MacDonald Mines Exploration Ltd.

Financial Statements

December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of MacDonald Mines Exploration Ltd.:

We have audited the accompanying financial statements of MacDonald Mines Exploration Ltd., which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive loss, changes in shareholders' (deficiency) 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 MacDonald Mines Exploration Ltd. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on MacDonald Mines Exploration Ltd.'s ability to continue as a going concern.

MNP LLP

Mississauga, Ontario	Chartered Professional Accountants
March 13, 2017	Licensed Public Accountants

MNP

Statements of Financial Position

As at		**December 31, 2016**		December 31, 2015
Assets				
Current assets				
Cash and cash equivalents *(note 4)*	**$**	**604,464**	$	31,019
Tax recoverable		**13,810**		-
Marketable securities *(note 5)*		**481,123**		14,466
		1,099,397		45,485
Non-Current				
Equipment *(note 7)*		**4,277**		8,553
	$	**1,103,674**	$	54,038
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities *(notes 8, 9 and 10)*	**$**	**1,761,015**	$	1,518,059
Short-term debt *(note 8)*		**52,500**		50,000
		1,813,515		1,568,059
Shareholders' deficiency				
Share capital *(note 9)*		**35,383,153**		35,261,001
Reserves *(note 11 and 12)*		**20,378,687**		20,131,615
Accumulated deficit		**(56,471,681)**		(56,906,637)
		(709,841)		(1,514,021)
	$	**1,103,674**	$	54,038

Going Concern *(note 1)*

Mineral Properties and Exploration Costs *(note 6)*

Subsequent Events *(note 18)*

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

Approved by the Board

Signed: "John P. Sanderson"
Director

Signed: "Quentin Yarie"
Director

Statements of Comprehensive Loss
for the years ended December 31, 2016 and 2015

		2016		2015
Expenses				
Salaries, professional and consulting fees *(note 8)*	**$**	**81,774**	$	13,556
Severance expense *(note 8)*		**72,000**		-
Shareholder communication		**44,013**		43,134
General and administrative *(note 8)*		**14,957**		35,235
Depreciation *(note 7)*		**4,276**		19,521
Investment loss		**176,903**		4,015
Flow-through repayment and Part XII.6 tax *(note 10)*		**-**		942,000
Write down of equipment *(note 7)*		**-**		45,210
Exploration expenditures; net of recoveries *(note 6)*		**-**		975
Total expenses		**393,923**		1,103,646
Net loss before other income		**(393,923)**		(1,103,646)
Other income				
Sale of properties *(note 6)*		**878,446**		-
Loss on sale of marketable securities		**(49,570)**		-
Investment and other income		**3**		556
Total other income		**828,879**		556
Income (loss) before provision for income taxes		**434,956**		(1,103,090)
Provision for (recovery of) income taxes *(note 14)*:				
Deferred		**-**		-
Net income (loss) for the year		**434,956**		(1,103,090)
Items that will subsequently be reclassified to profit or loss				
Unrealized loss on marketable securities		**-**		(7,642)
Total other comprehensive (loss)		**-**		(7,642)
Total comprehensive income (loss)	**$**	**434,956**	$	(1,110,732)
Basic and diluted income (loss) per share *(note 15)*	**$**	**0.010**	$	(0.036)

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

Statements of Cash Flows
for the years ended December 31,

		2016		2015
Cash flow from operating activities				
Net income (loss) for the year	**$**	**434,956**	$	(1,103,090)
Items not requiring an outlay of cash:				
Loss on sale of marketable securities		**49,570**		
Depreciation		**4,276**		19,521
Investment loss		**176,903**		4,015
Deferred premium on flow-through shares		**(73,654)**		-
Sale of property		**(878,446)**		-
Provision for flow-through penalties and Part XII.6 tax		-		942,000
Write down of equipment		-		45,210
Change in accounts receivable and prepayments		**(13,810)**		2,524
Change in accounts payable and accrued liabilities		**242,954**		30,392
		(57,251)		(59,428)
Cash flow from financing activities				
Issue of capital stock		**515,580**		-
Cost of issue		**(72,702)**		-
Proceeds from sale of marketable securities		**185,318**	-	
Short-term debt (repayment)		**2,500**		(50,000)
		630,696		(50,000)
Increase in cash and cash equivalents		**573,445**		(109,428)
Cash and cash equivalents, beginning of year		**31,019**		140,447
Cash and cash equivalents, end of year	**$**	**604,464**	$	31,019

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

MacDonald Mines Exploration Ltd.

