Melkior Resources Inc.

Financial Statements

For the Years Ended August 31,2017 and 2016

(in Canadian dollars)

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Independent Auditor's Report

To the Shareholders of
Melkior Resources Inc.

We have audited the accompanying financial statements of Melkior Resources Inc., which comprise the statement of financial position as at August 31, 2017, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the year 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.

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

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

We believe that the audit evidence we have obtained 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, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 2 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Melkior Resources Inc. to continue as a going concern.

Other matter
The financial statements of Melkior Resources Inc. for the year ended August 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on November 30, 2016.

"Crowe MacKay LLP"

Chartered Professional Accountants
Vancouver, British Columbia
December 15, 2017

Melkior Resources Inc.
Statements of Financial Position
As at August 31, 2017 and 2016
(in Canadian dollars)

	2017	2016
Assets		
Current		
Cash	$ 156,477	$ 154,225
Sales tax receivable and other receivables (note 6)	69,672	123,415
Prepaid expenses	4,725	6,097
Marketable securities (note 7)	662,070	535,238
	892,944	818,975
Prepaid Expenses	10,652	-
Exploration and Evaluation Assets (note 8)	7,571,498	7,501,116
	$ 8,475,094	$ 8,320,091
Liabilities		
Current		
Accounts payable and accrued liabilities (note 10)	$ 67,668	$ 29,397
Shareholders' Equity		
Share Capital (note 9)	43,559,061	43,278,823
Contributed Surplus (note 9)	4,524,148	4,524,148
Deficit	(39,675,783)	(39,512,277)
	8,407,426	8,290,694
	$ 8,475,094	$ 8,320,091

Going Concern (note 2)
Subsequent Events (note 14)

Approved on behalf of the Board:

(s) Norman Farrell	*(s) Keith James Deluce*
Norman Farrell	Keith James Deluce
Director	Chief Executive Officer and Director

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

Melkior Resources Inc.
Statements of Comprehensive Loss
For the Years Ended August 31
(in Canadian dollars)

	2017	2016
Expenses		
Consulting and management fees (note 10)	$ 151,714	$ 51,398
General exploration	1,610	1,161
Impairment of exploration and evaluation assets (note 8)	20,046	2,988
Office and general	8,166	11,530
Professional fees	37,246	69,837
Regulatory fees	30,859	37,748
Salaries and benefits (note 10)	17,195	24,018
Share-based payments (notes 9 and 10)	-	114,000
Travel and promotion	3,560	3,762
Net Loss Before Other Items	(270,396)	(316,442)
Other Items		
Interest and dividend income	1,223	2,640
Gains on marketable securities (note 7)	21,434	219,377
Gain on sale of exploration and evaluation assets (note 8)	107,566	-
Loss on settlement of debt (note 9(b))	(23,333)	-
Other income	-	1,065
Net and Comprehensive Loss for the Year	$ (163,506)	$ (93,360)
Basic and Diluted Loss Per Share	$ (0.00)	$ (0.00)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	142,187,632	135,838,499

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

Melkior Resources Inc.

Statements of Changes in Shareholders' Equity
(in Canadian dollars)

	Share Capital				
	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance August 31, 2015	**131,799,537**	**$ 42,894,423**	**$ 4,264,678**	**$ (39,342,367)**	**$ 7,816,734**
Private placement	9,400,000	376,000	125,000	-	501,000
Share issue costs	-	-	20,470	(76,550)	(56,080)
Shares issued for exploration and evaluation assets	210,000	8,400	-	-	8,400
Stock-based payments	-	-	114,000	-	114,000
Net loss and comprehensive loss for the year	-	-	-	(93,360)	(93,360)
Balance, August 31, 2016	**141,409,537**	**43,278,823**	**4,524,148**	**(39,512,277)**	**8,290,694**
Shares issued for settlement of debt	3,271,428	190,238	-	-	190,238
Shares issued for exploration and evaluation assets	1,500,000	90,000	-	-	90,000
Net loss and comprehensive loss for year	-	-	-	(163,506)	(163,506)
Balance, August 31, 2017	**146,180,965**	**$ 43,559,061**	**$ 4,524,148**	**$ (39,675,783)**	**$ 8,407,426**

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

Melkior Resources Inc.
Statements of Cash Flows
For the Years Ended August 31, 2017 and 2016
(in Canadian dollars)

