# Montana Gold Mining Company Inc.

**Consolidated Financial Statements**

(Expressed in United States Dollars)

**For the Years Ended December 31, 2015 and 2014**

Collins Barrow

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## INDEPENDENT AUDITORS' REPORT

**To the Shareholders of**
**Montana Gold Mining Company Inc.**

We have audited the accompanying consolidated financial statements of Montana Gold Mining Company Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of earnings (loss) and comprehensive earnings (loss), changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014 and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Montana Gold Mining Company Inc. and its subsidiaries as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion we draw attention to Note 1 in the consolidated financial statements which describes material uncertainties that cast significant doubt about Montana Gold Mining Company Inc.'s ability to continue as a going concern.

Collins Barrow Toronto LLP

Chartered Professional Accountants
Licensed Public Accountants
April 29, 2016
Toronto, Ontario

**Montana Gold Mining Company Inc.**
**Consolidated Statements of Financial Position**
(Expressed in United States Dollars)
**As at**

| | December 31, 2015 | December 31, 2014 Restated - (Note 4) | January 1, 2014 Restated - (Note 4) |
|---|---|---|---|
| **Assets** | | | |
| **Current** | | | |
| Cash | $ 363 | $ 44,681 | $ 17,744 |
| HST receivable | 8,775 | 26,371 | 4,607 |
| Prepaid expenses | 1,258 | 1,258 | 1,258 |
| | 10,396 | 72,310 | 23,609 |
| **Equipment** (Note 5) | 87,225 | - | - |
| **Reclamation bonds** (Note 8) | 26,156 | 15,271 | 40,271 |
| | $ 123,777 | $ 87,581 | $ 63,880 |
| **Liabilities** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities (Notes 7 and 14) | $ 145,939 | $ 479,327 | $ 537,856 |
| Loan due to a director (Note 14) | 12,810 | - | - |
| | 158,749 | 479,327 | 537,856 |
| **Restoration liabilities** (Note 8) | - | - | 22,000 |
| **Convertible debenture** (Note 9) | 27,197 | - | - |
| **Derivative conversion liability** (Note 9) | 86,608 | - | - |
| **Foreign currency warrants** (Note 11) | 37,526 | 248,787 | 185,472 |
| | 310,080 | 728,114 | 745,328 |
| **Shareholders' Deficiency** | | | |
| **Capital stock** (Note 10) | 8,171,500 | 8,135,733 | 7,830,163 |
| **Contributed surplus** | 1,606,868 | 1,606,868 | 1,502,612 |
| **Deficit** | (9,964,671) | (10,383,134) | (10,014,223) |
| | (186,303) | (640,533) | (681,448) |
| | $ 123,777 | $ 87,581 | $ 63,880 |

***Nature of Operations and Going Concern (Note 1)***
***Subsequent events (Note 18)***

**Approved by the Board** **"Edward Ellwood"** Director **(Signed)** **"Eric Plexman"** Director **(Signed)**

## Montana Gold Mining Company Inc.
**Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)**
(Expressed in United States Dollars)
**Years Ended December 31, 2015 and 2014**

| | **2015** | 2014<br>Restated - (Note 4) |
|---|---|---|
| **Expenses** | | |
| Office and administrative costs (Note 14) | **$ 313,674** | $ 393,682 |
| Professional fees | **44,642** | 57,954 |
| Exploration and evaluation expenditures (Note 6) | **10,678** | 20,292 |
| Stock-based compensation (Note 11) | **-** | 104,256 |
| Foreign exchange | **(64,309)** | (44,110) |
| Reversal of restoration liabilities (Note 8) | **-** | (22,000) |
| | **304,685** | 510,074 |
| **Other expenses (income)** | | |
| Gain on revaluation of foreign currency warrants (Note 11) | **(245,224)** | (84,055) |
| Reversal of management and director fees payable (Note 14) | **(491,729)** | (57,108) |
| Accretion expense (Note 9) | **4,083** | - |
| Loss on revaluation of derivative conversion liability (Note 9) | **9,722** | - |
| | **(723,148)** | (141,163) |
| **Net earnings (loss) and comprehensive earnings (loss)** | **$ 418,463** | $ (368,911) |
| Basic and diluted | **$ 0.009** | $ (0.009) |

| **Weighted average number of common shares outstanding** (Note 12) | | |
|---|---|---|
| Basic and diluted | **47,327,715** | 42,447,523 |

See accompanying notes

# Montana Gold Mining Company Inc.
## Consolidated Statements of Changes in Equity (Deficiency)
(Expressed in United States Dollars)
**Years Ended December 31, 2015 and 2014**

| | Number of Shares | Capital Stock | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| | (Note 10) | (Note 10) | (Note 11) | | |
| **Balance, December 31, 2013 (restated)** | **37,281,007** | **$ 7,830,163** | **$ 1,502,612** | **$ (10,014,223)** | **$ (681,448)** |
| Net loss and comprehensive loss | - | - | - | (368,911) | (368,911) |
| Shares issued to settle debt | 2,584,613 | 153,603 | - | - | 153,603 |
| Units issued for cash | 6,610,765 | 299,336 | - | - | 299,336 |
| Allocated to warrants | - | (147,369) | - | - | (147,369) |
| Stock-based compensation | - | - | 104,256 | - | 104,256 |
| **Balance, December 31, 2014 (restated)** | **46,476,385** | **$ 8,135,733** | **$ 1,606,868** | **$ (10,383,134)** | **$ (640,533)** |
| Net earnings and comprehensive earnings | - | - | - | 418,463 | 418,463 |
| Units issued for cash | 1,738,380 | 69,732 | - | - | 69,732 |
| Allocated to warrants | - | (33,965) | - | - | (33,965) |
| **Balance, December 31, 2015** | **48,214,765** | **$ 8,171,500** | **$ 1,606,868** | **$ (9,964,671)** | **$ (186,303)** |

