NORTHISLE
COPPER AND GOLD INC.

# Consolidated Financial Statements

For the years ended December 31, 2016 and 2015
and Auditor’s Report

(Expressed in Canadian dollars)

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**INDEPENDENT AUDITOR'S REPORT**

**To the Shareholders of Northisle Copper and Gold Inc.**

We have audited the accompanying consolidated financial statements of Northisle Copper and Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of loss and comprehensive loss, changes in shareholders' 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Northisle Copper and Gold Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes certain material uncertainties regarding the company's ability to continue as a going concern.

Hay + Watson

Chartered Professional Accountants
Vancouver, British Columbia
April 26, 2017

# NORTHISLE COPPER AND GOLD INC.
## Consolidated Statements of Financial Position
**As at December 31, 2016 and 2015**
(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash | $ 571,582 | $ 207,055 |
| Accounts receivable | 5,933 | 7,810 |
| Prepaid expenses and deposits | 70,321 | 39,462 |
| | 647,836 | 254,327 |
| **Equipment** | - | 812 |
| **Mineral property interests (Note 5)** | 10,021,000 | 10,006,000 |
| | $ 10,668,836 | $ 10,261,139 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | $ 93,362 | $ 224,796 |
| Payable to related parties (Note 6) | 232,284 | 217,284 |
| | 325,646 | 442,080 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital** (Note 8) | 20,699,427 | 19,570,694 |
| **Reserves** (Note 9) | 1,034,582 | 1,073,940 |
| **Deficit** | (11,390,819) | (10,825,575) |
| | 10,343,190 | 9,819,059 |
| | $ 10,668,836 | $ 10,261,139 |

Nature of Operations (Note 1)

**APPROVED BY THE BOARD**

*John McClintock* **Director**

*David M Douglas* **Director**

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

# NORTHISLE COPPER AND GOLD INC.
## Consolidated Statements of Loss and Comprehensive Loss
**For the years ended December 31, 2016 and 2015**
(Expressed in Canadian dollars)

| | 2016 | 2015 |
|---|---|---|
| **Expenses** | | |
| Insurance | $ 13,800 | $ 14,589 |
| Bank and service charges | 916 | 1,106 |
| Investor relations | 23,503 | 10,772 |
| Legal and audit | 41,245 | 31,553 |
| Mineral property expenditures (Note 5) | 416,452 | 177,962 |
| Office | 14,542 | 31,429 |
| Regulatory fees | 30,259 | 25,265 |
| Share-based compensation (Note 8) | 37,760 | 31,180 |
| Travel | 5,599 | 1,809 |
| Wages | 110,644 | 103,640 |
| | 694,720 | 429,305 |
| **Other (Income) Expenses** | | |
| Interest income | (1,462) | (615) |
| Interest expense | 111 | - |
| Recovery of fair value of tax deductions sold to investors (Note 7) | (65,625) | - |
| Gain on settlement of debt (Note 8) | (62,500) | - |
| **NET LOSS AND COMPREHENSIVE LOSS** | $ 565,244 | $ 428,690 |
| **BASIC AND DILUTED LOSS PER SHARE (Note 13)** | $ 0.01 | $ 0.01 |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – basic and diluted** | 89,726,000 | 77,174,364 |

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

# NORTHISLE COPPER AND GOLD INC.
## Consolidated Statements of Changes in Shareholders' Equity
**For the years ended December 31, 2016 and 2015**
(Expressed in Canadian dollars)

