# SGX Resources Inc.

## Financial Statements

### December 31, 2017 and 2016

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards ("IFRS"). This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the financial statements.

The Board of Directors exercises its responsibilities for financial controls and is responsible for overseeing management in the performance of its financial reporting responsibilities. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

Scarrow & Donald LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

B D Reid

Bruce Reid
President & CEO, Director

Julio DiGirolamo CPA, CA
Chief Financial Officer

**April 19, 2018**

April 19, 2018

## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of SGX Resources Inc.:**

We have audited the accompanying financial statements of SGX Resources Inc., which comprise the statements of financial position as at December 31, 2017 and 2016 and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended 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 financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of SGX Resources Inc. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

We draw attention to Note 1 in the financial statements which indicates that the Company incurred a net loss of $285,604 during the year ended December 31, 2017 (2016 - $103,123) and, as of that date, the Company's current liabilities exceed its current assets by $2,591,076 (2016 - $2,301,588) and the Company has a deficit of $30,154,357 (2016 - $30,139,263). These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Scarrow & Donald LLP

Chartered Professional Accountants
Winnipeg, Canada

# SGX Resources Inc.
## Statements of Financial Position
*Expressed in Canadian dollars*

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **$ 5,140** | $ 424 |
| GST/HST recoverable | **4,494** | 30,314 |
| Prepaids | **1,800** | --- |
| | **11,434** | 30,738 |
| Mining claims *(Note 4)* | **---** | --- |
| Fixed assets *(Note 5)* | **3,884** | --- |
| | **$ 15,318** | $ 30,738 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | **$ 107,033** | $ 297,581 |
| Advances payable *(Note 9)* | **532,188** | 95,000 |
| Due to related parties *(Note 9)* | **1,844,865** | 1,827,085 |
| Promissory note payable *(Note 9)* | **118,424** | 112,660 |
| | **2,602,510** | 2,332,326 |
| **Shareholders' equity** | | |
| Share capital *(Note 6b)* | **27,567,165** | 27,567,165 |
| Contributed surplus | **---** | 270,510 |
| Deficit | **(30,154,357)** | (30,139,263) |
| | **(2,587,192)** | (2,301,588) |
| | **$ 15,318** | $ 30,738 |

**Contingency** *(Note 12)*

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

On behalf of the Board:

B D Reid      J. Boyle

**Bruce Reid**
*Director*

**Jennifer Boyle**
*Director*

# SGX Resources Inc.

## Statements of Loss and Comprehensive Loss

### For the years ended December 31, 2017 and 2016

*Expressed in Canadian dollars*

| | 2017 | 2016 |
|---|---|---|
| **Expenditures** | | |
| General and administration | **$ 275,736** | $ 96,373 |
| Depreciation | **1,942** | --- |
| Interest expense | **5,764** | 5,881 |
| Mining claims | **2,162** | 869 |
| **Loss and comprehensive loss for the period** | **$ 285,604** | $ 103,123 |
| **Basic and diluted loss per share** | **$ (0.00)** | $ (0.00) |
| **Weighted average number of shares outstanding during the period – basic and diluted** | **135,194,169** | 135,194,169 |

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

# SGX Resources Inc.
## Statements of Changes in Equity

### For the years ended December 31, 2017 and 2016
*Expressed in Canadian dollars*

| | Share Capital | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|
| **Balance at December 31, 2015** | $27,567,165 | $651,966 | $(30,417,596) | $(2,198,465) |
| Loss for the period | --- | --- | (103,123) | (103,123) |
| Expired/forfeited options *(Note 7)* | --- | (381,456) | 381,456 | --- |
| **Balance at December 31, 2016** | **$27,567,165** | **$270,510** | **$(30,139,263)** | **$(2,301,588)** |
| Loss for the period | **---** | **---** | **(285,604)** | **(285,604)** |
| Expired/forfeited options *(Note 7)* | **---** | **(270,510)** | **270,510** | **---** |
| **Balance at December 31, 2017** | **$27,567,165** | **$ ---** | **$(30,154,357)** | **$(2,587,192)** |

