Melkior Resources Inc.

Financial Statements

For the years ended August 31, 2016 and 2015

(in Canadian dollars)

Melkior Resources Inc.
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Smythe CPA

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF MELKIOR RESOURCES INC.

We have audited the accompanying financial statements of Melkior Resources Inc., which comprise the statements of financial position as at August 31, 2016 and 2015 and the statements of 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 Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Melkior Resources Inc. as at August 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 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
November 30, 2016

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Melkior Resources Inc.
Statements of Financial Position
As at August 31, 2016 and 2015
(in Canadian dollars)

	August 31, 2016	August 31, 2015
	$	$
Assets		
Current assets		
Cash and cash equivalents (Note 5)	**154,225**	167,583
Sales tax receivable and other receivables (Note 6)	**123,415**	8,588
Prepaid expenses	**6,097**	10,288
Listed shares (Note 7)	**535,238**	73,586
	818,975	260,045
Non-current assets		
Exploration and evaluation assets (Note 8)		
Mining properties	**175,777**	404,888
Exploration and evaluation	**7,325,339**	7,174,392
	7,501,116	7,579,280
Total assets	**8,320,091**	7,839,325
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**29,397**	22,591
Shareholders' Equity		
Share capital (Note 9)	**43,278,823**	42,894,423
Contributed surplus	**4,524,148**	4,264,678
Deficit	**(39,512,277)**	(39,342,367)
Total equity	**8,290,694**	7,816,734
Total liabilities and equity	**8,320,091**	7,839,325

The accompanying notes are an integral part of the annual financial statements.

These annual financial statements were approved and authorized for issue by the Board of Directors on November 30, 2016.

(s) Sabino Di Paola	(s) Jim Deluce
Sabino Di Paola Director	Jim Deluce Chief Executive Officer and Director

Melkior Resources Inc.

Statements of Comprehensive Loss
For the years ended August 31, 2016 and 2015
(in Canadian dollars)

	Year ended August 31,	
	2016	2015
	$	$
Expenses		
Salaries and employee benefits (Note 13)	**24,018**	21,974
Office (Note 13)	**62,928**	59,957
Travelling and promotion	**3,762**	4,134
Investor and shareholder relations	**37,748**	39,740
Professional and consulting fees (Note 13)	**69,837**	74,434
General exploration expenditures	**1,161**	4,411
Stock-based compensation (Notes 9, 13)	**114,000**	-
Impairment of exploration and evaluation assets	**-**	1,860
Write-off of exploration and evaluation assets (Note 8)	**2,988**	256,642
Operating loss	**(316,442)**	(463,152)
Interest and dividend income	**2,640**	5,008
Other income	**1,065**	6,352
Change in value of listed shares (Note 7)	**219,377**	(116,749)
Net loss and comprehensive loss for the year	**(93,360)**	(568,541)
Basic and diluted loss per share (Note 12)	**(0.001)**	(0.004)
Weighted average number of common shares outstanding	**135,838,499**	130,729,674

The accompanying notes are an integral part of the annual financial statements.

Melkior Resources Inc.

Statements of Changes in Shareholders' Equity
For the years ended August 31, 2016 and 2015
(in Canadian dollars)

	Notes	Number of shares outstanding	Share capital	Contributed surplus	Deficit	Total equity
			$	$	$	$
Balance at September 1, 2014		123,989,537	42,582,023	4,121,898	(38,687,843)	8,016,078
Common shares issued in private placement	9 a)	7,810,000	390,500	-	-	390,500
Value attributed to warrants	9 a) c)	-	(78,100)	78,100	-	-
Share issue expenses	9 a)	-	-	7,500	(35,303)	(27,803)
Warrant extension	9 c)	-	-	50,680	(50,680)	-
Stock-based compensation	9 b)	-	-	6,500	-	6,500
Net loss		-	-	-	(568,541)	(568,541)
Balance at August 31, 2015		**131,799,537**	**42,894,423**	**4,264,678**	**(39,342,367)**	**7,816,734**

	Notes	Number of shares outstanding	Share capital	Contributed surplus	Deficit	Total equity
			$	$	$	$
Balance at September 1, 2015		131,799,537	42,894,423	4,264,678	(39,342,367)	7,816,734
Common shares issued in private placement	9 a)	9,400,000	501,000	-	-	501,000
Common shares issued for mineral property	9 a)	210,000	8,400	-	-	8,400
Value attributed to warrants	9 a) c)	-	(125,000)	125,000	-	-
Share issue expenses	9 a)	-	-	20,470	(76,550)	(56,080)
Stock-based compensation	9 b)	-	-	114,000	-	114,000
Net loss		-	-	-	(93,360)	(93,360)
Balance at August 31, 2016		**141,409,537**	**43,278,823**	**4,524,148**	**(39,512,277)**	**8,290,694**

The accompanying notes are an integral part of the annual financial statements.

Melkior Resources Inc.

Statements of Cash Flows

For the years ended August 31, 2016 and 2015

(in Canadian dollars)

	Year ended August 31,	
	2016	2015
	$	$
Operating activities		
Net loss	(93,360)	(568,541)
Non-cash items		
Stock-based compensation	114,000	-
Change in value of listed shares	(219,377)	116,749
Impairment of exploration and evaluation assets	-	1,860
Write-off of exploration and evaluation assets	2,988	256,642
Interest accrued on short-term investments	(2,275)	(2,275)
	(198,024)	(195,565)
Changes in non-cash working capital items		
Sales tax receivable and other receivables	(14,827)	15,657
Prepaid expenses	4,191	-
Accounts payable and accrued liabilities	15,937	(4,913)
	5,301	10,744
Cash flows used in operating activities	(192,723)	(184,821)
Investing activities		
Additions to mining properties	(13,932)	(1,809)
Proceeds from disposal of interest in mineral property	150,000	-
Exploration and evaluation expenses	(401,623)	(269,580)
Tax credits received	-	6,517
Cash flows used in investing activities	(265,555)	(264,872)
Financing activities		
Issuance of common shares in private placement	501,000	390,500
Share issue expenses	(56,080)	(27,803)
Cash flows from financing activities	444,920	362,697
Net changes in cash and cash equivalents	(13,358)	(86,996)
Cash and cash equivalents, beginning of the year	167,583	254,579
Cash and cash equivalents, end of the year	154,225	167,583

See Note 10 on supplemental disclosure of cash flow information

The accompanying notes are an integral part of the annual financial statements.

1. General information, nature of operations and going concern assumption

Melkior Resources Inc. (the ‘‘Company’’), incorporated under the *Business Corporations Act* (Canada), is a junior mining exploration company operating in Canada. The Company’s operations include the acquisition and exploration of mining properties. The address of the registered office is 3208 Richmond Road, Ottawa, Ontario, Canada, K2H 5B6. The Company’s shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “MKR”, on the OTCQX Exchange in the United States under the symbol “MKRIF” and on the Frankfurt Stock Exchange under the symbol “MEK”.