| | 2016 | 2015 |
|---|---|---|
| **DEFICIT, BEGINNING OF YEAR** | $ 10,825,575 | $ 10,396,885 |
| Net loss | 565,244 | 428,690 |
| **DEFICIT, END OF YEAR** | $ 11,390,819 | $ 10,825,575 |
| | | |
| **RESERVES, BEGINNING OF YEAR** (Note 9) | $ 1,073,940 | $ 1,042,760 |
| Fair value of warrants issued during private placements | 31,482 | - |
| Transferred to share capital on exercise of warrants | (108,600) | - |
| Share-based compensation | 37,760 | 31,180 |
| **RESERVES, END OF YEAR** | $ 1,034,582 | $ 1,073,940 |
| | | |
| **SHARE CAPITAL, BEGINNING OF YEAR** (Note 8) | $ 19,570,694 | $ 19,304,574 |
| Fair value of warrants issued during private placements | (31,482) | - |
| Private placement financings | 300,000 | 273,990 |
| Issued for property acquisition | - | 6,000 |
| Issued pursuant to the exercise of warrants | 757,395 | - |
| Transferred from warrant reserve on exercise of warrants | 108,600 | - |
| Fair value of tax deductions sold during private placements | (65,625) | - |
| Share issue costs | (2,655) | (13,870) |
| Issued for settlement of debt | 62,500 | - |
| **SHARE CAPITAL, END OF YEAR** | 20,699,427 | $ 19,570,694 |

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

# NORTHISLE COPPER AND GOLD INC.
## Consolidated Statements of Cash Flows
**For the years ended December 31, 2016 and 2015**
(Expressed in Canadian dollars)

| | 2016 | 2015 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss | $ (565,244) | $ (428,690) |
| Items not requiring a cash outlay for operating activities | | |
| Amortization | 812 | 7,486 |
| Recovery of fair value of tax deductions sold to investors | (65,625) | - |
| Shares issued for settlement of debt | 62,500 | - |
| Share-based compensation | 37,760 | 31,180 |
| | (529,797) | (390,024) |
| Changes in non-cash working capital components | | |
| Accounts receivable | 1,877 | (3,095) |
| Prepaid expenses | (30,859) | 12,988 |
| Accounts payable and accrued liabilities | (131,434) | 83,904 |
| Payable to related parties | 15,000 | 100,190 |
| | (675,213) | (196,037) |
| **Investing activities** | | |
| Mineral property option payments | (15,000) | - |
| **Financing activities** | | |
| Cash received for share issues, net of share issue costs | 297,345 | 260,120 |
| Exercise of warrants | 757,395 | - |
| | 1,054,740 | 260,120 |
| **INCREASE (DECREASE) IN CASH** | 364,527 | 64,083 |
| **CASH, BEGINNING OF YEAR** | 207,055 | 142,972 |
| **CASH, END OF YEAR** | $ 571,582 | $ 207,055 |
| **Supplementary Information** | | |
| Interest received | $ 1,462 | $ 615 |
| Shares issued for settlement of debt (Note 8) | 125,000 | - |

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

## 1. NATURE OF OPERATIONS

Northisle Copper and Gold Inc. (the "Company") is a mineral exploration company that was incorporated on August 3, 2011 in the Province of British Columbia. The Company's principal business activity is the exploration and development of its North Island Project on Vancouver Island. Its head office is located on the 15$^{th}$ floor – 1040 West Georgia Street, Vancouver, B.C.

These consolidated financial statements have been prepared on the basis that the Company is a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to do so is dependent on obtaining additional financing, through the issue of treasury shares and/or from loans to complete the exploration and development of its mineral property interests and to commence profitable operations. These consolidated financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue its operations in the normal course of business.

## 2. BASIS OF PREPARATION

### Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on April 26, 2017.

### Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss or available-for-sale that have been measured at fair value, and are presented in Canadian dollars.

### Consolidation

These consolidated financial statements include the accounts of the Company and its 100% controlled subsidiary, North Island Mining Corp. (collectively, the "Company"). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant inter-company transactions and balances have been eliminated upon consolidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Foreign currency translation

The reporting currency and functional currency of the Company and its subsidiary is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Accounting estimates and judgments**

The preparation of these consolidated financial statements required management to make estimates, judgments and assumptions that affect the reported amounts and other disclosures in these consolidated financial statements. Estimates and the underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Critical estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year. Critical estimates used in the preparation of these consolidated financial statements include, among others, the recoverability of accounts receivable, the impairment of carrying values of equipment and mineral property interests, the determination of realizable amounts of deferred tax assets and liabilities, and the measurement of equity instruments and share-based compensation.

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. Critical accounting judgments include the expected economic lives of and the estimated future operating results and net cash flows from equipment.