	2017	2016
Operating Activities		
Net loss for the year	$ (163,506)	$ (93,360)
Items not involving cash		
Gain on marketable securities	(21,434)	(219,377)
Interest and dividend income	(1,223)	(2,640)
Impairment of exploration and evaluation assets	20,046	2,988
Gain on sale of exploration and evaluation assets	(107,566)	-
Loss on settlement of debt	23,333	-
Stock-based payments	-	114,000
Changes in non-cash working capital		
Sales tax receivable and other receivables	(28,760)	(14,827)
Prepaid expenses	1,372	4,191
Accounts payable and accrued liabilities	213,079	15,937
Cash Used in Operating Activities	(64,659)	(193,088)
Investing Activities		
Exploration and evaluation asset expenditures	(455,810)	(415,555)
Proceeds from sale of exploration and evaluation assets	125,000	150,000
Proceeds on sale of marketable securities	396,498	-
Interest and dividend income	1,223	365
Cash Provided By (Used in) Investing Activities	66,911	(265,190)
Financing Activities		
Shares and units issued for cash	-	501,000
Share issuance costs	-	(56,080)
Cash Provided by Financing Activities	-	444,920
Inflow (Outflow) of Cash	2,252	(13,358)
Cash, Beginning of Year	154,225	167,583
Cash, End of Year	$ 156,477	$ 154,225

Supplemental Disclosure with Respect to Cash Flows (note 11)

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

1. NATURE OF OPERATIONS

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 mineral properties in Canada. The address of the registered office is 1680 – 200 Burrard Street, Vancouver, BC, Canada, V6C 3L6, and its principal place of business is 207 - 66 Brousseau Avenue, Timmins, Ontario, Canada, P4N 5Y2. 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".

2. GOING CONCERN

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company has incurred a loss during the year ended August 31, 2017 of $163,506 (2016 - $93,360) and has a deficit at August 31, 2017 of $39,675,783 (2016 - $39,512,277), has limited resources, no sources of operating cash flow and no assurances that sufficient funding will be available to continue operations for an extended period of time. The Company is in the exploration stage and, accordingly, has not yet commenced revenue-producing operations. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to complete the exploration and development of its mineral property interests, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. There can be no assurance that management's plan will be successful.

If the going concern assumption were not appropriate for these financial statements then adjustments may be necessary in the carrying value of assets and liabilities, the reported expenses and the statements of financial position classifications used. Such adjustments could be material.

3. BASIS OF PRESENTATION

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on December 15, 2017.

b) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale, and fair value through profit or loss ("FVTPL"). These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

3. BASIS OF PRESENTATION (Continued)

c) Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies have been applied consistently throughout by the Company for purposes of these financial statements.

a) Exploration and evaluation assets

Exploration and evaluation expenditures

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the year in which they are incurred. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur.

Mineral property acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of mineral property acquisition costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments related to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the amounts upon payment.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as ‘mines under construction’. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

Impairment

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment at least annually and when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Exploration and evaluation assets (continued)

Decommissioning liabilities

An obligation to incur decommissioning and site rehabilitation costs occurs when environmental disturbance is caused by exploration, evaluation, development or ongoing production.

Decommissioning and site rehabilitation costs arising from the installation of plant and other site preparation work, discounted to their net present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged against operations through depreciation of the asset and unwinding of the discount on the provision. Depreciation is included in operating costs while the unwinding of the discount is included as a financing cost. Changes in the measurement of a liability relating to the decommissioning or site rehabilitation of plant and other site preparation work are added to, or deducted from, the cost of the related asset.

The costs for the restoration of site damage, which arises during production, are provided at their net present values and charged against operations as extraction progresses.

Changes in the measurement of a liability, which arises during production, are charged against operating profit. The discount rate used to measure the net present value of the obligations is the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the obligation.

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

c) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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 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 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial instruments (continued)

Held-to-maturity investments ("HTM")

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 marketable securities 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 financial liabilities at FVTPL.

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.

Financial liabilities

Financial liabilities at FVTPL, including derivative *financial liabilities*, are initially recognized at their fair value 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.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) 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 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.

f) 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, tax 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.

g) 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 exploration and evaluation assets or some other form of non-monetary assets, when the fair value of the non-monetary assets cannot be determined, the shares are measured at their fair value according to the quoted price on the day of the conclusion of the agreement.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Equity (continued)

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.