The financial statements have been prepared on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company’s ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties and continued support of suppliers and creditors. Even if the Company has been successful in doing so in the past, there is no assurance that it will manage to obtain additional financing in the future.

The Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable and has not yet generated income or cash flows from its operations. As at August 31, 2016, the Company has an accumulated deficit of $39,512,277 (2015 - $39,342,367). These conditions indicate the existence of a material uncertainty that may cast significant doubt regarding the Company’s ability to continue as a going concern.

The carrying amounts of assets, liabilities and expenses presented in the financial statements and the classification used in the statements of financial position have not been adjusted as would be required if the going concern assumption was not appropriate. These adjustments could be material.

2. Summary of significant accounting policies

The significant accounting policies and measurement bases used in the preparation of these annual financial statements are described below.

a) Statement of compliance with IFRS

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

b) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

2. Summary of significant accounting policies (Cont'd)

c) Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets and liabilities at fair value through profit or loss ("FVTPL") are added to or deducted from the fair value of the financial assets and liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at FVTPL are recognized immediately in profit or loss. The subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets of the Company are classified into the following categories upon initial recognition:

- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets; and
- financial assets at FVTPL.

All financial assets, except for those at FVTPL, are reviewed for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer of counterparty;
- default or delinquency in interest or principal payment; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within interest and dividend income or finance cost, except for impairment of receivables, which is presented in allowance for loss on a receivable, if applicable.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

2. Summary of significant accounting policies (Cont'd)

c) Financial instruments (Cont'd)

Classification and subsequent measurement of financial assets (Cont'd)

Held-to-maturity investments

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company has no assets classified as held-to-maturity investments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of available-for-sale financial assets are recognized as other comprehensive income (loss) and classified as a component of equity. The Company has no assets classified as available-for-sale.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held-for-trading or that meet certain conditions and are designated at FVTPL upon initial recognition. The Company's listed shares fall into this category of financial instrument. Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair value of financial assets in this category is determined by reference to active market transactions or using valuation techniques where no active market exists.

Dividend income on investments in equity instruments at FVTPL is recognized in profit or loss when the Company's right to receive the dividends is established in accordance with IAS 18 *Revenue* and is included in interest and dividend income.

Classification and subsequent measurement of financial liabilities

The Company classifies its financial liabilities in the following categories: other financial liabilities and derivative financial liabilities.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statements of comprehensive loss over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Other financial liabilities include accounts payable and accrued liabilities.

Derivative financial liabilities

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss. The Company has no derivative financial liabilities.

2. Summary of significant accounting policies (Cont'd)

c) Financial instruments (Cont'd)

Classification and subsequent measurement of financial liabilities (Cont'd)

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

All interest related charges are reported in profit or loss within finance costs, if applicable.

d) Basic and diluted loss per share

Basic loss per share is calculated by dividing the loss attributable to common equity holders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by adjusting loss attributable to common equity holders of the Company, and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which include options and warrants. Dilutive potential common shares shall be deemed to have been converted into common shares at the average market price at the beginning of the year or, if later, at the date of issue of the potential common shares.

e) Tax credits receivable

The Company is entitled to a refundable tax credit on qualified exploration expenditures incurred and refundable credit on duties for losses under the *Mining Tax Act*. These tax credits are recognized as a reduction of the exploration costs incurred based on estimates made by management. The Company records these tax credits in the period when there is reasonable assurance with regard to collections and assessments and that the Company will comply with conditions associated with them.

f) Mining properties and exploration and evaluation ("E&E") expenses

E&E expenses are costs incurred in the course of the initial search for mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the legal right to undertake E&E activities are recognized in profit or loss when they are incurred.

Once the legal right to undertake E&E activities has been obtained, all costs of acquiring mineral rights or options to acquire such rights (option agreement) are capitalized under mining properties. E&E expenditures less refundable tax credits related to these expenses are recognized as E&E assets. Expenses related to E&E include topographical, geological, geochemical and geophysical studies, exploration drilling, trenching, sampling and other costs related to the evaluation of the technical feasibility and commercial viability of extracting a mineral resource. The various costs are capitalized on a property-by-property basis pending determination of the technical feasibility and commercial viability of extracting a mineral resource. These assets are recognized as intangible assets and are carried at cost less any accumulated impairment losses. No depreciation expenses are recognized for these assets during the E&E phase.

Whenever a mining property is considered no longer viable, or is abandoned, the capitalized amounts are impaired to their recoverable amounts (see Note 2g); the difference is then immediately recognized in profit or loss.

2. Summary of significant accounting policies (Cont'd)

f) Mining properties and exploration and evaluation ("E&E") expenses (Cont'd)

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable, E&E assets related to the mining property are transferred to property and equipment in mining assets under construction. Before the reclassification, E&E assets are tested for impairment (see Note 2g) and any impairment loss is recognized in profit or loss before reclassification.

To date, neither the technical feasibility nor the commercial viability of a mineral resource has been demonstrated.

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

Disposal of interest in connection with option agreements

On the disposal of interest in connection with option agreements, the Company does not recognize expenses related to E&E performed on the property by the acquirer. In addition, the cash or share consideration received directly from the acquirer is credited against the carrying amount of costs previously capitalized to the mining properties first and subsequently to E&E expenses, and the surplus is recognized as a gain on disposal of E&E assets in profit or loss.

g) Impairment of E&E assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, a cash-generating unit is reviewed for impairment.

Impairment reviews for E&E assets are carried out on a project-by-project basis, with each project representing a potential single cash-generating unit. An impairment review is undertaken at period-end and when indicators of impairment arise, but typically when one of the following circumstances apply:

- the right to explore the areas has expired or will expire in the near future with no expectation of renewal;
- no further exploration or evaluation expenditures in the area are planned or budgeted;
- no commercially viable deposits have been discovered, and the decision has been made to discontinue exploration in the area; and
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried as an asset will not be fully recovered.

Additionally, when technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the E&E assets of the related mining property are tested for impairment before these items are transferred to property and equipment.

An impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less cost to sell and its value in use. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2. Summary of significant accounting policies (Cont'd)

h) Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity. Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

However, since the Company is in the exploration phase and has no taxable income, tax expense recognized in profit or loss is currently comprised only of deferred tax.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries, associates and joint ventures are not provided if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary differences will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income or expenses and specific limits on the use of any unused tax loss or credit. Deferred tax liabilities are always provided for in full. Deferred tax assets and liabilities are offset only when the Company has a right and intention to set off current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as deferred income tax in profit or loss, except where they relate to items that are recognized directly in equity, in which case the related deferred tax is also recognized in equity.

i) Equity

Share capital represents the amount received on the issue of shares. If shares are issued when options and warrants are exercised, the share capital account also comprises the compensation costs previously recorded as contributed surplus. In addition, if shares were issued as consideration for the acquisition of a mineral property or some other form of non-monetary assets, they are measured at their fair value according to the quoted price on the day of the conclusion of the agreement.

