

TELFERSCOT RESOURCES INC.

Interim Financial Statements

Three Month Periods Ended March 31, 2016 and 2015

(Stated in \$CAD)

(Unaudited - Prepared by Management)

These unaudited interim financial statements, prepared by management, have not been reviewed by the company's external auditors

TELFERSCOT RESOURCES INC.
Interim Statements of Financial Position
As at March 31, 2016 and December 31, 2015
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>March 31</u> <u>2016</u>	<u>December 31</u> <u>2015</u>
ASSETS		
Current:		
Cash	\$ 899,744	\$ 110,693
Accounts receivable (Note 5)	52,219	47,960
Prepaid expenses	501	1,500
Investment in private company (Note 6)	-	1,182,905
	<u>\$ 952,464</u>	<u>\$ 1,343,058</u>
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 7)	\$ 59,517	\$ 202,002
Refundable proceeds on cancellation of private placement (Note 4(b)(ii))	-	200,828
	<u>59,517</u>	<u>402,830</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	3,590,655	3,590,655
Contributed surplus	39,749	39,749
Reserve for share based payments (Note 9)	148,055	148,055
Accumulated deficit	(2,885,512)	(3,763,118)
Accumulated other comprehensive income	-	924,887
	<u>892,947</u>	<u>940,228</u>
	<u>\$ 952,464</u>	<u>\$ 1,343,058</u>

Going concern (Note 1(b))

Commitment (Note 15)

Subsequent events (Note 16)

The accompanying notes form an integral part of these unaudited interim financial statements

Approved on behalf of the Board:

"Rob Kirtlan" Director

"Stephen Coates" Director

TELFERSCOT RESOURCES INC.
Interim Statements of Net Loss and Comprehensive Loss
Three Month Periods Ended March 31, 2016 and 2015
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>2016</u>	<u>2015</u>
Revenue		
Gain on exercise of option (Note 10)	\$ 34,721	\$ -
Expenses		
Foreign exchange loss	30,817	-
Office and administration (Note 17(a))	18,610	33,108
Loss on sale of KCC shares (Note 6)	17,253	-
Shareholder communication and reporting issuer costs	11,402	2,110
Professional fees	2,920	3,000
Insurance	1,000	1,300
	<u>82,002</u>	<u>39,518</u>
Net loss and comprehensive loss	\$ (47,281)	\$ (39,518)
Basic and diluted loss per share (Note 11)	\$ (0.0008)	\$ (0.0013)

The accompanying notes form an integral part of these unaudited interim financial statements

TELFERSCOT RESOURCES INC.
Interim Statements of Changes in Shareholders' Equity
Period from January 1, 2015 to March 31, 2016
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	Share capital		Reserve for warrants		Contributed surplus	Reserve for share based payments	Accumulated deficit	Accumulated other comprehensive income	Total
	Shares	Amount	Number	Amount					
	(Note 8)					(Note 9)			
As at January 1, 2015	30,275,000	\$ 3,440,655	6,000,000	\$ 12,000	\$ 27,749	\$ 148,055	\$ (3,589,278)	\$ -	\$ 39,181
Expiry of warrants	-	-	(6,000,000)	(12,000)	12,000	-	-	-	-
Net loss and comprehensive loss for period	-	-	-	-	-	-	(39,518)	-	(39,518)
As at March 31, 2015	30,275,000	3,440,655	-	-	39,749	148,055	(3,628,796)	-	(337)
Proceeds from private placement (Note 4(b)(i))	30,000,000	150,000	-	-	-	-	-	-	150,000
Net loss and comprehensive loss for period	-	-	-	-	-	-	(134,322)	-	(134,322)
Gain on change in fair value of KCC investment (Note 6)	-	-	-	-	-	-	-	924,887	924,887
As at December 31, 2015	60,275,000	3,590,655	-	-	39,749	148,055	(3,763,118)	924,887	940,228
Net loss and comprehensive loss for period	-	-	-	-	-	-	(47,281)	-	(47,281)
Realization of gain of change in fair value of KCC shares (Note 6)	-	-	-	-	-	-	924,887	(924,887)	-
As at March 31, 2016	60,275,000	\$ 3,590,655	-	\$ -	\$ 39,749	\$ 148,055	\$ (2,885,512)	\$ -	\$ 892,947