See accompanying notes

## Montana Gold Mining Company Inc.
**Consolidated Statements of Cash Flows**
(Expressed in United States Dollars)
**Years Ended December 31, 2015 and 2014**

| | 2015 | 2014 Restated - (Note 4) |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operations** | | |
| Net earnings (loss) | $ 418,463 | $ (368,911) |
| Items not affecting cash: | | |
| Loss on revaluation of derivative conversion liability | 9,722 | - |
| Gain on revaluation of foreign currency warrants | (245,224) | (84,055) |
| Reversal of management and director fees payable | (491,729) | (57,108) |
| Accretion expense | 4,083 | - |
| Reversal of restoration liabilities | - | (22,000) |
| Stock-based compensation | - | 104,256 |
| | (304,685) | (427,818) |
| Net changes in non-cash working capital: | | |
| HST receivable | 17,596 | (21,764) |
| Accounts payable and accrued liabilities | 158,341 | 152,183 |
| | (128,748) | (297,399) |
| **Investing** | | |
| Purchase of equipment | (87,225) | - |
| Proceeds from release of reclamation bond | - | 25,000 |
| Purchase of reclamation bond | (10,885) | - |
| | (98,110) | 25,000 |
| **Financing** | | |
| Proceeds from share issuances, net | 69,730 | 299,336 |
| Proceeds from issuance of convertible debenture | 100,000 | - |
| Advances from a director | 12,810 | - |
| **Net change in cash during the year** | (44,318) | 26,937 |
| **Cash, beginning of year** | 44,681 | 17,744 |
| **Cash, end of year** | $ 363 | $ 44,681 |

See accompanying notes

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Montana Gold Mining Company Inc. ("the Company" or "Montana") was incorporated under the Ontario Business Corporations Act on December 21, 2000. The Company has three wholly-owned subsidiary corporations, Montana Gold Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012, Celerity Mineral Corporation, a Canadian corporation, incorporated under the Canada Business Corporations Act on April 25, 2012 and Celerity Subsidiary Corporation, a United States corporation, incorporated under the laws of the State of Montana on August 28, 2012.

The Company is engaged in the business of locating and exploring mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The head office and principal address of the Company is 380 Wellington Street, 6th Floor, London City Centre, Tower B, London, Ontario, N6A 5B5.

While these consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern.

During the year ended December 31, 2015 the Company had earnings of $418,463 (2014 - loss of $368,911) and, as of that date, the Company had accumulated a deficit of $9,964,671 (2014 - $10,383,134), a working capital deficiency of $148,353 (2014 - $407,017) and negative cash flows from operations of $128,748 (2014 - $297,399). These factors create material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern.

As is common with exploration companies, the Company is dependent upon obtaining necessary equity financing from time to time to finance its on-going and planned exploration activities and to cover administrative costs.

The Company's ability to continue as a going concern is dependent upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to continue exploration and development, the ability of the Company to secure and maintain title and beneficial interest in the properties, entering agreements with others to explore and develop the mineral properties and upon future profitable production or proceeds from disposition of such properties.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations. Such adjustments may be material.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Statement of Compliance

The consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

The consolidated financial statements of the Company were approved by the Board of Directors on April 29, 2016.

A summary of the Company's significant accounting policies under IFRS are presented below. These policies have been consistently applied.

### Change in Accounting Policy

During the year ended December 31, 2015 the Company retrospectively changed its accounting policy for mining claims and deferred evaluation expenditures, see note 4.

### Basis of Measurement

The consolidated financial statements are prepared on the historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding significant areas of estimation, uncertainty and critical judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the amount accrued for restoration liabilities, the valuation of stock options and warrants issued, the valuation of the convertible debenture and the valuation of the derivative conversion liability.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Celerity Mineral Corporation (Canada), Celerity Subsidiary Corporation (United States) and Montana Gold Subsidiary Corporation (United States). The functional currency and presentation currency of each entity is the United States dollar. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All transactions and balances between the Company and its subsidiaries are eliminated on consolidation.

### Financial Instruments

The Company recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Such financial assets or financial liabilities are initially recognized at fair value and the subsequent measurement depends on their classification.

Financial assets classified as fair value through profit and loss ("FVTPL") are measured at fair value with any resultant gain or loss recognized in profit or loss. Financial assets classified as available-for-sale are measured at fair value with any resultant gain or loss being recognized directly under other comprehensive income. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. When available-for-sale financial assets are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Financial assets classified as loans and receivables and held to maturity, are measured at amortized cost using the effective interest rate method.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are recognized initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs. Financial liabilities are classified as FVTPL financial liabilities or other financial liabilities, which are subsequently measured at amortized cost using the effective interest rate method.