Unit placements

Proceeds from unit placements are allocated between shares and warrants issued using the residual method. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and any residual in the proceeds is allocated to warrants.

2. Summary of significant accounting policies (Cont'd)

i) Equity (Cont'd)

Flow-through placements

Issuance of flow-through units represents in substance an issue of common shares, warrants and the sale of the right to tax deductions to the investors. When the flow-through shares are issued, the sale of the right to tax deductions is deferred and presented as other liabilities in the statement of financial position. The proceeds received from flow-through units are allocated to shares, warrants and other liabilities. Proceeds are first allocated to shares according to the quoted price of existing shares at the time of issuance and then to warrants according to the fair value of the warrants at the time of issuance and any residual in the proceeds is allocated to other liabilities. The fair value of the warrants is established using the Black-Scholes valuation model. When eligible expenses are incurred and the Company has the intention to renounce its right to tax deductions to the investors, the amount recognized in other liabilities is reversed and is recognized in profit or loss in reduction of deferred income tax expense. A deferred tax liability is also recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset and its tax basis.

Other elements of equity

Contributed surplus includes charges related to share options and warrants not exercised. When share options and warrants are exercised, the related compensation cost is transferred to share capital. Deficit includes all current and prior period retained profits or losses, less issuance costs, net of any underlying income tax benefit from these issuance costs. Any revaluation of warrants based on the extension of warrants issued in the prior years, including warrants issued from unit placements, is credited to contributed surplus and debited directly into deficit.

j) Equity-settled share-based payments

The Company operates an equity-settled share-based remuneration plan (stock option plan) for its eligible directors, officers, employees and consultants. The Company's plan is not cash-settled.

All goods and services received in exchange for the grant of any share-based payments are measured at their fair values, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or service received, the Company shall measure their value indirectly by reference to the fair value of the equity instruments granted. For the transactions with employees and others providing similar services, the Company measured the fair value of the services received by reference to the fair value of the equity instruments granted. The Company uses the Black-Scholes valuation model to estimate fair value.

Equity-settled share-based payments (except finders' warrants to brokers) are ultimately recognized as an expense in profit or loss or capitalized as an E&E asset, depending on the nature of the payment, with a corresponding credit to contributed surplus in equity. Finders' warrants to brokers in respect of an equity financing are recognized as issuance cost of the equity instruments with a corresponding credit to contributed surplus in equity.

2. Summary of significant accounting policies (Cont'd)

j) Equity-settled share-based payments (Cont'd)

If vesting periods or other vesting conditions apply, the expenses are allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different from that estimated on vesting.

k) Segmental reporting

The Company presents and discloses segmental information based on information that is regularly reviewed by the president and the Board of Directors. The president and the Board of Directors have joint responsibility for allocating resources and assessing performance. The Company is of the opinion that there is a single segment of business, being the exploration and evaluation of mineral resources in Canada.

l) Provisions

Provisions are recognized when present legal and constructive obligations as a result of a past event will likely lead to an outflow of economic resources from the Company and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

The Company's operations are governed by government environment protection legislation. Environmental consequences are difficult to identify in terms of amount, timetable and impact. As of the reporting date, management believes that the Company's operations are in compliance with current laws and regulations. Site restoration costs currently incurred are negligible. When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated, a restoration provision will be recognized in the cost of the mining property when there is constructive commitment that has resulted from past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability.

No liability is recognized if an outflow of economic resources as a result of a present obligation is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

m) Government assistance

The Company recognizes certain grants at fair value if there is reasonable assurance they will be received and the Company will comply with the conditions associated with the grant. Grants related to E&E expenses incurred are recognized as a reduction of E&E assets.

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published, but are not yet effective, and have not been early-adopted by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have an impact on the Company's financial statements.

IFRS 9 *Financial Instruments* (2014)

Issued by IASB July 2014
Effective for annual periods beginning September 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 (International Financial Reporting Interpretations Committee) *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- Classification and measurement of financial assets:
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- Classification and measurement of financial liabilities:
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- Impairment of financial assets:
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- Hedge accounting:
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (Cont'd)

Annual Improvements 2012-2014 Cycle

Issued by IASB September 2014
Effective for annual periods beginning September 1, 2016

The following standards have been revised to incorporate amendments issued by the IASB:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Clarifies the application of guidance when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset (or disposal group) no longer meets the criteria for held for distribution.
- IFRS 7 *Financial Instruments: Disclosures* – Clarifies guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities to interim financial statements.
- IAS 19 *Employee Benefits* – Clarifies the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds.
- IAS 34 *Interim Financial Reporting* – Clarifies the meaning of disclosure of information "elsewhere in the interim financial report."

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB January 2016
Effective for annual periods beginning September 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

Issued by IASB August 2014
Effective for annual periods beginning September 1, 2016

Amends IAS 27 *Separate Financial Statements* to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)

Issued by IASB May 2014
Effective for annual periods beginning September 1, 2016

Amends IFRS 11 *Joint Arrangements* to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 *Business Combinations*) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11.
- disclose the information required by IFRS 3 and other IFRS for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

3. Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (Cont'd)

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) (Cont'd)

Note: The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

4. Judgments, estimates and assumptions

When preparing the financial statements, management makes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses.

4.1 Significant management judgment

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

Recognition of deferred income tax assets and measurement of income tax expense

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. See Note 1 for more information.

4.2 Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Bifurcation of units

The Company uses the residual value method when valuing equity components and other liabilities related to flow-through shares. Management's judgment is used to establish fair value of the components.

4. Judgments, estimates and assumptions (Cont'd)

4.2 Estimation uncertainty (Cont'd)

Impairment of E&E assets

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or cash-generating units must be estimated.

In assessing impairment, the Company must make estimates and assumptions regarding future circumstances, in particular, whether an economically viable extraction operation can be established, the probability that the expense will be recovered from either future exploration or sale when the activities have not reached a stage that permits a reasonable assessment of the existence of reserves and the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

See Note 8 for E&E assets impairment analysis.

The total write-off and impairment of the E&E assets where property is abandoned and recognized in profit or loss amounts to $2,988 for the year ended August 31, 2016 (2015 - $256,642). The fair value of $Nil recoverable as at August 31, 2016 (2015 - $Nil) was estimated in accordance with Level 3 of the fair value hierarchy. No reversal of impairment losses has been recognized for the years ended August 31, 2016 and 2015.

No impairment was assessed on the Vaillant (Raglan), Launay, Tiblemont and Carscallen properties. The Company continues significant fieldwork on Carscallen property.

Share-based payments, warrants and warrants extension

The estimation of value requires the selection of an appropriate valuation model, data and consideration as to the volatility of the Company's shares, the probable life of share options and warrants granted, issued and modified, and the time of exercise of those share options and warrants. Option pricing models require the inputs of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. The model used by the Company is the Black-Scholes valuation model (Note 9). Changes to the input assumptions can materially affect the fair value estimate and contributed surplus.