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

# SGX Resources Inc.
## Statements of Cash Flows
### For the years ended December 31, 2017 and 2016
*Expressed in Canadian dollars*

| | 2017 | 2016 |
|---|---|---|
| Cash provided by (used in): | | |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | **$(285,604)** | $ (103,123) |
| Depreciation expense | **1,942** | --- |
| Net change in non-cash working capital items: | | |
| GST/HST recoverable | **25,820** | (4,650) |
| Prepaids | **(1,800)** | 1,131 |
| Accounts payable and accrued liabilities | **(190,548)** | 28,596 |
| Due to related parties | **17,780** | 28,549 |
| Promissory note payable | **5,764** | 5,498 |
| | **(426,646)** | (43,999) |
| **INVESTING ACTIVITIES** | | |
| Purchase of fixed assets | **(5,826)** | --- |
| | **(5,826)** | --- |
| **FINANCING ACTIVITIES** | | |
| Advances received | **437,188** | 44,000 |
| | **437,188** | 44,000 |
| **Net change in cash** | **4,716** | 1 |
| Cash, beginning of year | **424** | 423 |
| **Cash, end of year** | **$ 5,140** | $ 424 |

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

## 1. CORPORATE INFORMATION

SGX Resources Inc. (the "Company") was incorporated under the Canada Business Corporations Act on December 5, 2008. The Company acquires, explores, and develops mineral properties in the Timmins region of Ontario, Canada.

The Company's corporate head office is located at 401 Bay Street, Suite 2702, Toronto ON M5H 2Y4. The registered office of the Company is MLT Aikins LLP, 30th Floor, 360 Main Street, Winnipeg, MB R3C 4G1. The Company's shares are listed on the TSX Venture Exchange and trade under the symbol "SXR". Trading was suspended on May 9, 2016.

### Going Concern

For the year ended December 31, 2017, the Company had a loss of $285,604 (2016 - $103,123) and, as of that date, the Company's current liabilities exceeded its current assets by $2,591,076 (2016 - $2,301,588) and the Company had a deficit of $30,154,357 (2016 - $30,139,263). In addition to ongoing working capital requirements, the Company may be required to secure sufficient funding for exploration and development programs, general and administration costs. Although management may have been successful in the past in undertaking financing, there can be no assurance that management will be able to do so in the future on terms acceptable to the Company.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of operations for the foreseeable future. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses, and statement of financial position classifications that might be necessary if the Company was unable to continue as a going concern. These adjustments could be material.

These financial statements of the Company for the twelve months ended December 31, 2017 were approved and authorized for issue by the Board of Directors of the Company on April 19, 2018.

## 2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

### a) Basis of presentation:

The Company prepares it consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and IFRS Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Chartered Professional Accountants Canada Handbook. These financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these financial statements throughout all the periods presented. Critical accounting judgments and estimates used by management in the preparation of these financial statements are presented in Note 3.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency. All reference to dollars ($) are to Canadian dollars unless otherwise noted.

### b) Cash

Cash consists of funds on deposit.

### c) Fixed Assets

Fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. The application of this policy requires an estimate of the useful life of the asset and its residual value. The Company provides for depreciation of computer equipment so as to apply the cost of the assets over the estimated useful lives on a straight line basis over 3 years.

## 2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (CONT'D)

### d) Financial instruments

All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as at fair value through profit or loss, available for sale, held to maturity, loans and receivables, or financial liabilities measured at amortized cost. The classification depends on the purpose for which the instruments were acquired. Management determines the classification of financial instruments at initial recognition. Transactions to purchase or sell financial assets are recorded on the settlement date.

Financial assets and financial liabilities classified at fair value through profit or loss are subsequently measured at fair value with gains and losses recognized in net loss. Loans and receivables and financial liabilities measured at amortized cost are subsequently measured at their amortized cost, using the effective interest method.

Derivative instruments are recorded at fair value including those derivatives that are embedded in a financial instrument or other contract but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments are recognized in net loss, except for derivatives that are designated as cash flow hedges. The Company presently does not have any derivative financial instruments.

The Company has designated its cash as loans and receivables measured at amortized cost and has designated its accounts payable and accrued liabilities, advances payable, due to related parties and promissory note payable as other financial liabilities measured at amortized cost, which is reflected on the statement of financial position as amortized cost using the effective interest method of measurement.

Transaction costs are expensed as incurred for financial instruments classified or designated at fair value through profit or loss. For other financial instruments, transaction costs are added to the related financial asset or liability on initial recognition and are measured at amortized cost using the effective interest method. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability.

The Company assesses impairment of all its financial assets, except those classified at fair value through profit or loss. Management considers whether there has been a breach in contract, such as a default or delinquency in interest or principal payments in determining whether objective evidence of impairment exists. Impairment is measured as the difference between the asset's carrying value and its fair value. Impairment is included in current net loss.

### e) Fair Value

The fair value of a financial instrument is the amount of consideration that could be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no obligation to act. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or on a valuation technique using market-based inputs.