Flow-through placements

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as an other liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the other liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The Company may also be subject to 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 financing expense until qualifying expenditures are incurred.

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.

h) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Share-based payments (continued)

Equity-settled share-based payments (except finders' warrants to brokers) are ultimately recognized as an expense in profit or loss or capitalized as an exploration and evaluation 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 in deficit, with a corresponding credit to contributed surplus in equity. When share options and warrants are exercised, the related compensation cost is transferred to share capital. The compensation cost related to options and warrants expired unexercised remain in contributed surplus.

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.

i) New accounting standards adopted during the year

Amendments to IAS 1 Presentation of Financial Statements

These amendments clarify existing IAS 1 requirements resulting from the Disclosure Initiative. It is designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. These amendments are effective for reporting periods beginning on or after January 1, 2016.

Amendments to IFRS 7 Financial Instruments

The amendment clarifies the applicability of the amendments to IFRS 7 Disclosure–Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements. This amendment is effective for reporting periods beginning on or after January 1, 2016.

The Company adopted the amendments to IAS 1 and IFRS 7 during the year ended August 31, 2017 with no significant impact on its consolidated financial statements.

j) New accounting standards issued but not yet effective

The Company is currently evaluating the impact that these new accounting standards is expected to have on its consolidated financial statements.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. Additional amendments include introduction of new hedge accounting model and a new expected-loss impairment model. This standard is effective for annual periods beginning on or after January 1, 2018.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) New accounting standards issued but not yet effective (continued)

Amendments to IAS 7 Statement of Cash Flows

These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. This amendment is effective for reporting periods beginning on or after January 1, 2017.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

a) Impairment of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

b) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

c) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

d) Going concern

The assessment of the Company's ability to continue as a going concern requires significant judgment. The financial statements have been prepared on the basis of accounting principles applicable to a going concern, as disclosed in Note 2.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

a) Decommissioning liabilities

Rehabilitation provisions are created based on the Company's internal estimates. Assumptions, based on the current economic environment, are made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at August 31, 2017, the Company has no known rehabilitation requirements and accordingly, no provision has been made.

(in Canadian dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

b) Share-based payments

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 9c.

6. SALES TAX RECEIVABLE AND OTHER RECEIVABLES

		August 31, 2017		August 31, 2016
Sales tax receivable	$	50,279	$	22,088
Other receivables		19,393		101,327
Total sales tax receivable and other receivables	$	69,672	$	123,415

As at August 31, 2017, other receivables included a Junior Exploration Assistance Grant from the Ontario Prospectors Association of $19,393 (August 31, 2016 - $100,000) and $nil (August 31, 2016 - $1,327) of accrued dividends on marketable securities.

7. MARKETABLE SECURITIES

All of the marketable 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, 2017, the following securities were included in marketable securities:

	Number of Shares		Acquisition Cost		Fair Value Adjustment		Fair Value
Kontrol Energy Corp.	125	$	3,840	$	(3,770)	$	70
Northcore Resources Inc.	50,000		60,000		(60,000)		-
CBLT Inc.	1,800,000		180,000		(18,000)		162,000
Lineage Grow Company	62,500		52,500		(52,500)		-
Beaufield Resources Inc.	2,500,000		500,000		-		500,000
Zara Resources Inc.	212,600		74,825		(74,825)		-
Tempus Capital Inc.	90,000		-		-		-
		$	**871,165**	$	**(209,095)**	$	**662,070**

During the year ended August 31, 2017:

- The Company sold 40,500 shares of Kontrol Energy Corp. for proceeds of $24,146 and a gain of $11,996;
- Green Swan Capital Corp. changed the company name to CBLT Inc.