(in Canadian dollars)

5. Cash and cash equivalents

	August 31, 2016	August 31, 2015
	$	$
Cash and cash equivalents	**136,335**	102,945
Cash for Canadian mining properties exploration	**17,890**	64,638
Total cash and cash equivalents	**154,225**	167,583

On March 30, 2016, the Company raised $501,000 in a private placement, of which $341,000 is subject to the restrictions imposed by a flow-through financing arrangement (Note 9). As at August 31, 2016, the Company had incurred expenditures of $323,110 according to the restrictions imposed by this financing arrangement and had a remaining obligation of $17,890 (Note 15). The Company has applied for Junior Exploration Assistance Grant (“JEAG”) with the Ontario Prospectors Association based on 2016 exploration program on the Carscallen property. The Grant when awarded will be for $100,000 and requires the Company to incur a further $100,000 of eligible exploration expenditures to satisfy the flow-through financing requirements (Note 6).

On October 20, 2014, the Company raised $390,500 in a private placement, of which $331,925 is subject to the restrictions imposed by a flow-through financing arrangement. As at August 31, 2016, the Company had incurred expenditures of $331,925 (2015 - $267,287) according to the restrictions imposed by this financing arrangement and had a remaining obligation of $Nil (2015 - $64,638).

Cash equivalents are deposited in money market investments that are cashable on demand.

6. Sales tax receivable and other receivables

	August 31, 2016	August 31, 2015
	$	$
Sales tax receivable	**22,088**	7,261
Other receivables	**101,327**	1,327
Total sales tax and other receivables	**123,415**	8,588

As at August 31, 2016, other receivables of $101,327 (2015 - $1,327) included a JEAG from the Ontario Prospectors Association of $100,000 (2015 - $Nil). Other receivables of $1,327 (2015 - $1,327) are accrued dividends from Zara Resources Inc. (“Zara”) preferred shares, which will be settled in common shares of Zara.

(in Canadian dollars)

7. Listed shares

All of the listed securities held by the Company were acquired through current and prior year's property option and sales transactions with the below listed companies. The Company does not purchase shares of publicly listed companies on the open market. As at August 31, 2016, the following securities were included in the listed shares:

	Acquisition cost	Fair value adjustment	Fair value
Common shares	$	$	$
Kontrol Energy Corp. - 40,625 shares	1,248,000	(1,235,812)	12,188
Northcore Resources Inc. - 50,000 shares	60,000	(60,000)	-
Green Swan Capital Corp. - 1,800,000 shares	180,000	(18,000)	162,000
Lakeside Minerals Inc. - 187,500 shares	52,500	(51,562)	938
Beaufield Resources Inc. - 3,000,000 shares	240,000	120,000	360,000
Zara Resources Inc. - 77,100 shares	27,429	(27,429)	-
Tempus Capital Inc. - 90,000 shares	-	-	-
Leo Resources Inc. - 22,500 shares	-	112	112
Total	**1,807,929**	**(1,272,691)**	**535,238**
Preferred shares			
Zara Resources Inc. - 455,000 shares	45,500	(45,500)	-
Total	**45,500**	**(45,500)**	**-**
Total listed shares	**1,853,429**	**(1,318,191)**	**535,238**

On October 15, 2015, Zara consolidated its shares on a 10:1 basis. On January 7, 2016, the Company received 45,500 common shares of Zara (January 2015 – 9,100), as payment for the accrued dividends on the Zara preferred shares. These shares were initially recorded at $2,275, which is equal to the accrued dividends receivable as at January 7, 2016. Zara preferred shares were received upon the disposal of the Riverbank claims and are entitled to cumulative dividends of 5% per annum. The Zara preferred shares have a fixed value of $45,500 and are convertible to common shares equivalent to the fixed value at Zara's option. The Zara preferred shares do not trade on a securities exchange.

On March 21, 2016, the Company received 3,000,000 common shares of Beaufield Resources Inc. ("Beaufield"), initially valued at $240,000, as part of the proceeds from the sale of an undivided 50% interest in the Launay gold project (Note 8).

On August 6, 2016, Arrowhead Gold Corp. consolidated its shares on a 6:1 basis and changed the company name to Kontrol Energy Corp.

During the year ended August 31, 2016, the listed shares had an unrealized gain in market value of $219,377 (2015 - unrealized loss of $116,749).

(in Canadian dollars)

7. Listed shares (Cont'd)

As at August 31, 2015, the following securities were included in the listed shares:

	Acquisition cost	Fair value adjustment	Fair value
Common shares	$	$	$
Arrowhead Gold Corp. - 243,750 shares	1,248,000	(1,241,906)	6,094
Northcore Resources Inc. - 50,000 shares	60,000	(58,750)	1,250
Green Swan Capital Corp. - 1,800,000 shares	180,000	(162,000)	18,000
Lakeside Minerals Inc. - 187,500 shares	52,500	(51,563)	937
Zara Resources Inc. - 31,600 shares	27,429	(25,849)	1,580
Tempus Capital Inc. - 90,000 shares	-	-	-
Leo Resources Inc. - 22,500 shares	-	225	225
Total	**1,567,929**	**(1,539,843)**	**28,086**
Preferred shares			
Zara Resources Inc. - 455,000 shares	45,500	-	45,500
Total	**45,500**	**-**	**45,500**
Total listed shares	**1,613,429**	**(1,539,843)**	**73,586**

On August 5, 2015, the Company received 90,000 common shares of Tempus Capital Inc. ("Tempus") as a one-time dividend on its Green Swan Capital Corp. investment. The dividend was recorded at a value of $Nil, as the shares of Tempus do not trade on a securities exchange.

8. Exploration and evaluation assets

During the year ended August 31, 2016, the Company incurred mining properties costs of $22,332 (2015 - $1,089) and E&E expenses of $292,492 (2015 - $274,243), net of the $100,000 Ontario Prospectors Association grant recoverable. The Company also had write-offs and impairments of $2,988 (2015 - $258,502).

Mining properties	**August 31, 2015**	**Acquisitions**	**Option payment**	**Write-off**	**August 31, 2016**
	$	$	$	$	$
Quebec					
Valliant (Raglan)	3,300	-	-	-	3,300
Launay	251,256	2,090	(251,255)	-	2,091
Tiblemont	10,067	1,936	-	-	12,003
Ontario					
Carscallen (Timmins)	140,265	18,118		-	158,383
Big Marsh (Timmins)	-	188		(188)	-
	404,888	22,332	(251,255)	(188)	175,777

(in Canadian dollars)

8. Exploration and evaluation assets (Cont'd)

Mining properties	August 31, 2014	Acquisitions	Impairment	Write-off	August 31, 2015
	$	$	$	$	$
Quebec					
Valliant (Raglan)	3,300	-	-	-	3,300
Kenty Lake	-	830	-	(830)	-
Launay	251,256	-	-	-	251,256
Tiblemont	9,984	83	-	-	10,067
Ontario					
Carscallen (Timmins)	139,805	460	-	-	140,265
Big Marsh (Timmins)	14,366	-	-	(14,366)	-
Long Lac	-	236	-	(236)	-
Rim Nickel (McFaulds)	-	200	(200)	-	-
	418,711	1,809	(200)	(15,432)	404,888

E&E expenses	August 31, 2015	Expenditures	Option payment	Write-off	August 31, 2016
	$	$	$	$	$
Quebec					
Launay	651,592	1,700	(138,745)	-	514,547
Kenty Lake	-	1,200		(1,200)	-
Tiblemont	3,543	1,200	-	-	4,743
Ontario					
Carscallen (Timmins) (1)	6,519,257	286,792	-	-	6,806,049
Big Marsh (Timmins)	-	1,600	-	(1,600)	-
	7,174,392	292,492	(138,745)	(2,800)	7,325,339

(1) The Carscallen expenditures are shown net of $100,000 JEAG.