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobserved inputs) (Level 3).

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

## 2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (CONT'D)

### e) Income taxes

Current tax is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the statement of financial position date and includes adjustments to tax payable or recoverable in respect of previous periods.

Deferred tax is recognized using the statement of financial position method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilized, except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are recognized for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss and in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. To the extent that an asset not previously recognized fulfils the criteria for recognition, a deferred income tax asset is recorded.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date.

Current and deferred taxes relating to items recognized directly in equity are recognized in equity and not in the income statement.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the same taxable entities or in different taxable entities, and, where there is the intent to settle the balance on a net basis.

*Mining taxes*

Income tax expense includes the mining taxes payable to governments that are calculated based on a percentage of taxable profit whereby taxable profit represents net income adjusted for certain items defined in the applicable legislation.

## 2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (CONT'D)

### f) Income taxes (cont'd)

*Flow-through shares*

Expenditures related to exploration and development activities funded by flow-through shares are renounced to investors in accordance with income tax regulations. The proceeds on the issuance of flow-through shares are allocated to share capital and flow-through share premium liability. The flow-through share premium liability represents the difference between the proceeds received and the market price of the Company's shares on the date of the transaction. The flow-through share premium liability is recognized as income when the eligible expenditures are incurred and there is an intention to renounce.

### g) Revenue recognition

Interest income is recognized using the effective interest rate method.

### h) Exploration expenditures and mining claims

Exploration expenditures relate to activities that are directed towards less than proven and probable ore reserves and are expensed as incurred. The costs to acquire mining claims are capitalized.

### i) Impairment of non-financial assets

Mining claims are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. 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 for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount and is recorded as an expense.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

### j) Provisions

Provisions are recognized in other liabilities when the Company has a present legal or constructive obligation because of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material, such as closure costs.

## 2. SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES (CONT'D)

### k) Share-based compensation plan and warrants

The fair value-based method of accounting is applied to all share-based compensation. The fair value of the share options granted is estimated on the date of grant using the Black-Scholes option-pricing model and is recorded as an expense over the applicable vesting period based on the number of awards expected to vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Any consideration paid by the directors on exercise of the share option is credited to share capital. Awards of options and warrants related to private placements or public offerings of shares are treated as share issue costs.

### l) Net loss per share

Basic net loss per share is calculated using the daily weighted average number of shares outstanding.

Diluted net loss per share is calculated using the daily weighted average number of shares that would have been outstanding during the year had all dilutive potential common shares been issued at the beginning of the year, or when the underlying options, warrants or convertible securities were granted or issued, if later. The treasury share method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of options or warrants to acquire shares.

### m) Recent accounting pronouncements

**New accounting pronouncements**

In fiscal 2017, there have been no new or amended accounting pronouncements that have had a material impact on the Company's financial statements.

**Future accounting pronouncements**

IFRS 9, "Financial instruments" (IFRS 9) was issued by the IASB on July 24, 2014 and will replace IAS 39, "Financial instruments: recognition and measurement" (IAS 39). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect to have a material impact from the adoption of IFRS 9.

IFRS 15, "Revenue from Contracts and Customers" (IFRS 15) was issued by the IASB on May 28, 2014, and will replace IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control-based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018. The Company does not expect to have a material impact from the adoption of IFRS 15.

IFRS 16, "Leases" replaces IAS17 "Leases" and requires lessees to account for leases on balance sheet by recognizing a right of use asset and a lease liability. The standard is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company does not expect to have a material impact from the adoption of IFRS 16.

*Expressed in Canadian dollars, unless otherwise indicated*

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to use estimates and judgments that affect the reported amounts of assets and liabilities, as well as revenues and expenses. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in net loss in the period in which they become known.

The recoverability of deferred expenditures is dependent upon the discovery of economically recoverable reserves and resources, securing and maintaining title and beneficial interest in the properties, the ability to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and attaining profitable production.

The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax provision. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

## 4. MINING CLAIMS

Substantive expenditure on further exploration for and evaluation of mineral claims is neither budgeted nor planned.

## 5. FIXED ASSETS

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated depreciation** | **Cost** | **Accumulated depreciation** |
| Computer equipment | **$ 5,826** | **$ (1,942)** | $ **---** | $ --- |
| **Balance, end of year** | | **$ 3,884** | | $ --- |

During the year $5,826 of computer equipment was purchased (2016 - $nil).

## 6. SHARE CAPITAL

**a) Authorized:**

The Company is authorized to issue an unlimited number of common shares with each common share entitled to one vote.