Classification of these financial instruments is as follows

| Financial Instrument | Classification |
|---|---|
| Cash | FVTPL |
| Reclamations bonds | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Derivative conversion liability | FVTPL |
| Foreign currency warrants | FVTPL |
| Convertible debenture | Other financial liabilities |
| Loan due to a director | Other financial liabilities |

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Financial Instruments (Cont'd)

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the Company's rights to cash flows from the respective assets have expired or have been transferred and the Company has neither exposure to the risks inherent in those assets nor entitlement to rewards from them. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of loss.

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

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

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

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

The Company's financial instruments measured at fair value on the statement of financial position consist of cash, foreign currency warrants and derivative conversion liability. Cash is measured at level 1 of the fair value hierarchy while foreign currency warrants and derivative conversion liability are measured at level 2 of the fair value hierarchy.

### Mining Claims - Exploration and Evaluation Expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition cost of mineral properties, property option payments and evaluation activities. Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

### Impairment

At the end of each reporting date, the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Impairment** (Cont'd)

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units ("CGU's") for impairment purposes. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit and loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Convertible Debenture**

The convertible debenture is convertible into units in Canadian Dollars and the Company's functional currency is US Dollars. As a result the instrument contains an embedded derivative conversion liability.

The proceeds received on issuance of the Company's convertible debenture are allocated to the host debt and derivative conversion liability components. The fair value of the liability components is determined based on a relative fair value approach.

The host debt component was discounted using interest rates that would have been applicable to a non-convertible debenture of the Company at the time of issue. The derivative conversion liability feature was measured using the Black-Scholes option pricing model. The derivative conversion liability is fair valued at each statement of financial position date using the Black-Scholes option pricing model.

The host debt component accretes up to the principal balance at maturity with the accretion expense included in the consolidated statements of comprehensive income and loss. The host debt component is not re-measured subsequent to initial recognition. The derivative conversion liability component will be reclassified to capital stock on conversion.

**Foreign Currency Translation**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the consolidated statement of financial position date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the reporting date exchange rate. Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**Foreign Currency Translation** (Cont'd)

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined.

### Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date, that are expected to be in effect at the time of utilization of the deferred tax.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### Share Capital

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

### Stock-based Compensation Transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. The fair value of stock options issued for employee services is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. At each reporting date, the Company revises its estimates of the number of options that are expected to vest, based on the non-market vesting conditions. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued for non-employee services and some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the share-based payment. Otherwise, the stock-based compensation is measured at the fair value of goods or services received.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Income/Loss Per Share

The Company presents basic and diluted income/loss per share data for its common shares. Basic income/loss per share is calculated by dividing the loss attributed to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income per share is determined by adjusting the income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. Diluted income per share does not adjust the loss attributed to the common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

### Restoration Liabilities

The Company recognizes the fair value of restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred when a reasonable estimate of fair value can be made, in which case the carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates using a pre tax rate that reflects the time value of money are used to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value.

### Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reasonable estimate can be made of the amount of the obligation. Provisions for legal claims, onerous leases and other onerous commitments are recognized at the best estimates of the expenditures required to settle the Company’s liability.

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

### Warrants Denominated in a Foreign Currency

Warrants denominated in a currency different from the functional currency of the Company, called foreign currency warrants in these consolidated financial statements, meet the definition of a derivative financial liability and are fair valued at each statement of financial position date using the Black-Scholes option pricing model, with changes in the fair value recognized in income or loss.

Warrants that are issued as compensation for services are not subsequently revalued.

(Expressed in United States Dollars)

## 3. FUTURE ACCOUNTING PRONOUNCEMENT

The accounting pronouncements detailed in this note has been issued but is not yet effective. The Company is currently evaluating the impact, if any, that this standard might have on its consolidated financial statements.

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

b) IFRS 9, Financial Instruments ("IFRS 9") was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2018, with early adoption permitted.

## 4. CHANGE IN ACCOUNTING POLICY

During the year ended December 31, 2015, the Company retrospectively changed its accounting policy for exploration and evaluation expenditures. Previously, the Company capitalized acquisition costs and exploration and evaluation expenditures of mineral properties to the specific mineral properties, net of recoveries received.

Under the new policy, acquisition costs and exploration and evaluation expenditures incurred prior to the establishment of technical feasibility and commercial viability of extracting mineral resources and prior to a decision to proceed with mine development are charged to operations as incurred. As required by IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Company included the restated consolidated statement of financial position as at January 1, 2014. Management considers this accounting policy to provide more reliable and relevant information and more clearly represents the Company's activities.

