

**Titus Energy Corp.**

**Condensed Interim Financial Statements  
Nine month period ended February 28, 2017**

**(Expressed in Canadian Dollars)  
(Unaudited)**

## **Titus Energy Corp.**

February 28, 2017

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. They include appropriate accounting principles, judgment and estimates in accordance with IFRS for interim financial statements

The Company's independent auditors have not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditors.

**TITUS ENERGY CORP.**  
 Statements of financial position  
 (Expressed in Canadian dollars)

| Notes                               | February 28,<br>2017 | May 31,<br>2016<br>(Audited) |
|-------------------------------------|----------------------|------------------------------|
| <b>ASSETS</b>                       |                      |                              |
| <b>Current assets</b>               |                      |                              |
| Cash and cash equivalents           | \$1055               | \$ 8171                      |
| Loan receivable                     | 0                    | \$0-                         |
| GST Receivable                      | 4141                 | 4141                         |
| Available-for-sale investment       | 1,085,418            | 1,085,418                    |
| <b>Total Current Assets</b>         | <b>1,090,614</b>     | <b>1,097,730</b>             |
| <b>Non-Current Assets</b>           |                      |                              |
| Exploration and evaluation assets   | -                    | -                            |
| <b>TOTAL ASSETS</b>                 | <b>\$ 1,090,614</b>  | <b>\$ 1,097,730</b>          |
| <b>LIABILITIES</b>                  |                      |                              |
| <b>Current liabilities</b>          |                      |                              |
| <b>Accounts payable</b>             | \$8264               | \$1177                       |
| Accrued liabilities                 | \$                   | \$ 5,000                     |
| <b>TOTAL LIABILITIES</b>            | <b>8264</b>          | <b>6,177</b>                 |
| <b>EQUITY</b>                       |                      |                              |
| Share capital                       | 1,687,386            | 1,687,386                    |
| Share-based payment reserve         | 35,329               | 35,329                       |
| Deficit                             | (632,101)            | (631,162)                    |
| <b>TOTAL EQUITY</b>                 | <b>1,090,614</b>     | <b>1,091,553</b>             |
| <b>TOTAL LIABILITIES AND EQUITY</b> | <b>\$ 1,090,614</b>  | <b>\$ 1,097,730</b>          |

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue, February 28, 2017.

Approval on behalf of the Board of Directors:

*“Alan Huber”*

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 Director

*“Lloyd George Bates”*

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 Director

**TITUS ENERGY CORP.**  
Statements of comprehensive loss  
(Expressed in Canadian dollars)

| Notes   | Three months<br>ended<br>February 28,<br>2017 | Nine months<br>ended<br>February 28,<br>2017 | Three months<br>ended<br>November 30,<br>2016 | Six months<br>ended<br>November 30,<br>2016 |
|---|---|--|---|---|
| <b>Interest Income</b>  | \$ -  | \$ -   | \$ -  | \$ -  |
| <b>Expenses</b>   |   |  |   |   |
| Consulting fees   | -   | -  | -   | -   |
| Filing fees   | 7446  | 7446   | 2,205   | 5128  |
| Management fees   | -   | -  | -   | -   |
| Office and administration   | 343   | 343  | -   | -   |
| Professional fees   | 5949  | 5949   | 10000   | 10000                                       |
| <b>Comprehensive loss for the period</b>  | <b>(13738)</b>                                | <b>(13738)</b>                               | <b>(15128)</b>                                | <b>(15128)</b>                              |
| <b>Loss per share – basic and diluted</b>                                       | <b>\$ (0.00)</b>                              | <b>\$ (0.00)</b>                             | <b>\$ (0.01)</b>                              | <b>\$ (0.01)</b>                            |
| <b>Weighted average number of common shares outstanding – basic and diluted</b> | <b>12,725,000</b>                             | <b>12,725,000</b>                            | <b>12,725,000</b>                             | <b>12,725,000</b>                           |