(in Canadian dollars)

7. MARKETABLE SECURITIES (Continued)

- Lakeside Minerals Inc. consolidated its share on a 1 new share for 3 old shares basis and changed the company name to Lineage Grow Company;
- The Company sold 3,000,000 shares of Beaufield Resources Inc. ("Beaufield") for proceeds of $369,751 and a gain of $9,751;
- The Company received 2,500,000 shares of Beaufield valued at $500,000 on the sale of the Launay project (note 8a);
- The Company received 45,500 common shares of Zara Resources Inc. ("Zara") as payment for the accrued dividends on the Zara preferred shares. These shares were initially recorded at $1,895, which is equal to the accrued dividends receivable as August 31, 2016;
- The Company received 90,000 common shares of Zara on the conversion of 45,500 post-consolidation preferred shares;
- The Company sold 22,500 shares of Leo Resources Inc. for proceeds of $2,601 and a gain of $2,489; and
- The Company recognized unrealized loss of $2,802 from the change in fair value of the marketable securities.

As at August 31, 2016, the following securities were included in marketable securities:

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

During the year ended August 31, 2016:

- Zara consolidated its shares on a 10:1 basis and the Company received 45,500 common shares of Zara 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.
- The Company received 3,000,000 common shares of 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(a)); and
- Arrowhead Gold Corp. consolidated its shares on a 6:1 basis and changed the company name to Kontrol Energy Corp.

(in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

	Quebec				Ontario					
	Launay	**Valliant**	**Tiblemont**	**Urban**	**Carscallen**	**Big Marsh**	**Hemlo**	**Bristol**	**Kenty Lake**	**Total**
Property Acquisition Costs										
Balance, August 31, 2015	$ 251,256	$ 3,300	$ 10,067	$ -	$ 140,265	$ -	$ -	$ -	$ -	$ 404,888
Acquisitions	2,090	-	1,936	-	18,118	188	-	-	-	22,332
Recoveries/Sale of Property	(251,255)	-	-	-	-	-	-	-	-	(251,255)
Impairment	-	-	-	-	-	(188)	-	-	-	(188)
Balance, August 31, 2016	2,091	3,300	12,003	-	158,383	-	-	-	-	175,777
Acquisitions	-	-	-	21,471	31,820	5,000	143,157	-	-	201,448
Claim Maintenance	-	-	-	-	85	-	65	3,200	-	3,350
Recoveries/Sale of Property	(2,091)	-	-	-	-	-	-	-	-	(2,091)
Impairment	-	(3,300)	(12,003)	-	-	-	-	-	-	(15,303)
Balance, August 31, 2017	-	-	-	21,471	190,288	5,000	143,222	3,200	-	363,181
Property Exploration Costs										
Balance, August 31, 2015	651,592	-	3,543	-	6,519,257	-	-	-	-	7,174,392
Expenditures	1,700	-	1,200	-	286,792	1,600	-	-	1,200	293,692
Recoveries/Sale of Property	(138,745)	-	-	-	-	-	-	-	-	(138,745)
Impairment	-	-	-	-	-	(1,600)	-	-	(1,200)	(2,800)
Balance, August 31, 2016	514,547	-	4,743	-	6,806,049	-	-	-	-	7,325,339
Drilling	-	-	-	-	235,062	-	-	-	-	235,062
Geochemistry	-	-	-	16,344	12,364	-	-	5,921	-	34,629
Geology and Prospecting	796	-	-	953	98,118	-	4,306	885	-	105,058
Geophysics	-	-	-	-	28,315	-	-	-	-	28,315
Recoveries/Sale of Property	(515,343)	-	-	-	-	-	-	-	-	(515,343)
Impairment	-	-	(4,743)	-	-	-	-	-	-	(4,743)
Balance, August 31, 2017	$ -	$ -	$ -	$ 17,297	$ 7,179,908	$ -	$ 4,306	$ -	$ -	$ 7,208,317
Total Exploration and Evaluation Assets										
August 31, 2016	$ 516,638	$ 3,300	$ 16,746	$ -	$ 6,964,432	$ -	$ -	$ -	$ -	$ 7,501,116
August 31, 2017	**$ -**	**$ -**	**$ -**	**$ 38,768**	**$ 7,370,196**	**$ 5,000**	**$ 147,528**	**$ 10,006**	**$ -**	**$ 7,571,498**

8. EXPLORATION AND EVALUATION ASSETS (Continued)

Quebec

a) Launay

On March 21, 2016, the Company sold an undivided 50% interest in Launay to Beaufield for $150,000 and 3,000,000 common shares of Beaufield, valued at $240,000. This agreement terminated a previous agreement signed in November 2013. The proceeds of the sale were accounted for as a reduction in exploration and evaluation assets of $390,000.