Statements of Changes in Shareholders' (Deficiency) Equity
for the years ended December 31, 2016 and 2015

			Reserves				
	Number of Shares	Capital Stock	Contributed Surplus	Warrants	Accumulated Other Comprehensive Income	Deficit	Total
Balance, January 1, 2015	**30,274,308**	**$ 35,261,001**	**$ 18,864,647**	**$ 1,277,969**	**$ (3,359)**	**$ (55,803,547)**	**$ (403,289)**
Value of warrants expired or cancelled	-	-	1,277,969	(1,277,969)	-	-	-
Net loss and comprehensive loss for the year	-	-	-	-	(7,642)	(1,103,090)	(1,110,732)
Balance, December 31, 2015	**30,274,308**	**35,261,001**	**20,142,616**	**-**	**(11,001)**	**(56,906,637)**	**(1,514,021)**
Issuance of flow-through shares	7,365,429	515,580	-	-	-	-	515,580
Premium on flow-through shares	-	(73,654)	-	-	-	-	(73,654)
Share issuance costs	-	(118,574)	-	45,872	-	-	(72,702)
Issuance of warrants	-	(201,200)	-	201,200	-	-	-
Net income and comprehensive loss for the year	-	-	-	-	-	434,956	434,956
Balance, December 31, 2016	**37,639,737**	**$ 35,383,153**	**$ 20,142,616**	**$ 247,072**	**$ (11,001)**	**$ (56,471,681)**	**$ (709,841)**

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

1. Nature of Operations and Going Concern

MacDonald Mines Exploration Ltd. (the "Company") is a publicly traded company actively engaged in the acquisition, exploration and development of mineral properties. The Company's registered office is Suite 1001, 145 Wellington Street West, Toronto, Ontario, Canada, M5J 1H8. Since November 1, 2011, the Company is continued under the Canadian Business Corporations Act. Prior to November 1, 2011 the Company was continued under the Quebec Business Corporations Act (formerly, Part 1A of the Companies Act (Quebec)). The Company's Class A common shares are listed on the TSX Venture Exchange ("TSXV") under the ticker symbol "BMK". The Company's functional and presentation currency is Canadian Dollars.

The Company is currently in the exploration stage and has not commenced commercial operations. As at December 31, 2016, the Company had a working capital deficiency of $714,118 which includes a flow-through provision of $1,400,000, an accumulated deficit of $56,471,681 and was not yet generating operating cash flows. As such, there is significant doubt regarding the Company's ability to continue as a going concern.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The Company's ability to continue operations and fund its mining interest expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Accordingly, the financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

On November 21, 2016, the Company received approval from the TSX Venture Exchange to the consolidation of its common shares on the basis of ten (10) pre-consolidation shares for one (1) post-consolidation share (the "Consolidation"). Effective at opening on November 21, 2016, the Company's shares commenced trading on the TSX Venture Exchange on a consolidated basis. As part of the Consolidation, the stock options and warrants were also consolidated and the exercise prices were adjusted to reflect the Consolidation. The Consolidation has been reflected in these financial statements and all applicable references to the number of shares, warrants and stock options and their strike price and per share information has been adjusted.

2. Significant Accounting Policies

These financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2016.

2. Significant Accounting Policies - continued

Basis of presentation

These financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale which have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The financial statements were approved by the Board of Directors on March 13, 2017.