**TITUS ENERGY CORP.**  
Statements of changes in equity  
(Expressed in Canadian dollars)

|                                     | Share capital       |                     | Share-<br>based<br>payment<br>reserve | Deficit             | Total               |
|-------------------------------------|---------------------|---------------------|---------------------------------------|---------------------|---------------------|
|                                     | Number of<br>shares | Amount              |                                       |                     |                     |
| Balance at June 1, 2013             | 12,725,000          | \$ 1,687,386        | \$ 35,329                             | \$ (412,234)        | \$ 1,310,481        |
| Net loss                            | -                   | -                   | -                                     | (111,927)           | (111,927)           |
| <b>Balance at November 30, 2013</b> | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (524,161)</b> | <b>\$ 1,198,554</b> |
| <b>Balance at June 1, 2014</b>      | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (588,747)</b> | <b>\$ 1,133,968</b> |
| Net loss                            | -                   | -                   | -                                     | (9,216)             | (9,216)             |
| <b>Balance at November 30, 2014</b> | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (597,963)</b> | <b>\$ 1,124,752</b> |
| <b>Balance at June 1, 2015</b>      | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (588,747)</b> | <b>\$ 1,133,968</b> |
| Net loss                            | -                   | -                   | -                                     | (27,677)            | (27,677)            |
| <b>Balance at February 28, 2016</b> | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (617,424)</b> | <b>\$ 1,105,291</b> |
| <b>Balance at June 1, 2016</b>      | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (631,162)</b> | <b>\$ 1,105,291</b> |
| Net loss                            | -                   | -                   | -                                     | (13,738)            | (13,738)            |
| <b>Balance at February 28, 2017</b> | <b>12,725,000</b>   | <b>\$ 1,687,386</b> | <b>\$ 35,329</b>                      | <b>\$ (631,162)</b> | <b>\$ 1,091,553</b> |

**TITUS ENERGY CORP.**  
Statements of cash flows  
(Expressed in Canadian dollars)

|  | Nine month periods ended |                     |
|--|--------------------------|---------------------|
|  | February 28,<br>2017     | February 28<br>2016 |
| <b>Operating activities</b>                        |                          |                     |
| Net loss   | \$ (13,738)              | \$ (15,157)         |
| Changes in non-cash working capital items:         |                          |                     |
| Interest receivable                                | (4141)                   | (3464)              |
| Prepays and deposits                               | -                        | 1500                |
| Accounts payable and accrued liabilities           | (8264)                   | (5000)              |
| <b>Net cash flows used in operating activities</b> | <b>(26,143)</b>          | <b>(15,193)</b>     |
| <b>Investing activities</b>                        |                          |                     |
| Exploration and evaluation assets                  | -                        | -                   |
| <b>Net cash flows used in investing activities</b> | -                        | -                   |
| Change in cash and cash equivalents                | (7116)                   | (15,193)            |
| Cash and cash equivalents, beginning               | 8171                     | 809                 |
| <b>Cash and cash equivalents, ending</b>           | <b>\$ 1,055</b>          | <b>\$ (14,384)</b>  |
| <b>Cash and cash equivalents consist of:</b>       |                          |                     |
| <b>Cash</b>  | <b>\$ 1055</b>           | <b>\$ 114,384)</b>  |
| <b>Guaranteed investment certificate</b>           | -                        | -                   |
|  | <b>\$ 1055</b>           | <b>\$ (14,384)</b>  |

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Titus Energy Corp. (the "Company") was incorporated as "Titus Capital Corp." under the British Columbia Business Corporations Act on February 17, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange") until it completed its Qualifying Transaction (the "QT") on December 20, 2012. The Company's head office, principal address and registered and records office is 1435 Cornwall Street, Regina, Saskatchewan, S4R 5B3. Effective December 21, 2012, the Exchange accepted for filing the Company's QT and related transactions, all as principally described in its filing statement dated December 6, 2012 (the "Filing Statement"). As a result, the Company is no longer considered as a Capital Pool Company and changed its name to "Titus Energy Corp." Effective December 21, 2012, the common shares of "Titus Energy Corp." commenced trading on the Exchange. The Company's trading symbol was TIS. Effective December 5, 2014, the Company was voluntarily delisted from the Exchange.

The financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. During the year ending May 31, 2016, the Company incurred a net loss of \$13,738 and, as of this date, the Company has not generated revenue from operations and has an accumulated deficit of \$631,162. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

### ***Basis of preparation***

These financial statements, including comparatives, have been prepared in accordance with International Accounting Standard ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements are prepared on the historical cost basis except for certain financial instruments. In addition, these financial instruments have been prepared using the accrual basis of accounting except for cash flow information. All amounts are expressed in Canadian dollars unless otherwise stated.

### ***Significant estimates and assumptions***

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include stock-based awards and payments, fair value measurements for financial instruments and the recoverability and measurement of deferred tax assets.

### ***Significant judgments***

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification/allocation of expenditures as exploration and evaluation assets or operating expenses.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

### ***Share-based payments***

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black–Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### ***Exploration and evaluation expenditures***

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of comprehensive loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of oil and gas resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### ***Restoration and environmental obligations***

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates is capitalized to the related assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as the related assets.

Changes are recorded directly to the related assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.



## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

### ***Impairment of assets***

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

### ***Loss per share***

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

### ***Financial instruments***

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

### *Financial instruments (continued)*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company has classified its cash as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's short-term investments are classified as available-for-sale. The Company's trade payables are classified as other financial liabilities.

### *Income taxes*

#### Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### Deferred income tax:

Deferred income tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

### *Income taxes (continued)*

#### Deferred income tax (continued):

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

### *Standards issued but not yet adopted*

#### New standard IFRS 9 “Financial Instruments”:

This new standard is a partial replacement of IAS 39 “financial Instruments: Recognition and Measurement”. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instrument in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.