E&E expenses	August 31, 2014	Expenditures	Impairment	Write-off	Tax credits	August 31, 2015
	$	$	$	$	$	$
Quebec						
Launay	648,791	830	-	-	1,971	651,592
Kenty Lake	-	400		(400)	-	-
Tiblemont	790	2,753	-	-	-	3,543
Ontario						
Carscallen (Timmins)	6,259,875	259,382	-	-	-	6,519,257
Big Marsh (Timmins)	231,592	2,450	-	(234,042)	-	-
Bristol (Timmins)	-	6,368	-	(6,368)	-	-
Long Lac	-	400	-	(400)	-	-
Rim Nickel (McFaulds)	-	1,660	(1,660)	-	-	-
	7,141,048	274,243	(1,660)	(241,210)	1,971	7,174,392

8. Exploration and evaluation assets (Cont'd)

All impairment charges (or reversals, if any) are included within impairment of E&E assets in profit or loss. All write-offs are presented separately and included within write-off of E&E assets in profit or loss.

Quebec

a) Launay

The Company holds claims located in Launay Township, Quebec. Certain claims are subject to a 1% net smelter return ("NSR") royalty.

On November 5, 2013, the Company announced that it had entered into an option and joint venture agreement with Beaufield on its wholly owned Launay gold project (the "Project") located in Launay.

Under the terms of the agreement, Beaufield will have the option to earn an interest of up to 50% in the Project by incurring exploration expenditures aggregating $1,250,000 over five years, with a minimum $250,000 of exploration expenditures in the first year. Beaufield will earn a 10% interest for each $250,000 of exploration expenditures.

On March 21, 2016, the Company sold an undivided 50% interest in the Launay gold property to Beaufield for $150,000 cash and 3,000,000 common shares of Beaufield, valued at $240,000. This agreement terminated the agreement signed in November 2013. The proceeds of the sale were accounted for as a reduction in mining property of $251,255 and a reduction of deferred E&E expenses of $138,745 on the statement of financial position.

Both companies are in the process of preparing a joint venture for further exploration on the Launay property.

b) Ungava and Kenty Lake

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec. During the year ended August 31, 2014, management had determined that the Kenty Lake property no longer fit into the Company's strategic plans and would not renew the claims when they expired. The property was classified as a secondary project. As a result, the Company has written off deferred mining property costs of $Nil during the year ended August 31, 2016 (2015 - $830) and deferred E&E expenses of $1,200 for the Kenty Lake property (2015 - $400).

c) Valliant (Raglan)

On April 16, 2013, the Company acquired claims located in the Ungava nickel, copper and platinum group belt of northern Quebec by map staking. The claims are located 25 kilometres east of the Company's 49% owned Kenty Lake property. These claims were acquired by the Company through map staking, and as a result the Company has a 100% ownership in the claims and there is no NSR.

d) Tiblemont

The Company owns a 100% interest in three mineral claims in Tiblemont Township located 43 kilometres east of Val-d'Or, Quebec. The Company owns a 100% interest in adjacent claims covering 480 hectares. On May 12, 2014, three claims were acquired for 200,000 common shares (valued at $8,000 based on the closing market price on the date of issuance) and a 2% NSR with an optional buy back of 1% for $1,000,000.

8. Exploration and evaluation assets (Cont'd)

e) Other property in Quebec

The Company holds claims in the Vauquelin property. The Vauquelin property and its deferred exploration expenses were written off in 2005.

Ontario

f) Timmins

i) Carscallen

The Company holds a 100% interest in the Carscallen property, west of Timmins. Some claims are subject to a 1.5% NSR while another group of claims is subject to a 2% NSR of which the Company has the right to buy out one-half, or 1%, of the NSR for $1,000,000.

In October and November 2010, the Company signed three agreements to acquire 100% interests in additional mining claims in consideration of $10,000 cash and two 2% NSR royalties, of which 1% can be repurchased for $500,000 each.

On October 4, 2013, the Company announced that it has signed a memorandum of understanding ("MOU") with the First Nations. Under the new *Ontario Mining Act*, mineral exploration companies are required to undertake consultation with the First Nations that have traditional rights and treaty rights on the lands being explored. The MOU indicates a recognition and respect for these rights as part of the consultation process. As part of the MOU, the Company has to issue 200,000 common shares, with a deemed value of $8,000 based on the closing market price, in recognition of the importance of the assistance provided in this process. The Company issued the shares on December 23, 2013. The Company will pay 2% of all exploration costs eligible for assessment credit to the Mattagami First Nation.

On April 7, 2016, the Company issued 210,000 common shares for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm's length party.

ii) Big Marsh

The Company holds claims in the Carscallen Township near Timmins, subject to two 2% NSR, one-half, or 1%, of which may be repurchased for $1,000,000 each.

During the year ended August 31, 2015, the property was written off to align with the Company's strategic objective that this will be a secondary project. All expenditures incurred on this property in 2016 to maintain it in good standing are impaired as incurred. As a result, the Company has written off deferred mining property costs of $188 (2015 - $14,366) and deferred E&E expenses of $1,600 for the Big Marsh property (2015 - $234,042).

g) Other property in Ontario

The Company holds claims in the Bristol, Henderson and McFaulds East properties. Expenditures to maintain these properties in good standing are expensed as incurred. As a result, the Company has written off deferred mining property costs of $Nil (2015 - $236) and deferred exploration expenses of $Nil (2015 - $6,768) for these properties.

9. Share capital

Authorized

The Company's authorized share capital consists of:

i) an unlimited number of common shares without par value, voting and participating; and
ii) an unlimited number of preferred shares with an 8% non-cumulative dividend, redeemable at the request of the Company at paid-up capital.

a) Share issuances

2016 fiscal year issuances

On March 30, 2016, the Company completed a private placement of 6,200,000 flow-through units and 3,200,000 non-flow-through units at a price of $0.055 per flow-through unit and a price of $0.05 per non-flow-through unit for gross proceeds of $501,000. Each flow-through unit is comprised of one flow-through common share and one non-flow-through common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.10 for a period of 24 months following the closing. Each non-flow-through unit is comprised of one common share and one common share purchase warrant. Each warrant entitles its holder to purchase one additional common share at a price of $0.07 for a period of 24 months following the closing. The 3,200,000 non-flow-through warrants have a value of $32,000 based on the residual method. The 6,200,000 warrants issued as part of the flow-through units have a residual value of $93,000.