**b) Common shares issued:**

| | Number of Shares | Stated Capital |
|---|---|---|
| **Balance, December 31, 2016 and 2017** | **135,194,169** | **$27,567,165** |

*Expressed in Canadian dollars, unless otherwise indicated*

## 7. SHARE OPTIONS

The Company may grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares reserved for issuance under all securities compensation arrangements is limited to 10% of the total number of issued and outstanding shares exercisable for a period of up to 10 years. The maximum number of shares that may be issued to any officer, director or employee shall not exceed 5% of the total number of issued and outstanding shares. The maximum number of shares that may be issued to technical consultants, including investor relation consultants, shall not exceed 2% of the total number of issued and outstanding shares.

During the year ended December 31, 2017, 1,150,000 options expired unexercised (2016 – 1,900,000), while no options were granted, cancelled or exercised. At December 31, 2017, the Company had no stock options outstanding.

A summary of the status of the Company's outstanding options as at December 31, 2017 and December 31, 2016 and changes during the periods then ended are as follows:

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | **Number** | **Weighted average exercise price** |
| **Balance, beginning** | **1,150,000** | **$ 0.28** | 3,050,000 | $ 0.28 |
| Expired/forfeited | **(1,150,000)** | **0.28** | (1,900,000) | 0.27 |
| **Balance, ending** | **---** | **$ ---** | 1,150,000 | $ 0.28 |

The following table summarizes information relating to the stock options outstanding and exercisable at December 31, 2017 and 2016.

| | **2017** | | **2016** | |
|---|---|---|---|---|
| **Exercise prices** | **Number of options** | **Weighted average remaining contractual life in years** | **Number of options** | **Weighted average remaining contractual life in years** |
| **$ 0.28** | **---** | **---** | 1,150,000 | 0.60 |
| **$ 0.28** | **---** | **---** | 1,150,000 | 0.60 |

## 8. INCOME TAXES

### Income tax provision

The provision for income taxes reflects an effective rate that differs from the combined federal and provincial tax rates for the following reasons:

| | **2017** | **2016** |
|---|---|---|
| Loss before income taxes | **$ (285,604)** | $ (103,123) |
| Combined statutory income tax rate | **26.50%** | 26.50% |
| Income tax recovery using statutory income tax rates | **(75,700)** | (27,300) |
| Other | **500** | (700) |
| Valuation allowance | **75,300** | 28,000 |
| Future income tax recovery | **$ ---** | $ --- |

*Expressed in Canadian dollars, unless otherwise indicated*

## 8. INCOME TAXES (CONT'D)

**Deferred income taxes**

Significant components of the Company's deferred income tax asset (liability) are as follows:

| | **2017** | **2016** |
|---|---|---|
| Non-capital losses | **$ 2,433,300** | $ 2,356,700 |
| Canadian exploration and development expense pools | **2,724,200** | 2,724,200 |
| Share issuance costs | **500** | 1,900 |
| Deferred income tax asset | **5,158,000** | 5,082,800 |
| Valuation allowance | **(5,158,000)** | (5,082,800) |
| Deferred tax asset | **$ ---** | $ --- |

The Company has non-capital loss carry forward amounts available for income tax purposes of $9,182,300 that expire $9,000 in 2028, $116,000 in 2029, $593,000 in 2030, $1,890,000 in 2031, $1,007,000 in 2032, $2,451,000 in 2033, $1,665,000 in 2034, $743,000 in 2035, $418,000 in 2036 and $290,300 in 2037. The Company has $10,280,000 (December 31, 2016 - $10,280,000) of unused cumulative Canadian exploration and development costs available to offset future taxable income. The tax benefits pertaining to these expenses are available for carry forward indefinitely.

## 9. RELATED PARTY TRANSACTIONS

Due to related parties includes $870,552 (December 31, 2016 - $870,552) due to Klondex Canada Ltd. (formerly San Gold Corporation) for exploration expenditures incurred on behalf of the Company. The amount is unsecured, non-interest bearing and due on demand. Klondex Canada Ltd also holds a $100,000 promissory note from the Company. The promissory note bears interest at 5% and is due on demand. The promissory note is secured against the Companies 50% interest in certain mining claims. The promissory note payable includes $18,424 (December 31, 2016 - $12,660) of accrued interest due to Klondex Canada Ltd. During the year $5,764 of interest was recorded (2016 - $5,498). Klondex Canada Ltd. owns and exercises control over approximately 32% of the issued and outstanding Common Shares and exerts significant influence over the Company.