On July 14, 2017, the Company sold the remaining 50% interest in Launay to Beaufield for $125,000 and 2,500,000 common shares of Beaufield valued at $500,000. The proceeds of the sale were accounted for as a reduction in exploration and evaluation assets of $517,434 and a gain on sale of exploration and evaluation assets of $107,566.

The Company retains a 1.5% NSR on the property, of which one-half may be purchased by Beaufield for $750,000.

b) 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 Company has a 100% ownership in the claims and there is no NSR. The Company has no exploration plans for this property at this time, and accordingly, capitalized costs of $3,300 were written off during the year ended August 31, 2017.

c) Tiblemont

The Company owns a 100% interest in three mineral claims in Tiblemont Township, Quebec. The Company owns a 100% interest in adjacent claims. On May 12, 2014, three claims were acquired for 200,000 common shares (valued at $8,000) and a 2% NSR with an optional buy back of 1% for $1,000,000. The Company has no exploration plans for this property at this time, and accordingly, capitalized costs of $16,746 were written off during the year ended August 31, 2017.

d) Urban

During the year ended August 31, 2017, the Company acquired claims in the Urban area of Quebec through map staking. The Company has a 100% ownership in the claims and there is no NSR.

Ontario

***e)* 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 may buy back one-half 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.

In October 2013, the Company signed a memorandum of understanding (“MOU”) with the Mattagami First Nations. As part of the MOU, the Company issued 200,000 common shares (valued at $8,000) on December 23, 2013. The Company will pay 2% of all exploration costs eligible for assessment credit to the Mattagami First Nation.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

e) Carscallen (continued)

On April 7, 2016, the Company issued 210,000 common shares (valued at $8,400) for the acquisition of a 100% interest in an additional mining claim, totaling 64 hectares, from an arm's length party.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking. One of the claims is subject to a 2% NSR.

f) Big Marsh

During the year ended August 31, 2017, the Company paid $5,000 for a 100% interest in a claim located in the Carscallen Township. This claim is part of the Big Marsh property, where the Company has existing claims. The previous claims were deemed impaired during the year ended August 31, 2016.

g) Hemlo

On May 12, 2017, the Company entered into an agreement to acquire a 100% interest in the Hemlo property. The Company paid $5,000 and issued 1,500,000 common shares (valued at $90,000) as consideration. The vendor holds a 3% NSR, of which one-third may be purchased by the Company for $1,000,000.

During the year ended August 31, 2017, the Company acquired additional claims through cash purchase agreements and staking.

h) Bristol

The Company holds a 100% interest in claims forming the Bristol property acquired through staking during the year ended August 31, 2017.

i) Kenty Lake

The Company holds a 49% interest in the Delta-Kenty property located in the Ungava region in Quebec. The deferred expenditures of $1,200 were written off during the year ended August 31, 2016.

9. SHARE CAPITAL

a) Authorized

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.

9. SHARE CAPITAL (Continued)

b) Issued

During the year ended August 31, 2017

On May 24, 2017, the Company issued 1,333,333 common shares (valued at $93,333) in settlement of accounts payable and accrued liabilities of $70,000, resulting in a loss on settlement of debt of $23,333.

On June 1, 2017, the Company issued 1,500,000 common shares (valued at $90,000) for the acquisition of the Hemlo property (note 8(g)).

On August 23, 2017, the Company issued 1,938,095 common shares (valued at $96,905) in settlement of accounts payable and accrued liabilities of $96,905.

During the year ended August 31, 2016

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 (valued at $8,400) for the acquisition of a mining claim forming part of the Carscallen property (note 8(e)).

c) Stock options

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 Canadian dollars)

9. SHARE CAPITAL (Continued)

c) Stock options (continued)

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, 2017 and 2016:

	Year Ended August 31, 2017		**Year Ended August 31, 2016**	
	Number of Options	**Weighted Average Exercise Price**	**Number of Options**	**Weighted Average Exercise Price**
Outstanding, beginning of year	7,400,000	$ 0.10	5,500,000	$ 0.15
Expired	(2,000,000)	0.10	(1,500,000)	0.22
Granted	-	-	4,000,000	0.10
Forfeited	-	-	(600,000)	0.22
Outstanding, end of year	5,400,000	$ 0.10	7,400,000	$ 0.10

(in Canadian dollars)