The consolidated financial statement impact as at January 1, 2014 is as follows:

| | As Previously Reported | Effect of Change in Accounting Policy | As Restated |
|---|---|---|---|
| **Consolidated statements of financial position** | | | |
| Mining claims and exploration and evaluation expenditures | $ 490,499 | $ (490,499) | $ - |
| Total assets | 554,379 | (490,499) | 63,880 |
| Deficit | (9,523,724) | (490,499) | (10,014,223) |
| Total liabilities and shareholders' deficiency | 554,379 | (490,499) | 63,880 |

The consolidated financial statement impact for the year ended and as at December 31, 2014 is as follows:

(Expressed in United States Dollars)

## 4. CHANGE IN ACCOUNTING POLICY (Cont'd)

| | As Previously Reported | Effect of Change in Accounting Policy | As Restated |
|---|---|---|---|
| **Consolidated statements of financial position** | | | |
| Mining claims and exploration and evaluation expenditures | $ 510,791 | $ (510,791) | $ - |
| Total assets | 598,372 | (510,791) | 87,581 |
| Deficit | (9,872,343) | (510,791) | (10,383,134) |
| Total liabilities and shareholders' deficiency | 598,372 | (510,791) | 87,581 |

| | As Previously Reported | Effect of Change in Accounting Policy | As Restated |
|---|---|---|---|
| **Consolidated statements of earnings (loss) and comprehensive earnings (loss)** | | | |
| Exploration and evaluation expenditures | $ - | $ 20,292 | $ 20,292 |
| Net earnings (loss) and comprehensive earnings (loss) | (348,619) | (20,292) | (368,911) |
| Basic and diluted loss per share | (0.008) | (0.001) | (0.009) |

| | As Previously Reported | Effect of Change in Accounting Policy | As Restated |
|---|---|---|---|
| **Consolidated statements of cash flows** | | | |
| Cash flows from operating activities | $ (277,107) | $ 20,292 | $ (297,399) |
| Cash flows from investing activities | 4,708 | (20,292) | 25,000 |

## 5. EQUIPMENT

On September 24, 2015, the Company purchased a diamond drilling rig for the amount of $87,225 that has an estimated useful life of 10 years. The diamond drilling rig is amortized on a straight-line basis over 10 years. No amortization has been recorded as of December 31, 2015 as the rig is not yet available for use.

(Expressed in United States Dollars)

## 6. MINING CLAIMS - EXPLORATION AND EXPLORATION EXPENDITURES

Cumulative spending to date:

| | December 31, 2014 | Expenditures | December 31, 2015 |
|---|---|---|---|
| Silver Bell St. Lawrence Claims, MT [(a)] | **$ 428,446** | **$ 6,026** | **$ 434,472** |
| Golden Trail Claims, NV [(b)] | **82,345** | **4,652** | **86,997** |
| | **$ 510,791** | **$ 10,678** | **$ 521,469** |

| | December 31, 2013 | Expenditures | December 31, 2014 |
|---|---|---|---|
| Silver Bell St. Lawrence Claims, MT [(a)] | $ 424,323 | $ 4,123 | $ 428,446 |
| Golden Trail Claims, NV [(b)] | 66,176 | 16,169 | 82,345 |
| | $ 490,499 | $ 20,292 | $ 510,791 |

(a) Silver Bell St. Lawrence

On September 1, 2011 the Company entered into an agreement to acquire a 100% working interest in the Silver Bell St. Lawrence ("SBSL") property consisting of 10 (2013 - 10) mining claims by paying $85,000 on signing and $85,000 by March 1, 2012, for total consideration of $170,000, by issuing 200,000 common shares of the Company and granting a 2% Net Smelter Royalty to the arms-length vendor. The Company paid $85,000 on September 9, 2011 and issued 200,000 common shares on September 15, 2011. The Company paid the last $85,000 on February 24, 2012.

The Company holds 100% interest in 15 (2014 - 15) mining claims adjacent to the northern and eastern boundaries of the SBSL property. These mining claims are called the Roar claims.

On June 11, 2012, the Company completed an NI43-101 Report on the SBSL Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $155 (2014 - $155) per claim.

(b) Golden Trail

As at December 31, 2015, the Company holds 100% interest in 16 (2014 - 16) contiguous unpatented mining claims in the Elko County region of Nevada.

On May 16, 2012, the Company completed an NI43-101 Report on the Golden Trail Property.

To maintain the staked claims, the Company must pay annual maintenance fees to the Department of the Interior (Bureau of Land Management - BLM Nevada State Office) and the local counties in the cumulative approximate amount of $155 (2014 - $155) per claim.

(Expressed in United States Dollars)

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following is a breakdown of the amounts included in accounts payable:

| | **2015** | 2014 |
|---|---|---|
| Trade payables | **$ 66,097** | $ 47,028 |
| Accrued liabilities: | | |
| Management and director fees (Note 14) | **63,363** | 400,539 |
| Audit and accounting | **16,479** | 31,760 |
| | **$ 145,939** | $ 479,327 |

## 8. RESTORATION LIABILITIES

(i) As at December 31, 2014, management estimated site restoration costs relating to exploration work completed to date on the Rimrock property, a former property of the Company, to be $Nil (2013 - $22,000). During the year ended December 31, 2014, the Company received cash proceeds of $25,000 relating to the release of the reclamation bonds on the Rimrock property. The restoration liability previously accrued in the amount of $22,000 was reversed in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

(ii) As at December 31, 2015, a reclamation bond in the amount of $26,156 (2014 - $15,271) is being held by the Bureau of Land Management ("BLM") on the Golden Trail property. During the year ended December 31, 2015, the Company posted an additional bond of $10,885 with the BLM based on the updated work plan submitted to the BLM for a work program which has not started as of December 31, 2015. The Company has not recorded a restoration liability as at December 31, 2015 as the Company has not yet disturbed the land at the Golden Trail property to trigger the recognition of this liability.