Significant accounting judgments and estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the year. On an ongoing basis, management evaluates its judgments and estimates. Management uses experience and other factors it believes to be reasonable as the basis for its judgments and estimates. Actual results could differ from those estimates. These financial statements include estimates which, by their nature, are uncertain, the impacts of which are pervasive and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and also in future periods if it affects both current and future periods. Significant estimates and judgments include, but are not limited to, the provision for tax and penalties related to flow-through expenditures previously renounced (see note 10). The provision requires management to make judgments and estimates of the likelihood and amount of penalties to be paid.

Cash and cash equivalents

Cash and cash equivalents include money market investments that are readily convertible to known amounts of cash and have a maturity of less than or equal to 90 days.

Mineral properties and exploration expenditures

The Company expenses all costs relating to the acquisition of, exploration for and development of mineral claims and credits all revenues received against the exploration expenditures. Such costs include, but are not limited to geological, geophysical studies, exploratory drilling and sampling.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized; this includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

Equipment

Equipment is recorded at cost and depreciated over its expected useful life using the following methods:

Exploration equipment	-	50% declining balance

2. Significant Accounting Policies - continued

Financial instruments

The Company's financial instruments consist of the following summarized accounts included within the statements of financial position:

Financial assets and liabilities	Classification
Cash and cash equivalents	Loans and receivables
Marketable securities	Available-for-sale financial assets
Derivative warrant assets	Fair value through profit or loss
Accounts payable and accrued liabilities	Other financial liabilities
Short-term debt	Other financial liabilities

Fair value through profit or loss: This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at their calculated fair value with changes in fair value recognized in the statement of comprehensive loss.

Available-for-sale financial assets: Available-for-sale financial assets are recorded at their fair value with unrealized holding gains and losses reported as a separate component of equity as other comprehensive income. The fair value of marketable securities is their quoted bid price at the end of each reporting period.

Loans and receivables: Loans and receivables are financial assets with fixed or determinable payments not quoted in an active market. These assets are initially recognized at fair value plus transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment loss. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the net carrying amount on initial recognition.

Other financial liabilities: Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are derecognized when the obligations are discharged, cancelled or expired.

2. Significant Accounting Policies - continued

Financial instruments - continued

Impairment of financial assets: Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include financial difficulty of the counterparty, default or delinquency in interest or principal payment or the likelihood that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an accounts receivable balance is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial instruments recorded at fair value: The Company classifies its financial instruments according to a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 - Inputs other than quoted prices that are observable for assets or liabilities directly or indirectly; and
- Level 3 - Inputs for assets or liabilities that are not based on observable market data.

The Company's marketable securities, which consist of investments in public companies, are valued using quoted bid prices in active markets and as such are classified within Level 1 of the fair value hierarchy, share purchase warrants are valued using the Black Scholes pricing model and as such are classified within Level 2 of the fair value hierarchy.

Income taxes

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent they relate to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or equity depending on the item to which the adjustment relates.

2. Significant Accounting Policies - continued

Income taxes - continued

Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Share issue costs

Costs incurred for the issue of common shares are deducted from capital stock.

Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. 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 a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the 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. The Company may also be subject to and would accrue a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations.

Share-based payment transactions

The Company has a stock option plan as described in note 13. All share-based awards granted, including those granted to directors not acting in their capacity as directors, are accounted for using the fair value based method. The fair value of stock options granted is recognized as an expense within the statement of comprehensive loss and a corresponding increase to reserves within the equity section of the statement of financial position. Any consideration paid by eligible participants on the exercise of stock options is credited to capital stock. The reserves amount associated with stock options is transferred to capital stock upon exercise.

Income (Loss) per share

Basic income (loss) per share is computed by dividing the profit or loss for the period by the weighted average number of common shares outstanding during the period. Stock options and common share purchase warrants are not included in the calculation of diluted loss per share if their inclusion would be antidilutive.