The accompanying notes form an integral part of these unaudited interim financial statements

TELFERSCOT RESOURCES INC.
Interim Statements of Cash Flows
Three Month Periods Ended March 31, 2016 and 2015
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>2016</u>	<u>2015</u>
Operating activities		
Net loss for period	\$ (47,281)	\$ (39,518)
Add (deduct) item not affecting cash:		
Loss on sale of KCC shares	<u>17,253</u>	<u>-</u>
	(30,028)	(39,518)
Change in non-cash working capital items		
Accounts receivable	(4,259)	(274)
Prepaid expenses	999	1,300
Accounts payable and accrued liabilities	(142,485)	22,326
Refundable proceeds on cancellation of private placement	<u>(200,828)</u>	<u>-</u>
	(376,601)	(16,166)
Investing activities		
Proceeds on sale of KCC shares (Note 6)	<u>1,165,652</u>	<u>-</u>
Increase (decrease) in cash	789,051	(16,166)
Cash, beginning of period	<u>110,693</u>	<u>17,368</u>
Cash, end of period	\$ <u>899,744</u>	\$ <u>1,202</u>

The accompanying notes form an integral part of these unaudited interim financial statements

TELFERSCOT RESOURCES INC.
Notes to Interim Financial Statements
Three Month Periods Ended March 31, 2016 and 2015
(Stated in \$CAD)
(Unaudited - Prepared by Management)

1. **NATURE OF OPERATIONS AND GOING CONCERN**

(a) **Nature of operations**

Telferscot Resources Inc. ("the Company" or "Telferscot") was incorporated under the Canada Business Corporations Act on May 31, 2010 and was engaged in the acquisition and exploration of resource properties in the Democratic Republic of Congo ("DRC"). It has registered offices at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4, is a reporting issuer in the provinces of Ontario, British Columbia, Alberta and Manitoba, and trades under the symbol "TFS" on the Canadian Securities Exchange ("CSE").

The unaudited interim financial statements have not been reviewed by the Company's external auditors and were authorized for issuance by the Board of Directors on May 30, 2016.

From the beginning of the prior fiscal year to the reporting date, the Company entered into a series of inter-related agreements and resulting transactions as part of a corporate re-organization and re-capitalization, as follows:

- (i) As announced on May 13, 2015, a proposed transaction with Resideo Properties Inc. (*see note 4(a)*)
- (ii) A private equity placement was completed in June, 2015 for \$150,000 (*see note 4(b)(i)*)
- (iii) A second round of financing in October, ultimately cancelled in November, 2015 and the funds were returned to investors in January, 2016 (*see note 4(b)(ii)*)
- (iv) On November 11, 2015, the Company announced it had entered into a letter of intent to sell its entire 7.4% interest in KCC for gross proceeds of \$1,165,652 (USD \$854,700) (*see note 6*)
- (v) Cancellation of the Resideo transaction in January, 2016 (*see note 4(c)*)
- (vi) On March 24, 2016, as approved at the Annual General Meeting held on February 25, 2016, the Company announced a distribution of capital of \$0.0145 per share, distributable in cash, common shares or combination thereof (*see note 16(a)*)

(b) **Going concern**

The accompanying unaudited interim financial statements have been prepared using International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. It would, in this situation, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim financial statements. Such adjustments could be material.

As at March 31, 2016, the Company has no source of operating cash flow and had an accumulated deficit of \$2,885,512 (December 31, 2015 - \$3,763,118). Working capital as at March 31, 2016 was \$892,947 compared to \$940,228 as at December 31, 2015. Net loss for the three month period ended March 31, 2016 was \$47,281 (three month period ended March 31, 2015 - \$39,518). Operations since inception have been funded solely from the issuance of share capital and exercise of warrants and the Company has ongoing operating requirements as a public company.