**Financial instruments**

Financial instruments are initially measured at fair value when the Company becomes party to a contract, plus transaction costs directly attributable to the issue, acquisition or disposal of financial instruments measured subsequently at amortized cost. The Company's financial assets and financial liabilities are classified as follows:

- Cash is classified as held for trading and is measured at fair value through profit and loss ("FVTPL").
- Accounts receivable are classified as loans and receivables and are measured at amortized cost. The recorded amounts approximate fair value.
- Accounts payable and accrued liabilities and payable to related parties are classified as other financial liabilities and are measured at amortized cost. At December 31, 2016, the recorded amounts approximate fair value.

The Company classifies and discloses fair value measurements based on a three-level hierarchy:

- Level 1 – inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability are not based on observable market data.

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. Cash was measured and recognized in the consolidated statements of financial position using Level 1 inputs. There were no financial assets or liabilities measured and recognized in the consolidated statements of financial position at fair value that would have been categorized as Level 2 and 3 in the fair value hierarchy above.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Mineral property interests and exploration expenditures

Mineral property interests owned are recorded at cost less accumulated impairment losses. All direct costs related to the acquisition of mineral properties are capitalized until the properties to which they relate are ready for their intended use, sold, abandoned or management has determined there to be impairment. All direct costs related to the exploration of mineral properties are recognized in net loss in the period incurred. On the commencement of commercial production, net capitalized costs are charged to operations on a unit-of-production basis, by property, using estimated proven and probable recoverable reserves as the depletion base.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for properties in the exploration stage, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The amounts shown for mineral property interests represent acquisition and related costs and the recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain the necessary financing to successfully complete their development and to meet the requirements, from time to time, of lenders who are providing this financing and upon future profitable production.

### Equipment

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. Amortization is recorded using the straight-line method at an annual rate of 25%.

### Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and mineral property interests to determine whether there is an indication that those assets have suffered impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment charge (if any). The recoverable amount used for this purpose is the higher of the fair value less costs 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 current market assignments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its recorded amount, the recorded amount of the asset is reduced to its recoverable amount. An impairment charge is recognized immediately in the consolidated statement of loss and comprehensive loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to a maximum amount equal to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years.

### Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Environmental expenditures

The operations of the Company have been, and may in the future be, affected by changes in environmental regulations, including those relating to future reclamation and site restoration. The likelihood of new regulations and their overall effect upon the Company are unknown and unpredictable. The Company plans to meet and, if possible, surpass standards set by legislation, by applying technically proven and economically feasible measures.

Environmental expenditures relating to ongoing environmental and reclamation programs are charged to operations, or are capitalized and amortized, depending on their future economic benefits, over the estimated remaining life of the related business operation, net of expected recoveries. Liabilities related to environmental protection and reclamation costs are recognized when the obligation is incurred and the fair value of the related costs can be reasonably estimated. This includes future removal and site restoration costs required by environmental law or contracts.

As at December 31, 2016 and 2015, the Company had no reclamation obligations.

### Share-based payments

The Company grants share purchase options under the terms described in Note 8.

The Company uses the fair value method of accounting for options granted under its share purchase option plan. Options granted to directors, officers, employees and others providing similar services are measured at fair value, which is charged to operations over the applicable vesting period, with an offsetting credit to share option reserves. Options granted to non-employees are measured at fair value of goods and services received, which is charged to operations at the date the options are fully vested, with an offsetting credit to share option reserves.

The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No amount is recognized for equity instruments that do not ultimately vest.

Consideration received upon exercise of share purchase options, along with the related amount previously recorded in the share option reserve, is credited to share capital. Cash received on the exercise of share options is recorded in share capital and the related compensation included in share option reserves is transferred to share capital to recognize the total consideration for the shares issued.

### Mineral Exploration Tax Credit ("METC")

The Company recognizes METC amounts when the Company's METC application is approved by the relevant jurisdiction or when the amount to be received can be reasonably estimated and collection is reasonably assured.