2. Significant Accounting Policies - continued

Asset retirement obligations

IAS 37 - Provisions, Contingent Liabilities and Contingent Assets, provides guidance relating to asset retirement obligations. An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and charged to expenses as an exploration cost, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflect the time value of money are used to calculate the net present value. The related liability is adjusted in each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2016, the Company had no asset retirement obligations.

3. New Accounting Standards and Interpretations

Standards and amendments issued but not yet effective

The IASB issued new standards and amendments not yet effective. The Company is assessing the impact of the following standards:

IFRS 9 Financial Instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Final amendments released on July 24, 2014 also introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"). IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting. The extent of the impact of adoption of IFRS 16 has not yet been determined.

4. Cash and Cash Equivalents

As of December 31, 2016, the Company held $604,464 (2015: $31,019) in cash and term deposits and estimates that its fair value approximates the carrying value.

5. Marketable Securities

The following is a summary of the Company's marketable securities:

	December 31, 2016	December 31, 2015
Equity securities	**$ 477,379**	$ 10,621
Share purchase warrants	**3,744**	3,845
	$ 481,123	$ 14,466

6. Mineral Properties

McFaulds Lake and Area Properties, James Bay Lowlands, Ontario, Canada

The Company has held property in this region of northern Ontario since 2004 and is subject to net smelter royalties (“NSR”) on certain claims.

On August 5, 2016, the Company entered into an agreement with Noront Resources Ltd. ("Noront") to sell 75% interest of certain lands in the property through the issuance of 2,318,393 common shares of Noront at a deemed value of $750,000. On the date of the transaction, the fair value of the shares received was $799,846. The Company has a 25% carried interest in the property until such time as an Inferred Mineral Resource has been filed on the property by Noront in accordance with NI43-101, at which time ("the Notification Date") a Joint Venture shall automatically be deemed to be formed between Noront and the Company.

The Company shall have twenty business days following the Notification Date (the "Conversion Right Exercise Period") in which to make a one-time election to transfer its 25% carried interest in the Property to Noront in exchange for a 1% NSR on the property.

If the Company fails to exercise the Conversion Right within the Conversion Right Exercise Period, Noront shall have the option (the "Buy-Back Option"), exercisable for twenty days following the expiry of the Conversion Right Exercise Period, to elect to purchase the Company's 25% carried interest in the Property for a purchase price of $3,000,000 (the "Buy-Back Purchase Price"), payable in cash or Noront shares at the option of Noront.

During the year ended December 31, 2016, the Company completed a Mineral Property Acquisition Agreement with KWG Resources Inc. (“KWG”) to sell the mineral claims known as the Hornby Property. In consideration of the claims sold, KWG issued 4,000,000 of its common shares to the Company. On the date of the transaction, the fair value of the shares received was $78,600. MacDonald Mines retains a 2% net smelter return (“NSR”) on the Hornby Property. KWG can purchase one percent (1%) of the NSR, at any time prior to commencement of production from the claims, by making a cash payment of $1,000,000 to the Company. KWG retains the first right of refusal to purchase the NSR on similar transaction terms should the Company, at its sole discretion, elect to sell the entire (or any part) of the 2% NSR to a bona-fide third party.

Bob Lake Property, LaRonge, Saskatchewan, Canada

To acquire the property, the Company paid $75,000, issued 2,850,000 common shares valued at $194,000 and 300,000 now expired share purchase warrants.