9. SHARE CAPITAL (Continued)

c) Stock options (continued)

The following stock options were outstanding and exercisable at August 31, 2017:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
September 20, 2017*	0.05	$ 0.10	100,000	100,000
October 31, 2017*	0.17	0.10	300,000	300,000
April 30, 2018	0.66	0.10	1,500,000	1,500,000
December 18, 2018	1.30	0.10	600,000	600,000
May 31, 2021	3.75	0.10	2,900,000	2,900,000
	2.35	$ 0.10	5,400,000	5,400,000

* expired unexercised subsequent to August 31, 2017

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. Accordingly, share-based payments of $nil were recognized during the year ended August 31, 2017 (2016 - $114,000).

The fair value of each stock option granted was calculated using the following weighted average assumptions:

	Year Ended August 31, 2017	Year Ended August 31, 2016
Expected life (years)	N/A	5.00
Risk-free interest rate	N/A	0.66%
Annualized volatility	N/A	117%
Dividend yield	N/A	N/A
Stock price at grant date	N/A	$0.04
Exercise price	N/A	$0.10
Weighted average grant date fair value	N/A	$0.03

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

d) Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

(in Canadian dollars)

9. SHARE CAPITAL (Continued)

d) Warrants (continued)

	Year Ended August 31, 2017		Year Ended August 31, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	20,610,000	$ 0.07	11,876,667	$ 0.05
Issued	-	-	9,400,000	0.09
Expired	-	-	(666,667)	0.06
Outstanding, end of year	20,610,000	$ 0.07	20,610,000	$ 0.07

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.

The following warrants were outstanding and exercisable at August 31, 2017:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
October 16, 2017*	0.13	$ 0.05	3,400,000	3,400,000
March 24, 2018	0.56	$ 0.07	1,200,000	1,200,000
March 24, 2018	0.56	$ 0.10	700,000	700,000
March 28, 2018	0.57	$ 0.07	2,000,000	2,000,000
March 28, 2018	0.57	$ 0.10	5,500,000	5,500,000
October 20, 2018	1.14	$ 0.05	7,810,000	7,810,000
	0.71	$ 0.07	20,610,000	20,610,000

*2,200,000 of the warrants outstanding expired unexercised subsequent to August 31, 2017. Also see note 14(a).

e) Finders' warrants

Finders' warrant transactions and the number of warrants outstanding are summarized as follows:

	Year Ended August 31, 2017		Year Ended August 31, 2016	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	1,395,750	$ 0.07	675,750	$ 0.05
Issued	-	-	840,000	0.09
Expired	(555,750)	0.05	(120,000)	0.05
Outstanding, end of year	840,000	$ 0.09	1,395,750	$ 0.07

(in Canadian dollars)

9. SHARE CAPITAL (Continued)

e) Finders' warrants (continued)

The following finders' warrants were outstanding and exercisable at August 31, 2017:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding	Exercisable
March 28, 2018	0.57	$ 0.07	290,000	290,000
March 28, 2018	0.57	$ 0.10	550,000	550,000
	0.57	$ 0.09	840,000	840,000

The fair value of each finder's warrant issued was calculated using the following weighted average assumptions:

	Year Ended August 31, 2017	Year Ended August 31, 2016
Expected life (years)	N/A	2.00
Risk-free interest rate	N/A	0.53%
Annualized volatility	N/A	154%
Dividend yield	N/A	N/A
Stock price at issuance date	N/A	$0.04
Exercise price	N/A	$0.09
Weighted average issuance date fair value	N/A	$0.024

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

10. RELATED PARTY TRANSACTIONS

The Company's related parties include companies controlled by officers and close family members of former 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.

(in Canadian dollars)

10 RELATED PARTY TRANSACTIONS (Continued)

a) Key management compensation

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 current and former chief financial officers and the corporate secretary. Key management compensation is as follows:

	August 31, 2017	August 31, 2016
Consulting and management fees	$ 46,000	$ 51,398
Salaries and benefits	-	12,938
Geological consulting fees (included in exploration and evaluation assets)	-	10,835
Total short-term compensation	46,000	75,171
Share-based payments	-	82,650
Total key management compensation	$ **46,000**	$ **157,821**

b) Transactions with other related parties

In the normal course of operations for the years ended August 31, 2017 and 2016, a close family member of a director provided secretarial services totaling $nil (2016 - $12,300).