TELFERSCOT RESOURCES INC.
Notes to Interim Financial Statements
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(Stated in \$CAD)
(Unaudited - Prepared by Management)

1. **NATURE OF OPERATIONS AND GOING CONCERN, CONTINUED**

(b) **Going concern, continued**

Subsequent to the closing of the sale of the Company's 7.4% interest in KCC on March 3, 2016 (*see note 6*) and the completion of the cash distributions to shareholders on April 29, 2016 (*see note 16(a)*), the Company anticipates it will have sufficient cash on hand to service its liabilities and fund public company operating costs for the foreseeable future. However, under current market conditions, there is uncertainty as to how long these funds will last, and whether they will be sufficient to execute on a new transaction for the public shell. The ability of the Company to arrange any future financing will largely depend upon prevailing capital market conditions and the continued support of its shareholder base. These factors create material uncertainties that cast significant doubt as to the propriety of the use of the going concern assumption upon which these unaudited interim financial statements have been prepared.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Statement of compliance**

These unaudited interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB").

These unaudited interim financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015 and reflect the same accounting policies and methods of computation applied therein.

(b) **Basis of presentation**

The unaudited interim financial statements have been prepared on the historical cost basis as modified by the measurement at fair value of financial assets classified as fair value through profit and loss ("FVTPL").

(c) **Functional currency and foreign currency translation**

Functional and presentation currency

The unaudited interim financial statements are presented in Canadian dollars, which is also the functional currency of the corporate offices located in Canada.

Foreign currency translation

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the exchange rate at the end of the reporting period with all foreign currency adjustments being expensed.

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Notes to Interim Financial Statements
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(d) **Cash**

Cash consists of deposits held with banks.

(e) **Accumulated other comprehensive income**

Net comprehensive loss is comprised of net loss and other comprehensive loss. Certain gains and losses arising from changes in fair value are temporarily recorded outside the statements of loss in accumulated comprehensive income ("AOCI") as a separate component of shareholders' equity. Other comprehensive income loss includes any unrealized gains and losses on available-for-sale securities.

(f) **Provisions**

A provision is recognized on the statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(g) **Income taxes**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that the taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

(h) **Share based payments**

The Company offers a share option plan for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured using the Black-Scholes option pricing model based upon the number of awards expected to vest. Compensation expense is recognized upon vesting over the tranche's vesting period by increasing the reserve for share based payments. Any consideration paid on exercise of share options is credited to share capital.

For other equity settled transactions, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the Company measures their value by reference to the fair value of the equity instruments granted.

(i) **Loss per share**

Basic loss per share amounts are calculated by dividing net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted loss per share amounts are calculated by dividing the net earnings attributable to common shareholders by the weighted average number of shares outstanding during the reporting period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if anti-dilutive.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(j) **Critical accounting estimates and judgements**

The preparation of these unaudited interim financial statements requires management to make estimates and judgements about the future that affect the amounts recorded in the financial statements. These estimates and judgements are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and judgements.

(k) **Financial instruments**

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments ("HTM"), or available-for-sale financial assets ("AFS"), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when its contractual rights to the asset's cash flows expire or if substantially all the risks and rewards of the asset are transferred.

Financial assets at FVTPL

A financial asset is classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as FVTPL. A financial asset is classified as FVTPL if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the statements of financial position at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed as incurred. The Company has classified cash as FVTPL.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the depreciation process. The Company has classified accounts receivable as loans and receivables.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(k) **Financial instruments, continued**

AFS financial assets

Non derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive loss and accumulated in the AFS reserve. Impairment losses are recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from accumulated other comprehensive income to profit or loss. The Company has designated its investment in a private company as AFS.

Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

A provision for impairment is made in relation to accounts receivable, and an impairment loss is recognized in profit or loss when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms. With the exception of AFS equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

TELFERSCOT RESOURCES INC.
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(Stated in \$CAD)
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(k) **Financial instruments, continued**

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include accounts payables and accrued liabilities and refundable proceeds on cancellation of private placement.