### Flow-through shares

The Company may from time to time issue flow-through common shares to finance a portion of its exploration activities. These shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates gross proceeds received between a) the estimated fair value of the tax deductions sold to investors, which is recognized as a liability, and b) the estimated fair value of the common shares, which is recognized as share capital. When qualifying expenditures are incurred, the Company reverses the liability component initially recorded on the issuance of shares and recognizes it in operations as other income. Since the Company does not capitalize exploration expenditures, the transfer or tax deductions to investors does not give rise to a taxable temporary difference and therefore, does not affect the Company's deferred tax amounts.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income recognition

Interest from cash is recorded on an accrual basis when collection is reasonably assured.

### Related parties

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

### Income taxes

The provision for income taxes consists of current and deferred tax expense and is recorded in operations. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the period, adjusted for amendments to tax payable for previous years.

Deferred tax assets and liabilities are computed using the asset and liability method on temporary differences between the carrying amounts of assets and liabilities on the consolidated statement of financial position and their corresponding tax values, using the enacted or substantially enacted, income tax rates at each statement of financial position date. Deferred tax assets also result from unused losses and other deductions carried forward. The valuation of deferred tax assets is reviewed on a regular basis and adjusted to the extent that it is not probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized by use of a valuation allowance to reflect the estimated realizable amount.

### Comprehensive income (loss)

Comprehensive income (loss) is the change in net assets arising from transactions and other events and circumstances from non-owner sources. Financial assets that are classified as available-for-sale will have revaluation gains and losses included in other comprehensive income until the asset is removed from the consolidated statement of financial position. At present, the Company has no available-for-sale financial assets.

### Income (loss) per share

The basic income or loss per share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. The diluted income or loss per share reflects the potential dilution from common share equivalents, such as the outstanding share purchase options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. Common share equivalents are excluded from the computation of diluted loss per share for the period presented as including them would be anti-dilutive.

## 4. RECENT ACCOUNTING PRONOUNCEMENTS

Standards and interpretations issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below and include only those which the Company reasonably expects may be applicable to the Company at a future date. The Company intends to adopt these standards and interpretations when they become effective and is currently assessing their impact on the consolidated financial statements.

- IFRS 9 *Financial Instruments* (effective for years beginning on or after January 1, 2018): IFRS 9 introduces new requirements for classifying and measuring financial assets and provides additional guidance on the fair value option for liabilities to address the entity's own credit risk.
- IFRS 16 *Leases* (effective for years beginning on or after January 1, 2019): IFRS 16 replaces IAS 17 *Leases* with a new approach to lease accounting that requires a lessee to recognize assets and liabilities for the rights and obligations created by leases.

(Expressed in Canadian dollars)

## 5. MINERAL PROPERTY INTERESTS

### Acquisition costs

| **North Island Copper-Gold Property, B.C. Canada** | |
|---|---|
| **Balance, December 31, 2014** | **$ 10,000,000** |
| Acquisition of Red Dog property | 6,000 |
| **Balance, December 31, 2015** | **$ 10,006,000** |
| Property purchase payments and claim costs | 15,000 |
| **Balance, December 31, 2016** | **$ 10,021,000** |

### Exploration expenditures

| **North Island Copper-Gold Property, B.C. Canada** | **2015** | **2016** | **Cumulative Total*** |
|---|---|---|---|
| Amortization of equipment | $ 7,486 | $ 812 | $ 34,265 |
| Camp operations | 68,876 | 124,967 | 722,870 |
| Claims costs | 500 | 500 | 41,278 |
| Community engagement | - | - | 43,441 |
| Drilling | - | 252,037 | 1,783,410 |
| Engineering and geological | 87,552 | 80,228 | 1,211,591 |
| Environmental studies | - | - | 255,684 |
| Prospecting | 13,548 | 23,559 | 485,808 |
| Wages | - | - | 316,190 |
| Mineral property exploration tax credits | - | (65,651) | (348,440) |
| **Total** | **$ 177,962** | **$ 416,452** | **$ 4,546,097** |

* Cumulative from the date of incorporation on August 3, 2011 to December 31, 2016

The North Island Copper Gold Property consists of three blocks of mineral claims located on northern Vancouver Island in British Columbia, Canada. The mineral claim blocks are referred to as the Hushamu claims, the Apple Bay claims, and the Rupert Block.

Should a production decision be made on the Hushamu claims, the Company is required to make a cash payment of $1,000,000 to Sirit Inc. within 60 days of the production decision. These mineral claims are also subject to a 10% net profits interest held by International Royalty Corporation.