Prior to the submission of the new work plan on the Golden Trail property the Company had completed the site restoration work and management estimated that no further site restoration costs need to be incurred on the Golden Trail property.

## 9. CONVERTIBLE DEBENTURE

On August 11, 2015, the Company received $100,000 USD (principal) from an arm's length party in exchange for a convertible debenture. The convertible debenture is due on demand upon six months notice in writing, with such notice not to be given on or before August 11, 2020. The debenture pays interest at the rate of 4%, payable quarterly, beginning October 1, 2015 with the first payment due December 31, 2015. The convertible debenture, and all principal and interest owing, is convertible, in whole or in part, at the holder's option into units of the Company (the "Unit"). Each Unit consists of one common share and one common share purchase warrant. The conversion price of the debenture is $0.05 CDN per Unit. Each warrant will entitle the holder to acquire one additional common share at a price of $0.10 CDN per share until August 11, 2020.

As security, the Company has pledged the diamond drill rig (Note 5).

(Expressed in United States Dollars)

## 9. CONVERTIBLE DEBENTURE (Cont'd)

If the common shares of the Company trade for ten consecutive trading days on the Canadian Securities Exchange or any other stock exchange or quotation service upon which it happens to trade or be quoted at that time, at a price equal to or greater than $0.20 CDN per share, this debenture will automatically be converted into units without any action on the part of either the Company or the holder.

The conversion rate of the units are not in the Company's functional currency and as a result are a derivative financial liability. The Company valued the derivative financial liabilities using the Black-Scholes option pricing model with the following assumptions at the issuance date:

| | |
|---|---|
| Share price | $0.04 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.05 CDN - $0.10CDN |
| Risk free interest rate | 0.72% |
| Expected life | 5.0 - 5.5 years |
| Expected volatility (based on historical prices) | 210 - 223% |

The Company determined the amount relating to the units in the convertible debenture to be $76,886.

The fair value of the units were revalued at December 31, 2015 using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Share price | $0.035 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.05 CDN - $0.10CDN |
| Risk free interest rate | 0.73% |
| Expected life | 4.62 - 5.12 years |
| Expected volatility (based on historical prices) | 208% - 227% |

The units were revalued at $86,608 resulting in a loss on revaluation of derivative conversion liability of $9,722.

| **Convertible Debenture** | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Principal | **$ 100,000** | $ - |
| Derivative conversion liability | **(76,886)** | - |
| Accretion expense | **4,083** | - |
| | **$ 27,197** | **$ -** |

The effective interest rate of the convertible debenture is 26.33%.

| **Derivative Conversion Liability** | **December 31, 2015** | December 31, 2014 |
|---|---|---|
| Derivative conversion liability | **$ 76,886** | $ - |
| Fair value adjustment | **9,722** | - |
| | **$ 86,608** | **$ -** |

(Expressed in United States Dollars)

## 10. CAPITAL STOCK

Authorized
Unlimited common shares

Issued and outstanding - common shares

| | Number of Shares | Value |
|---|---|---|
| **Balance, December 31, 2013** | **37,281,007** | **$ 7,830,163** |
| Units issued for cash [a] | 6,610,765 | 299,336 |
| Shares issued to settle debt [a] | 2,584,613 | 153,603 |
| Allocated to warrants [a] | - | (147,369) |
| **Balance, December 31, 2014** | **46,476,385** | **$ 8,135,733** |
| Units issued for cash[b] | 1,738,380 | 69,732 |
| Allocated to warrants [b] | - | (33,965) |
| **Balance, December 31, 2015** | **48,214,765** | **$ 8,171,500** |

(a) (i) On March 3, 2014, the Company issued 2,000,000 units with an ascribed value of $0.05 CDN per unit for proceeds of $100,000 CDN ($54,551 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to March 3, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.035 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 1.02% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 149% |

The Company determined the amount relating to the warrants in the unit issuance to be $43,321.

(a) (ii) On June 4, 2014, the Company issued 2,300,505 units with an ascribed value of $0.05 CDN per unit for proceeds of $115,025 CDN ($105,238 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to June 4, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.070 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 1.06% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 155% |

The Company determined the amount relating to the warrants in the unit issuance to be $53,534.

(Expressed in United States Dollars)

**10. CAPITAL STOCK** (Cont'd)

(a) (iii) On June 4, 2014, the Company issued 2,584,613 common shares with an ascribed value of $0.065 CDN per shares to settle debt owing of $168,000 CDN ($153,603 USD) to officers and directors (2,307,690 common shares) and a consultant (276,923 common shares).

(a) (iv) On June 28, 2014, the Company issued 1,310,260 units with an ascribed value of $0.05 CDN per unit for proceeds of $65,513 CDN ($60,977 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to June 28, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.075 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 1.09% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 152% |

The Company determined the amount relating to the warrants in the unit issuance to be $30,757.