7. Equipment

	Exploration Equipment	Furniture	Computer Hardware	Vehicles	Total
Year ended December 31, 2016:					
Opening net book value	$ 8,553	$ -	$ -	$ -	$ 8,553
Depreciation	(4,276)	-	-	-	(4,276)
December 31, 2016, net book value	**$ 4,277**	**$ -**	**$ -**	**$ -**	**$ 4,277**
As at December 31, 2016:					
Cost	$ 83,739	$ -	$ -	$ -	$ 83,739
Accumulated depreciation	(79,462)	-	-	-	(79,462)
December 31, 2016 net book value	**$ 4,277**	**$ -**	**$ -**	**$ -**	**$ 4,277**

	Exploration Equipment	Furniture	Computer Hardware	Vehicles	Total
Year ended December 31, 2015:					
Opening net book value	$ 17,107	$ 36,137	$ 2,214	$ 17,826	$ 73,284
Depreciation	(8,554)	(4,710)	(909)	(5,348)	(19,521)
Write-down of equipment	-	(31,427)	(1,305)	(12,478)	(45,210)
December 31, 2015, net book value	**$ 8,553**	**$ -**	**$ -**	**$ -**	**$ 8,553**
As at December 31, 2015:					
Cost	$ 83,739	$ 74,412	$ 33,369	$ 69,328	$ 260,848
Accumulated depreciation	(75,186)	(42,985)	(32,064)	(56,850)	(207,085)
Write-down of equipment	-	(31,427)	(1,305)	(12,478)	(45,210)
December 31, 2015 net book value	**$ 8,553**	**$ -**	**$ -**	**$ -**	**$ 8,553**

During the year ended December 31, 2015, the Company wrote down $45,210 of equipment. The write-down was due to the equipment no longer being in use, and thus the Company's recoverable amount was less than its net book value.

8. Related Party Transactions and Balances

The following are the related party transactions for the year ended December 31, 2016:

- The Company incurred $17,625 (2015: $Nil) in administrative and professional consulting fees to directors and senior officers.
- The Company was charged $Nil (2015: $30,000) in rent and other administrative services by a TSX-V listed company which is managed by common directors and senior officers of the Company. Included in accounts payable and accrued liabilities is $47,000 (2015: $47,000) related to rent payable.
- The Company is indebted to Energizer Resources Inc. (TSX: EGZ), a company related by common management, $50,000 in a form of a short-term loan from the same company. The loan is interest bearing at a rate of 5%, unsecured and due on demand. No amounts have been paid back as at December 31, 2016. Included in accounts payable and accrued liabilities is $52,500 (2015: $50,000) related to the loan and accrued interest.

As of December 31, 2016, the outstanding related party balances were:

- The Company owed $36,912 (2015: $Nil) to key management personnel as a reimbursement for severance costs and other business expenses incurred on behalf of the Company.
- The Company reached legal settlements with its former CEO and CFO, whereby a combined severance of $72,000 was awarded. This amount is included in accounts payable and accrued liabilities. The Company expensed these claims during the year ended December 31, 2016.

9. Capital Stock

Capital stock consists of an unlimited number of Class "A" common shares without par value. Issued shares are fully paid. All warrants and compensation options were valued using the Black-Scholes pricing model.

Capital Stock Activity

On December 30, 2016, the Company issued 7,365,429 flow-through units at a price of $0.07 per unit for gross proceeds of $515,580. Each flow-through unit consisted of one flow-through share and one common share purchase warrant. Each whole warrant is exercisable for one common share at a price of $0.10 per share for a period of three years from the date of issue. In connection with the offering, the Company paid $46,402 cash commission and issued 662,889 non-transferable compensation warrants valued at $45,872 entitling the holder to acquire one common share for a price of $0.10 per share with an expiry date of five years from date of issuance. The premium on the flow-through shares was calculated to be $73,654 which is included in accounts payable and accrued liabilities. In connection with the financing, the Company has a commitment to incur Canadian exploration expenditures (“CEE”) of $515,580 prior to the end of December 31, 2017. Flow-through shares and exploration expenditures qualifying as CEEs are defined in the Income Tax Act of Canada.

There were no private placements completed during the year ended December 31, 2015.

10. Flow-Through Provision

During the year ended December 31, 2015, the Company underwent an audit conducted by the Canada Revenue Agency ("CRA") for the calendar years 2010 to 2013. As a result of the audit, CRA has proposed an adjustment to the amount of qualifying expenditures that were renounced to the Subscribers aggregating approximately $2,500,000. In addition, CRA has assessed additional Part XII.6 tax of approximately $250,000 to the Company in connection with the shortfall which has been paid subsequent to December 31, 2016.

