtain their input and incorporate it into the project permitting. On October 26, 2011, Phase 3 of the permitting process was placed on hold by the Company pending resurgence of the junior mining equity markets. On September 10, 2012, the Company's permitting application was "deemed withdrawn" by the City due to inactivity and the Company was instructed it would have to re-file its applications when it had the funds to move forward. Additional environmental investigations may be required as a part of the permitting process and for the future development of the surface properties for the purposes of mining and milling of ore. Currently the Company believes that the potential to obtain the permits is reasonable provided that the Company is able to maintain adequate funding through the permitting process. Obtaining or reviewing governmental permits is a complex and time-consuming process. The duration and success of efforts to obtain and renew permits are contingent upon variables not within the Company's control. Delays or failure to obtain the CMUP, or the expiry, revocation or failure by us to comply with the terms of any such permits we have obtained would adversely affect our business.

Compliance with environmental regulations could affect future profitability and timeliness of operations. The current and anticipated future operations of the Company, including development activities and commencement of production on its properties, require operating permits from various federal, state, and local governmental authorities. Companies engaged in the development and operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits as well as the effects of inflation and the availability of mining specific goods and services.

The Company's exploration activities and its potential mining and processing operations are subject to various laws governing land, air and water use, the protection of the environment, prospecting, development, production, commodity prices, exports, taxes, labour standards, occupational safety and health, waste disposal, toxic substances, mine safety and other matters. Emgold believes it is in substantial compliance with all material laws and regulations which currently apply to its activities. There is no assurance that the Company will be able to obtain all permits required for exploration, development and construction of mining facilities and conduct of mining operations on reasonable terms or that new legislation or modifications to existing legislation, would not have an adverse effect on any exploration or mining project which the Company might undertake.

Readers are cautioned that the CMUP is required in order to dewater the existing mine workings at the I-M Project and to construct a decline to conduct underground exploration and complete feasibility work. A production decision must be made before the mine can go into production.

The I-M Project could have “growth inducing impacts” in Grass Valley, CA. The Company will need to address those impacts associated with growth due to industrial development proximate to an urban center. The Company believes that it has defined and disclosed the extent of and can mitigate the potential impacts in all of these areas in ways satisfactory to all of its stakeholders. Where required and agreed, local jurisdictions may receive direct compensation for the cost of improving roadway intersections and expanding services to accommodate potential increased demands on social services and local infrastructure.

The I-M Project contains areas that have been impacted by historic mining activities and clean up of historic tailings will be required. The Company has historically leased this Property and is not conducting any mining operations; therefore no reclamation liability has been accrued. As part of the CMUP process, the Company has completed test work to characterize the historic tailings and will be entering into agreements with the California Department of Toxic Substance Control who will be the Lead Agency overseeing the cleanup of historic tailings on site. The Company worked with the California Regional Water Quality Control Board and has remediated the location where two historic fuel tanks were removed by the previous owners of the land. Costs for cleanup and short and long term liabilities for cleanup of the site are being addressed with State and local agencies. Should the economics of site cleanup of historic mine tailings on site become prohibitive, the Company could elect not to complete the purchase of this Property and discontinue the project. However, information available at this time indicates that cleanup of the site can be completed in a reasonable and economic fashion, and this cleanup will be a benefit to the local community in the long term.

California is in the process of implementing a number of rules related to air quality and greenhouse gas emissions through the California Air Resources Board under the California Global Warming Solutions Act (AB32). These regulations include cap-and-trade legislation that is being designed to reduce California’s green house gas emissions to 1990 levels by the year 2020 and ultimately achieve an 80% reduction in green house gas emissions from 1990 levels by the year 2050. The cap and trade program started on January 1, 2012 with an enforceable compliance obligation beginning with 2013 green house gas emissions. The legislation is being developed on an ongoing basis and is constantly being modified and amended. While this new legislation is being addressed as part of the permitting process for the I-M Project, it is unknown how this legislation will impact operating and capital costs of the project and such impacts, as a worst case, could result in the I-M Project not being economically viable. It is expected that as part of the CMUP process, IMMC will be required to mitigate any air quality impacts that may result from the I-M Project. The scope and cost of these mitigations are unknown at this time.

Specific to U.S. properties, costs involved in complying with various government environmental regulations vary by operation and regulatory jurisdiction. Typically, surface sampling does not require any permits. Agency review and approval for exploration drilling and access construction can vary from several hundred dollars to several thousands of dollars, depending upon the level of activity. Permitting and environmental compliance costs vary, depending upon the level of activities proposed and the sensitivity of the areas where mineral activities are proposed.

In addition, certain types of operations related to the opening and operation of the mine will require the submission and approval of environmental impact assessments. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce or eliminate the profitability of operations. For example, if the Company is unable to obtain required permits, and the reasons that the permits cannot be obtained are deemed to be financially insurmountable, the development of the I-M Project would be curtailed, and operations in Grass Valley,

California would cease.

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On the Federal, State or Provincial or County level, regulations deal with environmental quality and impacts upon air, water, soils, vegetation and wildlife, as well as historical and cultural resources. Approval must be received from the applicable departments before exploration can begin, and will also involve ongoing monitoring of operations. For the I-M Project, the City acts as the Lead Agency and is responsible for representing other regulatory agencies during the permitting process. If operations result in negative effects upon the environment, government agencies will usually require the Company to carry out remedial actions to correct the negative effects.

Information about the I-M Project is distributed at community events. Issues of concern to the community are addressed and communicated to all interested parties at public workshops and meetings, community events as well as through local news media, direct mail-outs, circulars and brochures. A website, devoted to the I-M Project, www.idaho-maryland.com, operated during the permitting process, provided general I-M Project information, permitting documentation and addresses community concerns regarding the expected impact of dewatering existing mine workings, underground development, exploration and the possible operation of a mine on the community and the environment.

The Company may be required to post reclamation bonding in California to ensure that areas will be reclaimed after exploration. Reclamation bonds are also required in British Columbia, and have all been posted. The exploration activity in British Columbia to date has been limited to drilling, and as such, the reclamation bonds posted are nominal. If exploration activity is carried out on the Buckskin Rawhide Project in Nevada, a reclamation bond will also be required for any such work.

Failure to comply with environmental and reclamation rules could result in penalties. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violation of applicable laws or regulations. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with certain mining industry operations, such as seepage from tailings disposal areas, which would result in environmental pollution. A breach of such legislation may result in the imposition of fines and penalties. At present, the Company has estimated that no funds are required for reclamation at the I-M Project, as reclamation related to a drilling program is normally defined in the drilling permit and completed at the end of the program. The Company is not conducting any mining operations; therefore, no reclamation liability has been accrued. To date, Emgold has been successful in obtaining all permits that it has applied for and believes it has a good working relationship with local regulators. The Company and its employees have been engaged in the exploration and development of mineral properties for many years. Currently, the operations of the Company have been limited to exploration and permitting. To date, no mining activity has yet been undertaken by the Company.

Risk Factors Associated with Mining and Exploration

Emgold's exploration and development efforts may be unsuccessful in locating viabl