(a) (v) On December 30, 2014, the Company issued 1,000,000 units with an ascribed value of $0.05 CDN per unit for proceeds of $50,000 CDN ($43,056 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to December 30, 2017.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.040 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 1.00% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 123% |

The Company determined the amount relating to the warrants in the unit issuance to be $19,577.

(Expressed in United States Dollars)

**10. CAPITAL STOCK** (Cont'd)

(b) (i) On May 20, 2015, the Company issued 1,338,380 units with an ascribed value of $0.05 CDN per unit for proceeds of $66,919 CDN ($54,551 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to May 20, 2018.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.040 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 0.68% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 127% |

The Company determined the amount relating to the warrants in the unit issuance to be $26,134.

(ii) On December 7, 2015, the Company issued 400,000 units with an ascribed value of $0.05 CDN per unit for proceeds of $20,000 CDN ($15,181 USD). Each unit consists of one common share and one share purchase warrant exercisable for 3 years. Each warrant entitles the holder to purchase one share at a price of $0.10 CDN up to December 7, 2018.

The fair value of these warrants was estimated at the grant date based on the Black Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.045 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 CDN |
| Risk free interest rate | 0.59% |
| Expected life | 3.0 years |
| Expected volatility (based on historical prices) | 122% |

The Company determined the amount relating to the warrants in the unit issuance to be $7,829.

(Expressed in United States Dollars)

## 11. STOCK OPTIONS AND WARRANTS

(a) Stock Options

The Company has a Stock Option Plan (the "Plan") to provide options for the benefit of employees, directors and third parties. The maximum number of shares allocated to and made available to be issued under the Plan shall not exceed 10% of the common shares issued and outstanding (on a non-diluted basis) at any time. The exercise price of options granted under the Stock Option Plan will be determined by the directors, but will be at least equal to the closing trading price for the common shares for the last trading day prior to the grant and otherwise the fair market price as determined by the Board of Directors. The term of any option granted shall not exceed five years. Except as otherwise provided elsewhere in the Stock Option Plan, the options shall be cumulatively exercisable in installments over the option period at a rate to be fixed by the Board of Directors. The Company will not provide financial assistance to any optionee in connection with the exercise of options.

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Number of Options** | **Weighted Average Exercise Price (CDN)** | Number of Options | Weighted Average Exercise Price (CDN) |
| Outstanding, beginning of year | **4,500,000** | **$0.09** | 2,600,000 | $0.10 |
| Granted | **-** | **$ -** | 1,900,000 | $0.07 |
| Expired | **(250,000)** | **$0.05** | - | $ - |
| Outstanding, end of year | **4,250,000** | **$0.08** | 4,500,000 | $0.09 |
| Exercisable | **4,250,000** | **$0.08** | 4,470,000 | $0.09 |

The Company had the following stock options outstanding at December 31, 2015:

| **Number of Options** | **Exercise Price** | **Expiry Date** |
|---|---|---|
| 2,600,000 | CDN $0.10 | May 1, 2017 |
| 1,150,000 | CDN $0.065 | May 29, 2019 |
| 500,000 | CDN $0.08 | July 2, 2019 |
| **4,250,000** | | |

The above options were not included in the computation of diluted net loss per share as they are anti-dilutive.

(Expressed in United States Dollars)

## 11. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

(i) On March 25, 2014, the Company granted 150,000 stock options to a consultant. Each option entitles the holder to purchase one common share at $0.05 CDN per share at any time on or before December 24, 2015. 30,000 options vest upon grant, 30,000 options vest June 25, 2014, 30,000 options vest September 25, 2014, 30,000 options vest December 25, 2014 and 30,000 options vest March 25, 2015.

In the absence of a reliable measurement of the services received, the transaction has been measured at the fair value of the stock options issued. The fair value of these stock options of $4,356 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Stock price | $0.05 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.05 CDN |
| Risk-free interest rate | 1.07% |
| Expected life | 1.75 years |
| Expected volatility (based on historical prices) | 140% |

(ii) On May 29, 2014, the Company granted 1,150,000 stock options to directors and officers and a consultant. Each option entitles the holder to purchase one common share at $0.065 CDN per share at any time on or before May 29, 2019.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

The fair value of these stock options of $63,081 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Stock price | $0.06 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.065 CDN |
| Risk-free interest rate | 1.33% |
| Expected life | 5.0 years |
| Expected volatility (based on historical prices) | 233% |

(iii) On July 2, 2014, the Company granted 500,000 stock options to directors and officers. Each option entitles the holder to purchase one common share at $0.080 CDN per share at any time on or before July 2, 2019.

The fair value of these stock options of $34,836 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Stock price | $0.075 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.080 CDN |
| Risk-free interest rate | 1.50% |
| Expected life | 5.0 years |
| Expected volatility (based on historical prices) | 233% |

(Expressed in United States Dollars)

## 11. STOCK OPTIONS AND WARRANTS (Cont'd)

(a) Stock Options (Cont'd)

(iv) On October 17, 2014, the Company granted 100,000 stock options to a consultant. Each option entitles the holder to purchase one common share at $0.050 CDN per share at any time on or before October 17, 2015.

In the absence of a reliable measurement of the services received from the consultant, the transaction has been measured at the fair value of the stock options issued.