Financial liabilities are classified as FVTPL if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) unless they are designated as effective hedging instruments. Gains or losses on liabilities classified as FVTPL are recognized in profit or loss.

Financial hierarchy

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

3. **ACCOUNTING STANDARD ISSUED BUT NOT YET EFFECTIVE**

As at the date of authorization of these unaudited interim financial statements, the IASB has issued the following revised standard which is not yet effective:

- (a) **IFRS 9: "Financial Instruments"** was issued in its final form in July 2014 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 replaces the multiple rules in IAS 39 with 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. 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.

The Company has not early adopted this standard, but management is currently assessing the impact of its application in the unaudited interim financial statements. Management has assessed the other standards not yet effective and determined they are unlikely to have a material impact on the financial statements.

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4. **RESIDEO PROPERTIES INC.**

(a) **Resideo Properties Inc.**

On May 13, 2015, the Company announced that it had entered into a letter of intent with Resideo Properties Inc. ("Resideo") to acquire the business of Resideo following the completion of due diligence and a formal purchase agreement (the "Acquisition"). Resideo is a privately held Canadian company originally set up to acquire a portfolio of single-family and multi-tenant residential properties in the Detroit, Michigan area.

(b) The proposed Acquisition necessitated Telferscot to complete several corporate actions including a refinancing (*see note 4(b)(ii)*), and a consolidation of the Company's shares. The details of the inter-related transactions that were completed are as follows:

(i) On June 22, 2015, the Company closed the first tranche of the previously announced financing through the issuance of 30,000,000 common shares at \$0.005 for total proceeds of \$150,000.

(ii) The Company received an additional \$220,000 in subscriptions for a private placement of convertible notes (the "Subscriptions"). However, as a result of the sale of the Company's interest in KCC (the "Sale"), as described in note 6, and the cancellation of the Acquisition with Resideo, the private placement was cancelled and the Company agreed with the holders that the Subscriptions would be returned. Of the \$220,000 received, \$19,172 was repaid by December 31, 2015 with the remaining \$200,828 being recorded as refundable proceeds on cancellation of private placement on the statement of financial position. The Subscriptions were repaid in full by March 3, 2016.

(c) On January 28, 2016, the Company announced that the proposed Resideo acquisition, as announced on May 13, 2015, had been terminated following notice from Resideo that as a result of USD exchange rate fluctuations and general adverse capital markets conditions it is unable to complete the transaction as contemplated.

5. **ACCOUNTS RECEIVABLE**

	March 31	December 31
	2016	2015
Refundable HST ITC's	\$ 52,219	\$ 47,960

The Company received \$9,101 of the above refunds in May, 2016.

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6. **INVESTMENT IN PRIVATE COMPANY**

On November 11, 2015, the Company entered into a Letter of Intent to sell its 2,775 common shares (or 7.4% interest) in Kolwezi Copper Corp. ("KCC") for \$1,165,652 (USD \$854,700) (the "Sale"). A definitive agreement was entered into on January 11, 2016. The Sale closed in two tranches, as follows: (i) the sale of the first tranche of 575 KCC shares closed coincident with the execution of the definitive agreement, whereupon the Company received sales proceeds in cash of \$258,176 (USD \$177,100); (ii) the sale of the second tranche of 2,200 KCC shares closed on March 2, 2016, whereupon the Company received sales proceeds in cash of \$907,476 (USD \$677,600).

The carrying value of the investment was written up by \$924,887 to reflect its fair value as at December 31, 2015.

As of the reporting date, the nature of the investment and the related historical accounting are detailed below:

	March 31 2016	December 31 2015
Balance, beginning of period	\$ 1,182,905	\$ 258,018
Gain on change in fair value of KCC investment	-	924,887
Sale of investment	(1,182,905)	-
Balance, end of period	\$ -	\$ 1,182,905

The KCC share sale resulted in recognition of a loss on sale of \$17,253 in the three month period ended March 31, 2016.

7. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31 2016	December 31 2015
Trade accounts payable (Note 17(a))	\$ 8,017	\$ 150,002
Accrued director fees (Note 17(b))	42,000	39,000
Accrued professional fees	9,500	13,000
	\$ 59,517	\$ 202,002

Trade accounts payable as at December 31, 2015 included \$120,518 in respect of monthly fees owed to the related party described in note 17(a), all of which was paid after year-end.

8. **SHARE CAPITAL**

Continuity schedules for the Company's share capital and other equity instruments are disclosed in the unaudited interim statements of changes in shareholders' equity for the period from January 1, 2015 to March 31, 2016. The only share capital transaction is described in note 4(b)(i).

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9. **STOCK OPTIONS AND SHARE BASED PAYMENTS**

The Company's shareholders have approved a stock option plan, the purposes of which are to (i) encourage common share ownership in the Company for directors, officers, consultants and employees, (ii) provide additional incentive for superior performance by such individuals, and (iii) enable the Company to attract and retain valued directors, officers and employees.

Stock option activity during the for the period from January 1, 2015 to March 31, 2016 was as follows:

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	2,383,333	\$ 0.15	2,383,333	\$ 0.15
Change in period	-	-	-	-
Outstanding, end of period	<u>2,383,333</u>	<u>\$ 0.15</u>	<u>2,383,333</u>	<u>\$ 0.15</u>

As at March 31, 2016, the issued and outstanding options to acquire common shares of the Company were as follows:

Grant date	Number of options		Exercise price (\$)	Remaining life	Expiry date
	Granted	Exercisable			
July 27, 2011	1,100,000	1,100,000	0.15	0.32	July 27, 2016
November 27, 2012	1,283,333	1,283,333	0.15	1.66	November 27, 2017
	<u>2,383,333</u>	<u>2,383,333</u>	<u>0.15</u>		

10. **GAIN ON EXERCISE OF OPTION**

On January 12, 2016, the Company entered into a currency hedge to lock in the CAD equivalent of the USD sales proceeds due on the sale of the second tranche of 2.200 KCC shares (*see note 6*). Under a "Call CAD/Put USD" currency option, the Company, as buyer, had the option to call for the purchase of CAD \$958,500 at a price of USD \$675,000, an effective strike price of CAD \$1.42|USD \$1.00. The option premium was \$13,452 (USD \$9,301) and the option was set to expire on March 1, 2016. The Company exercised on its option prior to expiry, resulting in a gain, net of expenses, of \$34,721.

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11. **LOSS PER SHARE**

Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding in the three month period ended March 31, 2016 was 60,275,000 (three month period ended March 31, 2015 - 30,275,000).

Diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive. As at March 31, 2016, the following potentially dilutive equity instruments were outstanding: (1) 2,383,333 options (December 31, 2015 - 2,383,333).

12. **FINANCIAL RISK FACTORS**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and currency risk. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(a) **Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable, which consist of refundable HST ITC's.

As at March 31, 2016, cash of \$899,744 (December 31, 2015 - \$110,693) was held with reputable financial institutions from which management believes the risk of loss to be minimal.

(b) **Liquidity risk**

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost (*see note 1(b)*). The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2016, the Company had working capital of \$892,947 (December 31, 2015 - \$940,228). Any liquidity risk has effectively been eliminated with completion of the sale of the KCC shares in March, 2016 for total proceeds of \$1,165,652 (USD \$854,700) (*see note 6*), net of the completion of the cash distributions to shareholders on April 29, 2016 of \$651,077 (*see note 16(a)*). All of the Company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

(c) **Sensitivity analysis**

The Company operates in Canada and has a presentation and functional currency of CAD dollars. As at December 31, 2015, the Company has a USD denominated bank account (into which the KC share sale proceeds were deposited) that it is subject to foreign exchange fluctuations against the CAD dollar. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss by approximately \$69,000.