Included in accounts payable and accrued liabilities as at December 31, 2016 is a provision of $1,400,000 (2015: $1,400,000) representing the maximum amount of tax and penalties related to the 2013 shortfall in flow-through eligible exploration expenditures. The Company does not intend to appeal the penalty and taxes imposed by CRA. The Company is evaluating the repayment terms.

11. Deferred Premium on Flow-Through Shares

The premium paid for flow-through shares in excess of the market value of the shares without the flow-through features is initially recognized as a liability. The liability is subsequently reduced and recorded in the statements of comprehensive loss on a pro-rata basis based on the corresponding eligible expenditures that have been incurred when it is the Company's intention to file the appropriate renunciation forms with the Canadian taxation authorities.

Total premium liability of $73,654 was recognized in respect of the December 30, 2016 flow-through financing.

As of December 31, 2016, the remaining deferred premium was $73,654 (2015: $Nil).

12. Warrants

The following is a continuity schedule for each series of warrants outstanding as of December 31, 2016:

Expiry Date	Exercise Price ($)	Outstanding at December 31, 2015	Issued	Exercised	Expired	Outstanding at December 31, 2016	Fair Values ($)
12/30/2019	0.10	-	7,365,429	-	-	7,365,429	201,200
12/30/2021	0.10	-	662,889	-	-	662,889	45,872
		-	**8,028,318**	**-**	**-**	**8,028,318**	**247,072**

The fair value of the 7,365,429 warrants issued in connection with the private placement of December 2016 was estimated at $201,200 using a relative fair value attribution of the Black-Scholes model for pricing options using the following weighted average assumptions: risk free interest rate 0.84%; dividend yield 0%; expected stock volatility 288%; and an expected life of 3 years.

The fair value of the 662,889 broker warrants issued in connection with the private placement of December 2016 was estimated at $45,872 using a relative fair value attribution of the Black-Scholes model for pricing options under the following weighted average assumptions: risk free interest rate 0.84%; dividend yield 0%; expected stock volatility 288%; and an expected life of 5 years.

The weighted average exercise price of the outstanding warrants as of December 31, 2016 was $0.10 (2015: $Nil) and the weighted average remaining life in years was 3.16 (2015: Nil).

13. Stock Purchase Option Incentive Plan

The Company has a stock purchase option incentive plan (the "Plan") under which the directors may grant stock options to qualified directors, officers, consultants and affiliates. The maximum aggregate number of Class A Common Shares under option at any time cannot exceed 10% of the total issued number of shares. The exercise price of stock options is the greater of $0.10 and the closing price of the Company's shares on the trading day preceding the date of the option grant. Options vest immediately for a term not greater than five years.

The following is a continuity schedule for each series of stock options outstanding at December 31, 2016:

Expiry Date	Exercise Price ($)	Outstanding at December 31, 2015	Granted	Exercised	Expired/ Cancelled	Outstanding at December 31, 2016	Fair Values ($)
February 16, 2016	1.50	983,500	-	-	(983,500)	-	-
March 17, 2016	1.60	60,500	-	-	(60,500)	-	-
July 19, 2016	1.50	175,000	-	-	(175,000)	-	-
March 19, 2017	1.20	49,500	-	-	(16,500)	33,000	33,660
April 3, 2017	1.70	352,500	-	-	(97,500)	255,000	370,770
February 20, 2018	1.00	449,500	-	-	(135,500)	314,000	159,200
July 9, 2018	1.00	60,000	-	-	(6,000)	54,000	10,206
		2,130,500	**-**	**-**	**(1,474,500)**	**656,000**	**573,836**

The weighted average exercise price of the outstanding stock options as of December 31, 2016 was $1.28 (2015: $1.41) and the weighted average remaining life in years was 0.78 (2015: 0.87).