The fair value of these stock options of $1,983 was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

| | |
|---|---|
| Stock price | $0.050 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.050 CDN |
| Risk-free interest rate | 0.99% |
| Expected life | 1.0 years |
| Expected volatility (based on historical prices) | 118% |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

(b) Warrants

The following summarizes the change in foreign currency warrants:

| | **2015** | 2014 |
|---|---|---|
| Balance, beginning of year | **$ 248,787** | $ 185,472 |
| Fair value of warrants issued - March 3, 2014 (Note 10(a)(i)) | **-** | 43,321 |
| Fair value of warrants issued - June 4, 2014 (Note 10(a)(ii)) | **-** | 53,534 |
| Fair value of warrants issued - June 28, 2014 (Note 10(a)(iv)) | **-** | 30,757 |
| Fair value of warrants issued - December 30, 2014 (Note 10(a)(v)) | **-** | 19,757 |
| Fair value of warrants issued - May 20, 2015 (Note 10(b)(i)) | **26,134** | - |
| Fair value of warrants issued - December 7, 2015 (Note 10(b)(ii) | **7,829** | - |
| Fair value adjustment (Note 11(b)(i)) | **(245,224)** | (84,055) |
| Balance, end of year | **$ 37,526** | $ 248,787 |

(Expressed in United States Dollars)

## 11. STOCK OPTIONS AND WARRANTS (Cont'd)

(b) Warrants (Cont'd)

(i) At December 31, 2014, the fair value of the 22,710,765 warrants outstanding was estimated at $248,787 using the Black-Scholes pricing model with the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.04 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 - $0.20 CDN |
| Risk-free interest rate | 1.00% |
| Expected life | 1.709 years |
| Expected volatility (based on historical prices) | 125% |

At December 31, 2015, the fair value of the 24,449,145 warrants outstanding was estimated at $37,526 using the Black-Scholes pricing model with the following weighted average assumptions:

| | |
|---|---|
| Share price | $0.035 CDN |
| Expected dividend yield | Nil |
| Exercise price | $0.10 - $0.20 CDN |
| Risk-free interest rate | 0.48% |
| Expected life | 0.837 years |
| Expected volatility (based on historical prices) | 61.7% |

At December 31, 2015, a gain on revaluation of foreign currency warrants of $245,224 (2014 - $84,055) was recognized in the consolidated statement of earnings (loss) and comprehensive earnings (loss).

The Company had the following warrants outstanding at December 31, 2015:

| Number of Warrants | Exercise Price (CDN) | Expiry Date |
|---|---|---|
| 2,800,000 | $0.20 | January 24, 2016 |
| 1,400,000 | $0.20 | February 8, 2016 |
| 2,000,000 | $0.20 | April 24, 2016 |
| 3,250,000 | $0.20 | June 19, 2016 |
| 2,000,000 | $0.20 | February 20, 2016 |
| 1,000,000 | $0.20 | May 14, 2016 |
| 3,650,000 | $0.10 | December 3, 2016 |
| 2,000,000 | $0.10 | March 3, 2017 |
| 2,300,505 | $0.10 | June 4, 2017 |
| 1,310,260 | $0.10 | June 28, 2017 |
| 1,000,000 | $0.10 | December 30, 2017 |
| 1,338,380 | $0.10 | May 20, 2018 |
| 400,000 | $0.10 | December 7, 2018 |
| **24,449,145** | | |

(Expressed in United States Dollars)

## 12. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted loss per share for the year ended December 31, 2015 was based on the earnings attributable to common shareholders of $418,463 (2014 - loss of $368,911) and the weighted average number of common shares outstanding of 47,327,715 (2014 – 42,447,523).

Diluted loss per share did not include the effect of 4,250,000 stock options and 24,449,145 warrants outstanding as they are anti-dilutive.

## 13. INCOME TAXES

(a) Income Tax Expense

The following table reconciles income taxes calculated at combined Canadian federal and provincial tax rates with the income tax expense in these consolidated financial statements:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Loss before income taxes | **$** | **418,463** | $ | (368,911) |
| Statutory rate | | **26.50 %** | | 26.50 % |
| Expected income tax recovery | **$** | **110,893** | $ | (97,761) |
| Stock-based compensation | | **-** | | 27,628 |
| Amounts not deductible for tax | | **(58,213)** | | (22,023) |
| Impact on foreign exchange | | **92,343** | | 54,156 |
| Adjustment to non-capital losses and exploration and evaluation expenditure pool balances | | **61,977** | | - |
| Change in deferred tax assets not recognized | | **(207,000)** | | 38,000 |
| Income tax expense | **$** | **-** | $ | - |

(b) Deferred Income Taxes

The temporary differences that give rise to deferred income tax assets and deferred income tax liabilities are presented below:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Deferred tax assets (liabilities) | | | | |
| Non-capital loss carry forwards | **$** | **429,000** | $ | 605,000 |
| Mining claims - exploration and evaluation expenditures | | **116,000** | | 145,000 |
| Share issue costs | | **1,000** | | 3,000 |
| | | **546,000** | | 753,000 |
| Less: Deferred tax assets not recognized | | **(546,000)** | | (753,000) |
| Net deferred income tax asset | **$** | **-** | $ | - |

(Expressed in United States Dollars)

## 13. INCOME TAXES (Cont'd)

(c) Tax Losses

The Company has non-capital losses of approximately $1,620,500 available in Canada to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

| | |
|---|---|
| 2030 | $ 182,800 |
| 2031 | 347,300 |
| 2032 | 316,700 |
| 2033 | 62,600 |
| 2034 | 413,700 |
| 2035 | 297,400 |
| | **$ 1,620,500** |

The potential tax benefit relating to these tax losses has not been reflected in these consolidated financial statements.