In connection with this private placement, the Company paid finders' fee of $46,080 and transaction fees of $10,000 in cash and issued 840,000 broker warrants; 290,000 broker warrants entitle the holder to purchase 290,000 common shares at a price of $0.07 per share for a period of 24 months following the closing; 550,000 broker warrants entitle the holder to purchase 550,000 common shares at a price of $0.10 per share for a period of 24 months following the closing. The broker warrants were valued at $20,470 using the Black-Scholes valuation model using the same assumptions as the warrants in the flow-through units, for total share issue expenses of $76,550 debited into deficit.

On April 7, 2016, the Company issued 210,000 common shares for the acquisition of one mining claim, totaling 64 hectares, from an arm's length party at a fair value of $8,400.

2015 fiscal year issuances

On October 20, 2014, the Company issued a total of 781 units, at a price of $500 per unit, for total gross proceeds of $390,500. Each unit consisted of 8,500 flow-through and 1,500 non-flow-through common shares and 10,000 common share purchase warrants. Each warrant entitling the holder thereof to acquire one additional common share of the Company at a price of $0.05 for a period of 24 months. All warrants issued in the private placement carry an accelerator clause that takes effect after 12 months if the Company's stock trades above $0.10 (the "triggering event"). The accelerator clause requires the warrant to be exercised within 30 days of the triggering event prior to the warrant expiring. An amount of $78,100 related to warrants was recorded to contributed surplus.

In connection with this private placement, the Company paid a finders' fee of up to $27,803 cash commission and 555,750 broker warrants, valued at $7,500, using the Black-Scholes valuation model, for total share issue expenses of $35,303 debited into deficit. The broker warrants had the same terms as the placement warrants.

(in Canadian dollars)

9. Share capital (Cont'd)

b) Stock option plan

The Company maintains a stock option plan (the "Plan") pursuant to which options to purchase common shares may be granted for its eligible directors, officers and employees of the Company, as well as persons providing ongoing services to the Company.

The number of shares to be delivered upon the exercise of all options granted under the plan shall not exceed 10,948,000.

Unless indicated otherwise by the Board at the time of grant, one-sixth of options granted shall vest every three months from the date of the grant.

In the event that an optionee ceases to be an eligible person prior to the expiry date of their respective options, the options shall expire 12 months after the termination date or on the expiry date, whichever comes first (except for persons providing investor relations activities who will remain subject to a 30-day expiry period). In the event of termination with cause, the options of an eligible person shall expire on the date of notice of termination.

The purchase price of the common shares, upon exercise of each option granted under the Plan, shall be a price fixed for such option by the Board of Directors upon grant of each such option, but such price shall not be less than the market price at closing of transactions the day prior to the grant or any other regulations by the TSX-V. Each option, unless sooner terminated in accordance with the terms, conditions and limitations thereof, or unless sooner exercised, shall expire on the date determined by the Board of Directors when the option is granted or, failing such determination, not later than upon the fifth anniversary of the grant of the option.

The total number of options granted to any one individual in any 12-month period will not exceed 5% of the issued common shares. The total number of options granted to a consultant in any 12-month period will not exceed 2% of the issued common shares at the time of grant. The total number of options granted to persons providing investor relations activities in any 12-month period will not exceed 2% of the issued common shares at the time of grant. These options must vest in stages over a 12-month period from the date of grant with no more than 25% of the options vesting in any three-month period.

All share-based payments will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of changes of the Company's common share purchase options is presented below for the years ended August 31, 2016 and 2015:

	August 31, 2016		August 31, 2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted Average exercise price
		$		$
Balance at beginning of the year	5,500,000	0.15	8,100,000	0.18
Granted	4,000,000	0.10	300,000	0.10
Expired/forfeited	(2,100,000)	0.22	(2,900,000)	0.23
Balance at end of the year	7,400,000	0.10	5,500,000	0.15
Exercisable at the end of the year	7,400,000	0.10	5,500,000	0.15

(in Canadian dollars)

9. Share capital (Cont'd)

b) Stock option plan (Cont'd)

2016 fiscal year activity

During the year ended August 31, 2016, 1,500,000 stock options granted to consultants and directors expired and 600,000 stock options granted to directors were forfeited. The options had a weighted average exercise price of $0.22.

On May 31, 2016, the Company granted 4,000,000 options to officers, directors and consultants for a period of five years at an exercise price of $0.10 per option. The stock options have a Black-Scholes option pricing value of $114,000 and have been expensed in the statement of comprehensive loss.

2015 fiscal year activity

On December 15, 2014, the Company granted 300,000 options to a consultant for a period of five years at an exercise price of $0.10 per options. The stock options have a Black-Scholes option pricing value of $6,500 and have been capitalized in E&E expenses.

During the year ended August 31, 2015, 2,900,000 stock options granted to consultants and directors expired. Of the 2,900,000 stock options, 1,100,000 stock options expired due to the optionees ceasing to be an eligible person. The options had a weighted average exercise price of $0.20 and expiry dates between July 2015 and April 2018.

The following table summarizes information about common share purchase options outstanding and exercisable as at August 31, 2016 and August 31, 2015:

August 31, 2016			August 31, 2015		
Number of options	Exercise price	Expiry date	Number of options	Exercise price	Expiry date
	$			$	
2,500,000	0.10	April 30, 2018	1,500,000	0.27	December 23, 2015
600,000	0.10	December 18, 2018	3,100,000	0.10	April 30, 2018
300,000	0.10	December 15, 2019	600,000	0.10	December 18, 2018
4,000,000	0.10	May 31, 2021	300,000	0.10	December 15, 2019
7,400,000			5,500,000		

(in Canadian dollars)

9. Share capital (Cont'd)

b) Stock option plan (Cont'd)

Stock-based compensation fair value was calculated on options based on the following assumptions:

Grant date	2016	2015
Number of options	4,000,000	300,000
Exercise price	$0.10	$0.10
Exercise price compared to the market	Higher	Higher
Risk-free interest	0.66%	1.46%
Expected volatility	116.83%	71.18%
Expected dividend	-	-
Expected life (years)	5	5
Vesting	100% at date of grant	100% at date of grant
Share price at the date of grant	$0.04	$0.05
Estimated fair value per option	$0.03	$0.02
Estimated fair value	$114,000	$6,500
Forfeiture rate	0.00%	0.00%

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the options. No special features inherent in the options granted were incorporated into measurement of fair value.