14. Income Taxes

The Canadian combined federal and provincial statutory income tax rate of 26.5% reconciles to an effective tax rate of nil for 2016 and 2015. The significant reconciling items are the tax impact of unrealized losses $(30,034), share issuance costs recorded through equity of $(31,422), opening differences and other adjustments of $64,588.

Deferred taxes have not been recognized in respect of the deductible temporary differences set out below:

	2016	2015
Mineral properties	**$ 12,720,418**	$ 13,598,864
Non capital losses	**$ 9,615,118**	$ 9,496,540
Marketable securities	**$ 1,109,545**	$ 932,742
Investment tax credits	**$ 911,653**	$ 911,653
Reserves	**$ 693,220**	$ 693,220
Equipment	**$ 352,388**	$ 337,144
Share issuance costs	**$ 94,859**	$ 135,518
Capital losses	**$ 47,709**	$ -

The non-capital losses carried forward will expire between 2026 and 2036.

The exploration expenditures and equipment may be carried forward indefinitely.

The share issue costs will be deducted for tax purposes over the next four years.

Investment tax credits will expire between 2029 and 2032.

15. Income (Loss) Per Share

The following table sets out the computation for basic and diluted income (loss) per share:

	2016	2015
Numerator		
Net income (loss) attributable to common shareholders - basic and diluted	**$ 434,956**	$ (1,103,090)
Denominator		
Weighted average number of common shares outstanding - basic and diluted	**30,294,487**	30,274,308
Basic and diluted income (loss) per share	**$ 0.010**	$ (0.036)

Stock options and warrants totaling 8,684,318 (2015: 2,130,500) were excluded from the computation of basic and diluted loss per share as the potential effect was antidilutive.

16. Capital Management

The Company's capital is composed of share capital, reserves and deficit. The Company manages its capital within the following objectives:

(a) to ensure that there is sufficient financial flexibility to achieve the ongoing business objectives including ensuring that there is sufficient funds available, in order to support the acquisition, exploration and development of mineral properties; and

(b) to maximize shareholder return through enhancing shareholder value.

The Company's current properties are all at the exploration stage of development. The Company is dependent on external financing to fund its capital requirements. In order to carry out planned exploration and pay administrative costs, the Company will raise additional amounts as needed.

The Board does not establish quantitative return on capital criteria for management, rather it relies on the expertise of the Company's management to sustain future development. Management periodically reviews its capital management approach and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management for the year ended December 31, 2016. The Company is not subject to externally imposed capital requirements.

17. Financial Risk Management

The Company's financial risk exposures and the impact on the Company's financial instruments are as follows:

(a) *Credit risk:*

The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. The Company has no significant concentration of credit risk arising from financial instruments.

(b) *Liquidity risk:*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2016, the Company has a working capital deficiency of $714,118 (2015: $1,522,574) (see note 1). The Company had a cash and cash equivalents balance of $604,464 (2015: $31,019) to settle current financial liabilities of $1,813,515 (2015: $1,568,059). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except short-term debt.

17. Financial Risk Management - continued

(c) *Market risk:*

Market risk is made up of interest rate risk, price risk and equity price risk.

Interest rate risk: The Company has cash balances and non-interest bearing debt, except short-term loans. The Company's current policy is to invest excess cash and cash equivalents in short-term money market investments issued by highly rated entities. The Company monitors the investments it makes and is satisfied with the credit ratings.

Price Risk: The Company is indirectly exposed to this risk through the price of base metals. The Company monitors commodity prices to determine the appropriate course of action to be taken with respect to its mineral properties.

Equity Price Risk: This is defined as the potential adverse impact on the Company's earnings due to movements in individual equity movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action.

(d) *Sensitivity Analysis:*

Based on management's knowledge and experience of the financial markets, the Company believes that it is "reasonably possible" for the Company's marketable securities to move plus or minus 50%. If this were to happen, comprehensive income (loss) would be affected by approximately $240,562.