As at August 31, 2017, the balance due to related parties amounted to $5,250 (2016 - $1,148) and was recorded in accounts payable and accrued liabilities.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	August 31, 2017	August 31, 2016
Common shares issued for exploration and evaluation assets	$ 90,000	$ 8,400
Common shares issued for settlement of debt	$ 190,238	$ -
Exploration and evaluation expenditures included in prepaid expenses	$ 10,652	$ -
Dividends received as marketable securities	$ -	$ 2,275
Exploration and evaluation expenditures included in accounts payable and accrued liabilities	$ -	$ 7,903
Marketable securities received on the disposition of exploration and evaluation assets	$ 500,000	$ 240,000
Recovery of exploration and evaluation asset expenditures included in other receivables	$ 19,393	$ 100,000

(in Canadian dollars)

12. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The carrying values of cash, other receivables, marketable securities and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by levels within the fair value hierarchy:

August 31, 2017	Level 1	Level 2	Level 3	Total
Marketable securities	$ 662,070	$ -	$ -	$ 662,070

August 31, 2016	Level 1	Level 2	Level 3	Total
Marketable securities	$ 535,238	$ -	$ -	$ 535,238

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing at major Canadian financial institutions. The Company is also exposed to credit risk with respect to other receivables. The Company's maximum exposure to credit risk at August 31, 2017 was $175,870 (2016 - $255,552).

b) 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2017 equal $67,668 (2016 - $29,397). All of the liabilities presented as accounts payable are due within 30 days of August 31, 2017. The cash available is sufficient to meet the Company's financial obligations at year end.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

i) *Currency risk* - The Company has no funds held in a foreign currency and as a result is not exposed to significant currency risk on its financial instruments at year-end.

(in Canadian dollars)

12. FINANCIAL INSTRUMENTS (Continued)

c) Market risk (continued)

ii) Interest rate risk - Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates and, therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

iii) Other price risk - Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to other price risk with respect to its marketable securities.

d) Capital management

The Company considers its capital to be comprised of 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 attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

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

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the years ended August 31, 2017 and 2016. The Company is not subject to externally imposed capital requirements.

13. 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, 2017	Year Ended August 31, 2016
Loss before income taxes	$ (163,507)	$ (93,360)
Expected tax recovery calculated using the combined federal and provincial tax rate in Canada of 26.8% (2016 - 26.9%)	(43,869)	(25,114)
Adjustments for the following items:		
Items not deductible for tax purposes	3,385	(103,374)
Renunciation of eligible expenditures	31,241	105,580
Effect of tax rate change and other adjustments	160,564	-
Expiry of non-refundable mining investment tax credit	116,365	11,447
Change in unrecognized deferred income tax benefits	(267,686)	11,461
Deferred income tax recovery	$ -	$ -

(in Canadian dollars)

13. INCOME TAXES (Continued)

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

	August 31, 2017	August 31, 2016
Exploration and evaluation assets	$ 1,608,000	$ 1,697,000
Property and equipment	5,000	6,000
Marketable securities	32,000	182,000
Share issue costs	12,000	17,000
Non-capital losses	1,174,000	1,215,000
Deductible capital losses	155,000	14,000
Non-refundable investment tax credit	559,000	683,000
	$ 3,545,000	**$ 3,814,000**

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:

2026	$ 97,000
2027	263,000
2028	292,000
2029	470,000
2030	820,000
2031	676,000
2032	610,000
2033	423,000
2034	302,000
2035	210,000
2036	-
2037	267,000
	$ 4,430,000

As at August 31, 2017, accumulated capital losses of $1,173,042 (2016 - $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 $555,000 (2016 - $643,000), which are available up to 2024 to reduce the federal income taxes payable.

The Company has unrecorded resources tax credits of $3,000 (2016 - $40,000), which are available up to 2018 to reduce the Quebec income taxes payable.

14. SUBSEQUENT EVENTS

a) Subsequent to August 31, 2017, the Company received $60,000 on the exercise of 1,200,000 warrants.

b) Subsequent to August 31, 2017, the Company entered into three agreements for the purchase of 6 additional claims for the Carscallen property. The Company paid $12,500 and issued 100,000 common shares as consideration. Two of the claims are subject to 2% NSR.