Should a production decision be made on the Apple Bay claims, the Company is required to pay $800,000 in cash or in shares to Electra Gold Ltd. (“Electra”). The payment method is at the election of the Company. Electra maintains the right to explore the Apple Bay claims for non-metallic minerals subject to certain conditions.

### Red Dog Property Acquisition

On February 11, 2015, the Company acquired an option to earn a 100% interest in the Red Dog Property, a 400 hectare property entirely enclosed within the Company’s existing 100% owned North Island Copper Gold Property. The Company issued 200,000 common shares with a fair value of $6,000 to the vendor upon signing the option agreement and agreed to make payments of $60,000 between 2016 and 2018 and expend a minimum of $375,000 on the property by 2018. The vendor was also granted a net smelter return royalty of 3% of which 2% can be purchased by the Company at any time for US$2.0 million.

Exploration expenditures on the Red Dog Property totaled $377,421 (2015 - $22,368) for the year ended December 31, 2016.

(Expressed in Canadian dollars)

## 6. RELATED PARTY TRANSACTIONS

Remuneration of directors and key management personnel was:

| | 2016 | 2015 |
|---|---|---|
| Management fees | $ 104,812 | $ 100,190 |
| Share-based compensation | 34,760 | 29,580 |
| **Total** | **$ 139,572** | **$ 129,770** |

Share-based compensation is the fair value of options granted to directors and key management personnel which was recognized during the period.

At December 31, 2016, the Company owed $232,284 (December 31, 2015 - $217,284) to officers and directors of the Company for unpaid salaries and management fees. These amounts due are non-interest bearing with no specific terms of repayment.

## 7. TAX DEDUCTIONS SOLD TO INVESTORS

Tax deductions sold to investors on the issue of flow-through shares are initially recorded as a liability equal to the estimated fair value of tax losses renounced by the Company and are recognized as income on the consolidated statement of loss and comprehensive loss on the completion and renunciation of the related expenditures.

| | Total |
|---|---|
| **Balance, December 31, 2015** | **$ -** |
| Liability incurred from the issue of flow-through shares | 65,625 |
| Recognized as other income on incurring and renouncing eligible expenditures | (65,625) |
| **Balance, December 31, 2016** | **$ -** |

## 8. SHARE CAPITAL

**Authorized** - unlimited number of common shares without par value

| **Issued and fully paid** | **Number of Shares** | **Amount** |
|---|---|---|
| **Balance, December 31, 2014** | **72,960,200** | **$ 19,304,574** |
| Issued for property acquisition (Note 6) | 200,000 | 6,000 |
| Issued pursuant to private placement | 9,133,000 | 273,990 |
| Share issue costs | - | (13,870) |
| **Balance, December 31, 2015** | **82,293,200** | **19,570,694** |
| Issued pursuant to private placement | 9,375,000 | 300,000 |
| Shares issued as finder's fee | 120,000 | - |
| Fair value of warrants issued on private placements | - | (31,482) |
| Share issue costs | - | (2,655) |
| Fair value of tax deductions sold to investors | - | (65,625) |
| Issued pursuant to the exercise of warrants | 10,820,000 | 757,395 |
| Transferred from warrant reserve on exercise of warrants | - | 108,600 |
| Issued for the settlement of debt | 2,500,000 | 62,500 |
| **Balance, December 31, 2016** | **105,108,200** | **$ 20,699,427** |

### Debt Settlement Agreement

On April 28, 2016 the Company completed a debt settlement agreement with an arms-length creditor pursuant to which $125,000 of indebtedness was settled by the issuance of 2,500,000 common shares at a deemed price of $0.05 per share. At the time of settlement, shares of the Company were trading at $0.025 resulting in a gain on the settlement of debt of $62,500.

(Expressed in Canadian dollars)

## 8. SHARE CAPITAL (continued)

### Private Placement

On June 8, 2016 the Company completed a $300,000 non-brokered private placement consisting of:

(a) $125,000 by way of a unit private placement at a price of $0.025 per unit, with each unit consisting of one common share and one-half (1/2) of a share purchase warrant, with each whole warrant entitling the holder to purchase an additional common share at a price of $0.05 for a period of 2 years from closing; and

(b) $175,000 by way of a flow-through share private placement at a price of $0.04 per flow-through share.