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12. **FINANCIAL RISK FACTORS, continued**

(d) **Fair value hierarchy**

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments, financial instruments classified as loans and receivables and other financial liabilities approximate their carrying amounts due to their short term maturities. Fair value amounts represent point in time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the statement of financial position, have been prioritized into three levels as per their fair value hierarchy.

The fair value of the Company's financial instruments where financial measurement is required are as follows:

	March 31	December 31
	<u>2016</u>	<u>2015</u>
	\$	\$
Level one		
Cash	899,744	110,693

13. **CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain adequate levels of funding to maintain head office corporate and administrative functions. The Company considers its capital to be its shareholders' equity. The Company manages its capital structure in an effort to provide sufficient funding for its development projects. Funds are primarily secured through equity capital raised by way of private placements and exercise of warrants.

There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company's Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management since the year-end. The Company is not subject to externally imposed capital requirements.

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14. **SEGMENTED INFORMATION**

The Company conducts its business in a single operating segment that, subsequent to the sale of the KCC shares (*see note 6*), consists of operating solely as a public shell.

15. **COMMITMENT**

The Company has a contract for management and administrative services (*see note 17(a)*) that is billed on a monthly basis with a six-month notice period. Effective October 1, 2015, the monthly rate was decreased from \$10,000 to \$5,000.

16. **SUBSEQUENT EVENTS**

- (a) On March 24, 2016, the Company announced a distribution to shareholders of record on March 10, 2016 (“Shareholders”) of \$0.0145 per share (“Distribution”) as and by way of a reduction in the stated capital of the Company. Shareholders had the option, at their election, to receive the Distribution in the form of common shares issued from treasury (default), cash or a combination thereof. On April 29, 2016, the Company announced that it will be returning cash of \$651,077 and issuing 44,581,961 common shares (valued at \$0.005\$ per share) for total consideration distributed of \$873,987 in satisfaction of elections received from shareholders with respect to the Distribution.
- (b) On May 18, 2016, the Company announced the signing of a binding Letter of Intent (“LOI”) to acquire the issued and outstanding shares of Auxico Resources Canada Inc. (“Auxico”). The LOI calls for the issuance of up to 23,500,000 shares of the Company following a consolidation of Telferscot shares to equal not more than 3,000,000 issued and outstanding immediately prior to completion. As of May 30, 2016, the Company has 104,856,961 shares outstanding following the recent return of capital (*see note 16(a)*).

Auxico’s principal project is the Zamora Property, located in the State of Sinaloa, Mexico, approximately 85km southeast of the city of Culiacan. Zamora covers 3,376 hectares and hosts 15 silver/gold mines and exploration prospects.

There are a number of conditions precedent for both Telferscot and Auxico to the completion of a Definitive Agreement for the acquisition including, but not limited to, completion of due diligence, a consolidation of Telferscot shares at a ratio of one new share for each thirty-five existing shares, completion of ongoing audits, and any necessary exchange and regulatory approvals.

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17. **RELATED PARTY TRANSACTIONS (INCLUDING KEY MANAGEMENT COMPENSATION)**

- (a) Telferscot was billed a monthly fee of \$10,000 from January, 2015 to September, 2015 and \$5,000 per month thereafter by a Company controlled by one of the directors. The monthly fee was for management and administrative services, including monthly compensation for the CFO of \$2,500, corporate secretary, office rent and regular administrative functions. During the three month period ended March 31, 2016, the Company incurred total fees of \$15,000 (three month period ended March 31, 2015 - \$30,000).

As at March 31, 2016, accounts payable and accrued liabilities includes \$5,650 (December 31, 2015 - \$120,518) in respect of such fees (*see also note 7*).

- (b) Each independent director receives a quarterly honorarium of \$1,500. Fees recorded for the three month period ended March 31, 2016 were \$3,000 (three month period ended March 31, 2015 - \$3,000). To date, no payments have been made against these honorariums such that, as at March 31, 2016, accounts payable and accrued liabilities includes \$42,000 (December 31, 2015 - \$39,000) in respect of such fees.