Included in due to related parties is $20,000 (December 31, 2016 - $20,000) due to Wynnex Ltd. for advances to the Company that are unsecured, non-interest bearing and have no set terms of repayment. Wynnex is related as the owner is a former director of the Company. Also, included in due to related parties is $946,139 (December 31, 2016 - $928,359) payable to former officers and directors or companies controlled by former officers and directors for services and director's fees and $8,174 (December 31, 2016 - $8,174) payable to directors for expenses incurred on behalf of the Company.

Advance payable of $532,188 is made up of $95,000 due to directors of the Company and $437,188 due to a company in which directors of the Company are shareholders (2016 - $95,000 due to directors). Amounts were advanced to the Company for settlement of various liabilities as well as for general working capital purposes. The advances are unsecured, non-interest bearing and due on demand.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly and indirectly, include any director (whether executive or otherwise) of the Company. Total fees for the year ended December 31, 2017 is $50,000 (2016 - $nil). Included in general and administrative expenses is $54,515 (2016 - $nil) in fees for administrative services paid to a company in which directors of the Company are shareholders.

## 10. CAPITAL MANAGEMENT

The Company's total negative capital balance of $2,587,192 (December 31, 2016 - negative capital balance of $2,301,588) consists of $27,567,165 (December 31, 2015 - $27,567,165) of share capital, contributed surplus of $NIL (December 31, 2016 - $270,510) and a deficit of $30,154,357 (December 31, 2016 - $30,139,263).

The Company's objectives when managing capital, which consists of shareholders' equity, are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and adjusts it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital from time-to-time using a variety of measures. Monitoring procedures are typically performed as a part of the overall management of the Company's operations. The Company's strategy during the period, which was unchanged from the prior period, was to maintain its ability to secure access to financing at a reasonable cost. The requirements and terms of sources of capital cannot be predicted and change in ways the Company cannot predict.

## 11. RISK MANAGEMENT AND FAIR VALUES

Management's risk management policies are typically performed as a part of the overall management of the Company's operations. Management is aware of risks related to these objectives through direct personal involvement with employees and outside parties. In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. Management's close involvement in operations helps identify risks and variations from expectations. The Company has not designated transactions as hedging transactions to manage risk. As a part of the overall operation of the Company, management considers the avoidance of undue concentrations of risk. The risks and the actions taken to manage them include the following:

### Liquidity risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The Company's main sources of liquidity are external sources of debt and equity. The funds are primarily used to finance working capital and capital expenditure requirements. The Company's current liabilities exceed its current assets by $2,591,076 (December 31, 2016 - $2,301,588).

Accounts payable and accrued liabilities, advances payable, due to related parties and promissory note payable are due within one year.

### Credit risk

Credit risk arises from the possibility that debtors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. The Company has credit policies to address credit risk on accounts receivable, which may include the analysis of the financial position of the debtor and review of credit limits. The Company also may review credit history before establishing credit and review credit performance. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information.

A financial asset is past due when a debtor has failed to make a payment when contractually due. The Company has no financial assets that are past due and does not have an allowance for doubtful accounts receivable.

## 11. RISK MANAGEMENT AND FAIR VALUES (CONT'D)

### Currency risk

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. Changes in the applicable exchange rate may result in a decrease or increase in foreign exchange income or expense. The Company only enters into transactions in Canadian dollars and is not exposed to currency risk.

### Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. Obtaining a promissory note with a fixed interest rate minimizes cash flow risk.

### Other price risk

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. Mineral prices are affected by numerous factors such as the sale or purchase by various central banks and financial institutions, interest rates, exchange rates, inflation or deflation, fluctuations in the value of the US dollar and other foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold-producing countries throughout the world.

### Fair values

The fair values of the Company's financial assets and liabilities consisting of cash, accounts payable, advances payable, due to related parties and promissory note payable approximate their recorded values as at December 31, 2017 and December 31, 2016 due to their short-term nature.

Fair value is an estimate of the amount at which items might be exchanged in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. Fair value should not be interpreted as an amount that could be realized in immediate settlement of the instruments. The estimate of fair value at the end of the periods may not represent fair values at any other date. The determination of fair value is also affected by the use of judgment and by uncertainty.

## 12. CONTINGENCY

In connection with an independent contractor agreement a claim has been made against the Company for outstanding monies owing and severance. The likelihood of loss and amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. In the opinion of the Company, potential liabilities that may result from this legal action has been adequately provided for and is not expected to have a material adverse effect on the Company's financial position.