### Share purchase options

The Company grants common share purchase options to directors, officers, and employees of the Company and persons who provide ongoing services to the Company under an incentive share purchase option plan. The maximum number of options which may be granted under the plan is 10% of the number of shares of the Company outstanding at the time the options are granted. Options generally vest at a rate of 33.3% on the date of grant and 33.3% in each of the following two years.

During the year ended December 31, 2016, $37,760 (2015 - $31,180) in share-based compensation was recognized in the consolidated statement of loss and comprehensive loss on the vesting of share purchase options.

A summary of changes in common share purchase options for the years ended December 31, 2016 and 2015 is:

| | Number of Share Options | Weighted Average Exercise Price |
|---|---|---|
| **Balance December 31, 2014** | **4,000,834** | **$ 0.17** |
| Options granted | 1,615,000 | 0.05 |
| Options expired | (303,334) | 0.07 |
| **Balance, December 31, 2015** | **5,312,500** | **0.14** |
| Options granted | 1,660,000 | 0.05 |
| Options forfeited | (55,000) | 0.16 |
| Options expired | (1,677,500) | 0.28 |
| **Balance, December 31, 2016** | **5,240,000** | **$ 0.06** |

At December 31, 2016, the following common share purchase options were outstanding:

| Expiry date | Number Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Life (in years) | Number Exercisable |
|---|---|---|---|---|
| May 23, 2017 | 50,000 | 0.30 | 0.39 | 50,000 |
| November 30, 2017 | 370,000 | 0.17 | 0.92 | 370,000 |
| June 28, 2018 | 200,000 | 0.10 | 1.49 | 200,000 |
| February 11, 2019 | 1,375,000 | 0.05 | 2.12 | 1,375,000 |
| June 24, 2020 | 1,585,000 | 0.05 | 3.48 | 1,076,562 |
| May 4, 2021 | 1,585,000 | 0.05 | 4.34 | 528,328 |
| June 28, 2021 | 75,000 | 0.10 | 4.49 | 25,000 |
| | **5,240,000** | **$ 0.06** | **3.11** | **3,624,890** |

(Expressed in Canadian dollars)

## 8. SHARE CAPITAL (continued)

### Fair value assumptions

The weighted average grant date fair value of share purchase options granted during the year ended December 31, 2016 was $0.02 (2014 – $0.02). The Company determined the fair value of common share purchase options granted using the Black-Scholes option pricing model and the following weighted average inputs:

| | **2016** | **2015** |
|---|---|---|
| Share price | $0.02 | $0.03 |
| Exercise price | $0.05 | $0.05 |
| Risk-free interest rate | 1.25% | 1.25% |
| Expected life (years) | 5.00 | 5.00 |
| Expected volatility | 125% | 125% |
| Expected dividend yield | Nil | Nil |

The estimates of expected life incorporate an estimate of the potential early exercise of these options. The estimates of expected volatility are based on the historically observed volatility of the Company for a period generally commensurate with the expected lives of the instruments and adjusted for management's evaluation of future expected volatility.

### Share purchase warrants

A summary of changes in common share purchase warrants for the years ended December 31, 2016 and 2015 is:

| | **Number of Warrants** | **Weighted Average Exercise Price** |
|---|---|---|
| **Balance, December 31, 2014 and 2015** | **10,860,000** | **$ 0.07** |
| Exercised | (10,820,000) | 0.07 |
| Expired | (40,000) | 0.07 |
| Issued during private placement | 2,500,000 | 0.05 |
| **Balance, December 31, 2016** | **2,500,000** | **$ 0.05** |

The weighted average share price at the date warrants were exercised was $0.10. At December 31, 2016, the following common share purchase warrants were outstanding:

| | **Number Outstanding** | **Weighted Average Exercise Price** | **Weighted Average Remaining Life (in years)** |
|---|---|---|---|
| Share Purchase Warrants | **2,500,000** | **$ 0.05** | **1.43** |