In total, $Nil (2015 - $6,500) of the stock-based payments (all of which related to equity-settled share-based payment transactions) were capitalized in E&E assets and $114,000 (2015 - $Nil) were included in stock-based compensation in profit or loss for the year ended August 31, 2016 and credited to contributed surplus.

c) Warrants

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, as follows:

	August 31, 2016		August 31, 2015	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		$		$
Balance at beginning of the year	11,876,667	0.05	4,668,667	0.06
Issued	9,400,000	0.09	7,810,000	0.05
Expired	(666,667)	0.06	(602,000)	0.10
Balance at end of the year	20,610,000	0.07	11,876,667	0.05

(in Canadian dollars)

9. Share capital (Cont'd)

c) Warrants (Cont'd)

Warrants outstanding as at August 31, 2016 and 2015 are as follows:

	August 31, 2016		August 31, 2015	
Expiry date	**Number of warrants**	**Exercise price**	**Number of warrants**	**Exercise price**
		$		$
December 23, 2015	-	-	666,667	0.06
October 20, 2016 (1)	7,810,000	0.05	7,810,000	0.05
October 16, 2017 (2)	3,400,000	0.05	3,400,000	0.05
March 24, 2018	1,200,000	0.07	-	-
March 24, 2018	700,000	0.10	-	-
March 28, 2018	2,000,000	0.07	-	-
March 28, 2018	5,500,000	0.10	-	-
	20,610,000		11,876,667	

(1) On October 3, 2016, the Company extended the life of 7,810,000 existing warrants expiring October 20, 2016, for two additional years. The pricing of the warrants remained unchanged.

(2) On August 31, 2015, the Company extended the life of 3,400,000 existing warrants expiring October 16, 2015, for two additional years. The pricing of the warrants remained unchanged.

The weighted average fair value of the extended warrants during the year ended August 31, 2015 was determined using the Black-Scholes option pricing model and based on the following weighted average assumptions:

	August 31, 2015
Average share price at the date of extension	$0.02
Average exercise price at the date of extension	$0.05
Average risk-free interest rate	1.39%
Expected average volatility	195.74%
Expected dividend	-
Expected life (years)	2
Estimated fair value per warrant	$0.015
Estimated fair value	$50,680
Forfeiture rate	0.00%

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the warrants.

(in Canadian dollars)

9. Share capital (Cont'd)

d) Warrants issued as compensation (finder's warrants)

A summary of changes of the Company's warrants issued as compensation is presented below:

	August 31, 2016		August 31, 2015	
	Number of warrants	**Weighted average exercise price**	**Number of warrants**	**Weighted average exercise price**
		$		$
Balance at beginning of the year	675,750	0.05	120,000	0.05
Issued	840,000	0.09	555,750	0.05
Expired	(120,000)	0.05	-	
Balance at end of the year	1,395,750	0.07	675,750	0.05

Finder's warrants outstanding as at August 31, 2016 and 2015 are as follows:

	August 31, 2016		August 31, 2015	
Expiry date	**Number of warrants**	**Exercise price**	**Number of warrants**	**Exercise price**
		$		$
October 16, 2015	-	-	120,000	0.05
October 20, 2016	555,750	0.05	555,750	0.05
March 28, 2018	550,000	0.10	-	-
March 28, 2018	290,000	0.07	-	-
	1,395,750		675,750	

The weighted average fair value of the broker's warrants issued was determined using the Black-Scholes option pricing model and based on the following average assumptions:

	August 31, 2016	**August 31, 2015**
Share price at the date of grant	$0.04	$0.04
Weighted Average exercise price at the date of grant	$0.09	$0.05
Risk-free interest rate	0.53%	1.04%
Expected volatility	154.30%	73.36%
Expected dividend	-	-
Expected life (years)	2	2
Estimated fair value per warrant	$0.024	$0.013
Estimated fair value	$20,470	$7,500
Forfeiture rate	0.00%	0.00%

The underlying expected volatility was determined by reference to historical data of the Company's shares on the TSX-V over the expected average life of the warrants issued as compensation.

(in Canadian dollars)

9. Share capital (Cont'd)

e) Policies and processes for managing capital

The capital of the Company consists of the items included in shareholders' equity of $8,290,694 as of August 31, 2016, (2015 - $7,816,734). The Company's objectives when managing capital are to safeguard its ability to continue its operations, as well as its acquisition and exploration programs. As needed, the Company raises funds through private placements. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve. The Company does not use long-term debt, as it does not generate operating revenues. There is no dividend policy. The Company does not have any externally imposed capital requirements, neither regulatory nor contractual, to which it is subject, unless the Company closes a flow-through private placement where the funds are restricted in use for exploration expenses. The Company complied with the requirements in the fiscal years. The Company has not changed its policies and procedures in the past year.

10. Supplemental disclosure of cash flow information

	Year ended August 31,	
	2016	**2015**
	$	**$**
Additional information		
Other receivables (dividends on Zara preferred shares) received in common shares	2,275	4,929
Additions of E&E expenses included in accounts payable and accrued liabilities	7,903	17,034
Common shares (Beaufield) received on disposal of property	240,000	-
Common shares issued included in property acquisition (Note 9)	8,400	-
Recovery of grant receivable for E&E expenses included in other receivables	100,000	-
Stock-based compensation included in E&E expenses	-	6,500

(in Canadian dollars)

11. Income taxes

The relationship between the expected tax recovery based on the combined federal and provincial income tax rate in Canada and the reported tax expense in the statement of comprehensive loss can be reconciled as follows:

	Year ended August 31,	
	2016	**2015**
	$	$
Loss before income taxes	(93,360)	(568,541)
Expected tax recovery calculated using the combined federal and provincial income tax rate in Canada of 26.9%	(25,114)	(152,937)
Adjustments for the following items:		
Changes in temporary differences not recorded	38,361	83,449
Tax effect of issuance of flow-through shares (mineral property expenditures renounced)	105,580	69,467
Disposal of mineral property	(104,910)	-
Stock-based compensation	30,666	-
JEAG receivable	(26,900)	-
Expiry of non-refundable mining ITC (Quebec)	11,447	-
Non-deductible items and others	(29,130)	21
Deferred income tax recovery	-	-

The major components of deferred tax recovery are outlined below:

	Year ended August 31,	
	2016	**2015**
	$	$
Origination and reversal of temporary differences	(54,244)	(152,916)
Tax effect of issuance of flow-through shares	105,580	69,467
Tax effect of mineral property disposal	(104,910)	-
Tax effect of stock-based compensation	30,666	-
Tax effect of JEAG receivable	(26,900)	-
Tax effect of expired non-refundable mining ITC	11,447	-
Changes in temporary differences not recorded	38,361	83,449
Total deferred tax recovery	-	-

(in Canadian dollars)

11. Income taxes (Cont'd)

Available temporary differences for which no deferred tax assets were recorded:

	August 31, 2016	August 31, 2015
	$	$
E&E assets	6,306,832	6,203,551
Property and equipment	20,530	20,530
Listed shares	675,233	784,922
Share issue expenses	63,365	40,875
Non-capital losses	4,515,955	4,293,429
Deductible capital losses	53,437	53,437
Non-refundable ITC	2,538,900	2,581,454
	14,174,252	13,978,198

The Company has non-capital losses that are available to reduce income taxes in future periods, for which no deferred tax asset has been recorded in the statement of financial position that can be carried over the following years:

	Federal	Quebec
	$	$
2026	222,000	190,000
2027	263,000	245,000
2028	292,000	292,000
2029	470,000	469,000
2030	820,000	819,000
2031	676,000	673,000
2032	610,000	608,000
2033	423,000	422,000
2034	302,000	302,000
2035	210,000	210,000
2036	228,000	228,000
	4,516,000	4,458,000

As at August 31, 2016 and 2015, accumulated capital losses of $106,874 (2015 - $106,874) are available to be applied against future taxable capital gains. These losses may be carried forward indefinitely.