The Company has not early adopted this new standard and is currently assessing the impact that this standard will have on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

## 3. LOAN RECEIVABLE

Loan receivable pertained to a loan made to an arm’s length party on May 29, 2015. The loan was non-interest bearing, unsecured and was repaid in full during the year ended May 31, 2016.

## 4. SHARE CAPITAL

### *Authorized share capital*

Unlimited number of voting common shares without nominal or par value.

### *Issued common shares*

During the years ended May 31, 2016 and 2015 the Company did not issue any common shares.

### *Shares held in escrow*

As at May 31, 2015, pursuant to the escrow agreement dated September 21, 2010, Nil (2015 - 840,000) common shares issued are held in escrow.

### *Stock options*

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company’s issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for

**SHARE CAPITAL (continued)**

***Stock options (continued)***

issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

During the year ended May 31, 2016 and 2015, the Company did not grant any options.

On June 1, 2015, 200,000 previously issued options outstanding at May 31, 2015 expired unexercised.

***Share-based payment reserve***

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

**5. AVAILABLE-FOR-SALE INVESTMENT**

On October 15, 2012, the Company entered in an agreement with an arm's length vendor, Term Oil Ltd. ("Term"), a private oil and gas company, by which the Company could earn a 30% interest in the Prevail Property in the Province of Saskatchewan. The Company met its work program commitment during the year ended May 31, 2014 and earned a 30% interest in the Prevail Property.

|                              | Prevail Property    |
|------------------------------|---------------------|
| <b>Balance, May 31, 2014</b> | <b>\$ 1,083,918</b> |
| Geological consulting        | 1,500               |
| <b>Balance, May 31, 2015</b> | <b>\$ 1,085,418</b> |

During the year ended May 31, 2016, the Company converted its 30% interest in the Prevail Property into 2,731,250 common shares of Term. The shares of Term have been classified as available-for-sale and are carried at their fair value.

**6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

***Fair value***

As at May 31, 2016, the Company's financial instruments consisted of cash and available-for-sale investment. The fair values of cash and available-for-sale investment approximates its carrying values because of their current nature.

***Financial instrument risk exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with one major bank in Canada so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk on its GST receivable is minimal since it is recoverable from the Canadian government.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

### Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Company's functional currency. The Company only operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The risk is minimal.

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company attempts to ensure there is sufficient access to funds to meet on-going business requirements, taking into account its current cash position and potential funding sources.

### Other price risk

Other price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk) whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market. The Company's exposure to other price risk is on its available-for-sale investment. The fair value fluctuation is affected by the changes in market price of its investment.

## **7. MANAGEMENT OF CAPITAL**

The Company manages the capital structure and makes adjustments to it depending on changes in economic conditions, business opportunity and risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash.

There were no changes in the Company's approach to capital management during the year.

## INCOME TAX

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

|                                     | May 31,<br>2016 | May 31,<br>2015 |
|-------------------------------------|-----------------|-----------------|
| Loss for the year                   | \$ (13,738)     | \$ (27,677)     |
| Statutory tax rate                  | 26%             | 26%             |
| Expected income tax recovery        | (3,572)         | (7,196)         |
| Permanent differences               | 26              | (1,730)         |
| Change in valuation allowance       | 3,546           | 15,418          |
| Impact of tax rate change and other | -               | (6,492)         |
| <b>Deferred income tax recovery</b> | <b>\$ -</b>     | <b>\$ -</b>     |

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

|                                   | May 31,<br>2015   | May 31,<br>2014   |
|-----------------------------------|-------------------|-------------------|
| Loss carry-forwards               | \$ 680,880        | \$ 667,243        |
| Exploration and evaluation assets | 14,767            | 14,767            |
|                                   | <b>\$ 695,647</b> | <b>\$ 682,010</b> |

The tax pools relating to these deductible temporary differences expire as follows:

|           | Exploration<br>and evaluation<br>assets | Loss carry-<br>forwards |
|-----------|---|-------------------------|
| 2030      | \$ -                                    | \$ -                    |
| 2030      | -                                       | 36,167                  |
| 2031      | -                                       | 43,806                  |
| 2032      | -                                       | 94,957                  |
| 2033      | -                                       | 212,933                 |
| 2034      | -                                       | 216,056                 |
| 2035      | -                                       | 63,324                  |
| 2036      | -                                       | 13,637                  |
| No expiry | 1,100,185                               | -                       |
|           | <b>\$ 1,100,185</b>                     | <b>\$ 680,880</b>       |

Management has determined that the realization of the potential income tax benefits related to the non-capital losses and other tax pools is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential deferred income tax asset. As at May 31, 2016, the Company has non-capital losses of approximately \$680,880 that may be applied against income for Canadian income tax purposes which commence expiring in 2030.