## 9. RESERVES

| | **Share Option Reserves** | **Share Warrant Reserves** | **Total** |
|---|---|---|---|
| **Balance, December 31, 2014** | **$ 696,992** | **$ 345,768** | **$ 1,042,760** |
| Share-based compensation | 31,180 | - | 31,180 |
| **Balance, December 31, 2015** | **728,172** | **345,768** | **1,073,940** |
| Fair value of warrants issued during private placement | - | 31,482 | 31,482 |
| Fair value of warrants transferred to share capital on exercise | - | (108,600) | (108,600) |
| Share-based compensation expense | 37,760 | - | 37,760 |
| **Balance, December 31, 2016** | **$ 765,932** | **$ 268,650** | **$ 1,034,582** |

(Expressed in Canadian dollars)

## 10. INCOME TAXES

The reconciliation for the provision of income taxes for the periods is:

| | 2016 | 2015 |
|---|---|---|
| Net loss | $ 565,244 | $ 428,960 |
| Combined federal and provincial statutory tax rate | 26.0% | 26.0% |
| Recovery of income taxes based on statutory tax rate | 146,963 | 111,530 |
| Net effect of items included in net loss that are not taxable or deductible | (82,871) | (54,577) |
| Other taxable or deductible items | 9,579 | 9,441 |
| Effect of current period tax losses not recognized | (73,671) | (66,393) |
| **Provision for income taxes** | **$ -** | **$ -** |

The Company's net deferred tax assets are:

| | 2016 | 2015 |
|---|---|---|
| Deductible temporary differences | $ 537,455 | $ 450,811 |
| Non-capital loss carried forward | 587,903 | 514,232 |
| Unused income tax credits and other deductible amounts | 121,759 | 149,649 |
| Total deferred tax assets | 1,247,117 | 1,114,692 |
| Valuation allowance | (1,247,117) | (1,114,692) |
| **Net deferred tax assets** | **$ -** | **$ -** |

Deferred tax assets have not been recognized as it is uncertain that the Company will have future taxable income against which they could be utilized.

As at December 31, 2016, the expiry dates of the Company's unrecognized income tax losses and income tax credits are:

| | Amount | Expiry Date |
|---|---|---|
| Non-capital losses for income tax purposes | $ 2,261,165 | 2031-2036 |
| Non-refundable income tax credits | 117,620 | N/A |

## 11. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its mineral property interests, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company considers its capital for this purpose to be its shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares or debt, acquire or dispose of assets or adjust the amount of cash and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company's investment policy is to invest its surplus cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

## 12. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain risks, including currency risk, credit risk, interest rate risk and liquidity risk. The Company does not have financial instruments subject to other price risk.

**Currency risk**

The Company operates within one geographic region and is not exposed to significant currency risk related to the fluctuation of foreign exchange rates.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held through large Canadian financial institutions. The Company's receivables consist mostly of Goods and Services Tax due from the federal government of Canada. As such, the Company considers this risk to be minimal. As at December 31, 2016, none of the Company's financial instruments subject to credit risk were past due or impaired.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk when holding fixed rate short term deposits of varying maturities. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents investments is limited because these investments are generally highly liquid securities with short-term maturities. As at December 31, 2016, the Company considers its exposure to interest rate risk to be 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 manages liquidity risk through the management of its capital structure and financial leverage as outlined in Note 11.

Accounts payable and accrued liabilities and the amounts payable to related parties are due within the current operating period.

## 13. LOSS PER SHARE

The Company's diluted loss per share is equal to its basic loss per share. Outstanding share purchase options and warrants could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are antidilutive for the years ended December 31, 2016 and 2015.

## 14. SUBSEQUENT EVENTS

On April 7, 2017, the Company announced its intention to raise up to $1,505,000 by way of a non-brokered private placement consisting of:

(a) up to $1,005,000 by way of a unit private placement at a price of $0.15 per unit, with each unit to consist of one common share and one-half (1/2) of a share purchase warrant, with each whole warrant to entitle the holder to purchase an additional common share at a price of $0.25 for a period of 2 years from closing; and
(b) up to $500,000 by way of a flow-through share private placement at a price of $0.20 per flow-through share