The Company has unrecorded investment tax credits of $643,123 (2015 - $643,648), which are available up to 2024 to reduce the federal income taxes payable.

The Company has unrecorded resources tax credits of $39,841 (2015 - $50,763), which are available up to 2018 to reduce the Quebec income taxes payable.

12. Loss per share

In calculating the diluted loss per share, dilutive potential common shares, such as share options and warrants, have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be anti-dilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future are given in Note 9.

Both the basic and diluted loss per share have been calculated using the net loss as the numerator; no adjustment to net loss was necessary in the years ended August 31, 2016 and 2015.

(in Canadian dollars)

13. Compensation to key management and related party disclosures

The Company's related parties include a company controlled by an officer, close family members of directors and key management, as described below.

Unless otherwise stated, none of the transactions incorporated special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

a) Compensation to key management

The Company's key management personnel are members of the Board of Directors (of which the president of the Company is a member), as well as the chief financial officer. Key management compensation is as follows:

	Year ended August 31	
	2016	**2015**
	$	$
Short-term benefits		
Salaries including benefits	12,938	1,235
Professional and consulting fees	51,398	33,176
Professional fees capitalized in E&E expenses	10,835	22,075
Total short-term benefits	75,171	56,486
Stock-based compensation	82,650	-
Total compensation	157,821	56,486

b) Transactions with other related parties

In the normal course of operations for the years ended August 31, 2016 and 2015:

- In addition to the amounts listed above in the compensation to key management, a company controlled by the Company's former chief executive officer charged rent totaling $Nil (2015 - $18,000) expensed in office expenses; and
- A close family member of a former director provided secretarial services totaling $12,320 (2015 - $17,600).

As at August 31, 2016, the balance due to related parties amounted to $1,148 (2015 - $1,546) and was recorded in accounts payable and accrued liabilities.

(in Canadian dollars)

14. Financial Instruments

a) Categories of financial assets and liabilities

The carrying amounts and fair values of financial instruments presented in the statements of financial position are as follows:

	August 31, 2016		August 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets	$	$	$	$
At amortized cost				
Cash and cash equivalents	154,225	154,225	167,583	167,583
Other receivables [(1)]	101,327	101,327	1,327	1,327
	255,552	255,552	168,910	168,910
At FVTPL				
Listed shares	535,238	535,238	28,086	28,086
Preferred shares	-	-	45,500	45,500
	535,238	535,238	73,586	73,586
Financial liabilities				
At amortized cost				
Accounts payable and accrued liabilities	29,397	29,397	22,591	22,591

(1) Other receivables do not include sales tax receivable.

The carrying values of cash, other receivables, and accounts payable and accrued liabilities are considered to be a reasonable approximation of fair values due to the short-term maturity of these instruments.

b) Financial instruments measured at fair value

The following presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities at the reporting date;
- Level 2: inputs other than quoted prices included within 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: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. Listed common shares of companies in quoted mining exploration companies measured at fair value as at August 31, 2016 and 2015 are classified as Level 1. Preferred shares of mining exploration companies measured at fair value as at August 31, 2016 and 2015 are classified as Level 2.

(in Canadian dollars)

14. Financial instruments (Cont'd)

c) Financial instrument risk

The Company is exposed to various risks in relation to financial instruments. The Company's financial assets and liabilities are summarized in Note 14a.

The most significant financial risks to which the Company is exposed are described below.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to other price risk. The Company's exposure to foreign currency risk and interest rate risk is not material.

The Company does not actively engage in the trading of financial instruments for speculative purposes.

Other price risk sensitivity

The Company is exposed to fluctuations in the market prices of its listed shares in quoted mining exploration companies. The fair value of the listed shares represents the maximum exposure to price risk. If the quoted stock price for these securities had increased or decreased by 20% as at August 31, 2016 and 2015, net loss and equity would have changed by $107,048 and $5,617, respectively.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the Company by failing to discharge an obligation. As at August 31, 2016 and August 31, 2015, the Company's maximum exposure to credit risk is limited to the carrying amount of financial assets at the reporting date, as summarized below:

	August 31, 2016	**August 31, 2015**
	$	$
Cash and cash equivalents	154,225	167,583
Other receivables (excluding sales tax receivable)	101,327	1,327
Total	255,552	168,910

The other receivables include dividends receivable from the preferred shares acquired from Zara and JEAG receivable. The exposure to credit risk for the Company's receivables has to be monitored continuously. As at August 31, 2016 and 2015, the Company did not record any impairment loss on its other receivables.

As at August 31, 2016, the Company's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

The credit risk for cash is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(in Canadian dollars)

14. Financial instruments (Cont'd)

c) Financial instrument risk (Cont'd)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk management serves to maintain a sufficient amount of cash and to ensure that the Company has financing sources, such as private and public investments, for a sufficient amount. Since inception, the Company has primarily financed its E&E programs, its working capital requirements and acquisitions of mining properties through private and flow-through financings.

The following table presents contractual maturities (including interest payments where applicable) of the Company's liabilities at the carrying amount:

	August 31, 2016	August 31, 2015
	$	$
Within three months:		
Accounts payable and accrued liabilities	29,397	22,591

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash, tax credits receivable and listed shares. These financial assets exceed the current cash outflow requirements.

15. Contingencies and commitments

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is committed to using the financing proceeds for qualifying mining exploration work.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements; or
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

The Company renounced the flow-through financing proceeds from October 20, 2014 as at December 31, 2014.

On March 30, 2016, the Company raised $501,000 in a private placement, of which $341,000 is subject to the restrictions imposed by a flow-through financing arrangement. As at August 31, 2016, the Company had incurred expenditures of $323,110 according to the restrictions imposed by this financing arrangement. The Company has applied for JEAG with the Ontario Prospectors Association based on 2016 exploration program on the Carscallen property. The grant when awarded will be for $100,000 and require the Company to incur an additional $100,000 of eligible exploration expenditures to satisfy the flow-through financing requirements.

As at August 31, 2016, the Company had outstanding un-incurred flow-through renunciation commitments of $117,890 (2015 - $64,638), which is required to be spent by December 31, 2017.