(e) *Fair Value:*

The carrying amount of accounts receivable and prepayments, accounts payable and accrued liabilities and short-term debt approximates their fair value because of the short-term maturities of these items.

18. Subsequent Events

Charlevoix Silica Property

On November 22, 2016, the Company announced that it has entered into an agreement to acquire 6 claims known as the “Charlevoix Silica Property” located approximately 42 kilometres north of Baie-Saint-Paul, on the north shore of the Saint Lawrence River, in the Province of Quebec. The consideration for the acquisition is the issuance of 9,000,000 common shares of the Company and the grant of a 2% net sales returns (“NSR”) royalty to the property vendor, 9019-5504 Quebec Inc. 100% of the NSR may be bought back for $1,000,000. On January 12, 2017, the Company issued the 9,000,000 common shares and the transaction was completed.

Option and Joint Venture Agreement

On December 7, 2016 (“the “Effective Date”), the Company entered into an Option and Joint Venture (“JV”) agreement (“the Option Agreement”) with Noble Mineral Exploration Inc. (“Noble”), to advance exploration on Noble’s Wawa-Holdsworth Gold and Silver Project (“the Project”), located 25 kilometres northeast of Wawa, Ontario. Subject to the terms and conditions of the Option Agreement, the Company will have the right to earn up to an undivided 75% interest in the Project, comprising of a first option to earn a 51% base interest and a second option to earn an additional 24% interest.

18. Subsequent Events - continued

To earn an initial 51% undivided interest (“the Base Interest”) in the Wawa-Holdsworth Gold and Silver Project, the Company will issue 2,500,000 of its Class A Common Shares, issue 2,500,000 of its Warrants to Noble, and incur a minimum of $1,200,000 in expenditures in the 18-month period following the Effective Date. To earn the additional 24% undivided interest, the Company will incur a further $1,000,000 of expenditures on or before the second anniversary of the date the First Option is exercised and the Base Interest is earned, and make a payment of $100,000 to Noble. On January 12, 2017, the Company issued 2,500,000 common shares and 2,500,000 warrants, allowing the Company to earn the initial 51% base interest in the Project.

Private Placement Financing

On January 20, 2017, the Company closed an additional tranche of its private placement offering (the “Offering”) originally announced on December 19, 2016, pursuant to which it has issued 5,050,000 non flow-through units of the Company for gross proceeds of $303,000. Each non flow-through unit was comprised of one Class A common share of the Company and one warrant. In connection with the closing of this tranche, the Company paid finders fees of $13,500 and has issued 450,000 compensation options, which will be exercisable to acquire one non flow-through share for a period of five years from the date of issuance thereof at a price of 0.06 per unit.

On March 6 and 7, 2017, the Company closed the final tranche of its private placement offering, pursuant to which it issued a total of 2,842,858 flow-through units at a price of $0.07 per unit and 2,605,999 non flow-through units at a price of $0.07 per unit for gross proceeds of $381,420. Each flow through unit and each non flow-through unit consists of one common share and one non flow-through warrant. Each warrant is exercisable to acquire one common share at a price of $0.10 per share for a period of 36 months from issuance. In connection with the offering, the Company paid finders fees equal to 9% of the gross proceeds raised by the Company to investors introduced to the Company by such finders, or approximately $31,178 and has issued compensation options equal to 9% of the units sold to investors introduced to the Company by such finders, or 445,397 compensation options. Each compensation option is exercisable to acquire one non flow-through unit at a price of $0.07 per unit for a period of five years from the date of issuance.

Shares for Debt

On February 14, 2017, the Company agreed to settle certain of its flow-through mining expenditure obligations relating to its obligation to indemnify certain subscribers in respect of tax and penalties payable in connection with the reassessment of such purchasers’ tax returns, with the issuance of 200,000 Class A common shares at a deemed price of $0.0618 per Common Share to settle the aggregate amount of the Debt owed to such subscriber of $12,360.