## 14. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Remuneration of Directors and key management of the Company was as follows:

| | **2015** | 2014 |
|---|---|---|
| Stock-based compensation (Note 11) [a] | **$ -** | $ 75,976 |
| Management and director fees [b] | **269,554** | 304,513 |
| | **$ 269,554** | $ 380,489 |

(a) Fair market value of stock options issued to officers and directors.

(b) Included in office and administrative costs in the consolidated statements of earnings (loss) and comprehensive earnings (loss).

Other related party balances are listed below:

(a) Included in accounts payable and accrued liabilities is $63,363 (2014 - $400,539) of amounts owing to directors of the Company for management and director fees.

(b) During the year ended December 31, 2014, the Company issued 2,307,690 common shares to officers and directors to settle management fees owing of $150,000 CDN ($137,145 USD) (Note 10(a)(iii))

(c) During the year ended December 31, 2015, a director of the Company provided a loan to the Company in the amount of $17,730 CDN ($12,810 USD). The loan is non-interest bearing, unsecured and due on demand.

## 14. RELATED PARTY TRANSACTIONS (Cont'd)

(d) During the year ended December 31, 2015, the Company reversed $491,729 (2014 - $57,108) of management and director fees owing to directors which were included in accounts payable and accrued liabilities. These management and director fees have been permanently forgiven by the directors.

## 15. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, contributed surplus and deficit, in the definition of capital.

The Company’s primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2015.

## 16. FINANCIAL RISK MANAGEMENT

The Company is exposed to a variety of financial risks by virtue of its activities. In particular market risk (composed of currency risk), liquidity risk, fair value risk, interest risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

## 16. FINANCIAL RISK MANAGEMENT (Cont'd)

### Market Risk

(i) Currency risk

The Company operates internationally and is exposed to foreign exchange risk from the Canadian Dollar. Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

As at December 31, 2015 the Company is exposed to currency risk through the following financial assets and liabilities denominated in Canadian dollars:

| | | **2015** | | 2014 |
|---|---|---|---|---|
| Cash | **$** | **480** | $ | 50,471 |
| HST receivable | **$** | **12,145** | $ | 26,716 |
| Accounts payable and accrued liabilities | **$** | **178,104** | $ | 545,537 |
| Loan due to a director | **$** | **17,730** | $ | - |

The above balances were translated into US dollars at the year-end rate of $0.7225 (2014 - $0.8620) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2015, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately $6,000 (2014 - $21,000).

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at December 31, 2015, the Company has current liabilities of $158,749 (2014 - $479,327) due within 12 months and has cash of $363 (2014 - $44,681) to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital to fund operations.

### Fair Value Risk

The carrying values of reclamation bonds, accounts payable and accrued liabilities, and loan due to a director approximate fair values due to the relatively short term maturities of these instruments. The estimated fair values of convertible debt also approximate carrying values due to the fact that effective interest rates are not significantly different from market rates.

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest rate risk is primarily related to the Company's interest bearing debt on its consolidated statement of financial position. The Company does not have any debt with variable interest rates, thereby minimizing the Company's exposure to cash flow interest rate risk.

## 16. FINANCIAL RISK MANAGEMENT (Cont'd)

### Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions.

## 17. COMMITMENTS

The Company is committed under lease agreements to the payment of amounts totaling $3,540 CDN until June 2016.

The Company is also required to make payments to the BLM to keep mining claims in good standing as noted in Note 6.

## 18. SUBSEQUENT EVENTS

(a) The Company modified the expiry times of the following warrants:

  (i) 2,800,000 warrants exercisable at a price of $0.20 CDN until January 24, 2016 are now exercisable until September 12, 2016;

  (ii) 1,400,000 warrants exercisable at a price of $0.20 CDN until February 8, 2016 are now exercisable until February 8, 2017;

  (iii) 2,000,000 warrants exercisable at a price of $0.20 CDN until February 20, 2016 are now exercisable until February 20, 2018;

  (iv) 2,000,000 warrants exercisable at a price of $0.20 CDN until April 24, 2016 are now exercisable until April 24, 2017;

  (v) 3,250,000 warrants exercisable at a price of $0.20 CDN until June 19, 2016 are now exercisable until June 19, 2017; and

  (vi) 1,000,000 warrants exercisable at a price of $0.20 CDN until May 14, 2016 are now exercisable until May 14, 2018.

(b) The Company issued 1,450,000 units with an ascribed value of $0.05 CDN per unit for gorss proceeds of $72,500 CDN. Each unit consisting of one common share and a common share purchase warrant exercisable for 3 years at $0.10 CDN.