# Northern Superior Resources Inc.

## Annual Financial Statements

**(Expressed in Canadian dollars)**

**For the years ended December 31, 2016 and 2015**

# JAMES STAFFORD

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## INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Northern Superior Resources Inc.**

We have audited the accompanying financial statements of Northern Superior Resources Inc., which comprise the statements of financial position as at 31 December 2016 and 2015 and the statements of loss and comprehensive loss, cash flows and equity 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.

*Auditor's 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 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.

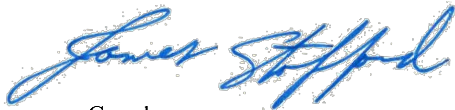
*Opinion*

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

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that Northern Superior Resources Inc. incurred a net loss of $1,471,424 during the year ended 31 December 2016 and had a working capital of $1,853,011 as at 31 December 2016. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the ability of Northern Superior Resources Inc. to continue as a going concern.

**Chartered Professional Accountants**



Vancouver, Canada
19 April 2017

# Northern Superior Resources Inc.
## Financial Statements
(Expressed in Canadian dollars)

## Statements of Financial Position

| *As at* | *Notes* | **December 31, 2016 ($)** | December 31, 2015 ($) |
|---|---|---|---|
| **Assets** | | | |
| *Current assets* | | | |
| Cash and cash equivalents | *4* | **2,697,072** | 1,615,034 |
| Prepaids and receivables | *5* | **68,911** | 236,289 |
| Available for sale investment | *6* | **6,000** | 2,000 |
| | | **2,771,983** | 1,853,323 |
| *Non-current assets* | | | |
| Receivables | *5* | **-** | 3,241 |
| Equipment | *7* | **4,172** | 10,523 |
| Exploration and evaluation assets | *8* | **3,728,410** | 3,580,917 |
| | | **6,504,565** | 5,448,004 |
| **Liabilities** | | | |
| *Current liabilities* | | | |
| Trade payables and accrued liabilities | *9* | **918,972** | 34,004 |
| **Shareholders' Equity** | | | |
| Share Capital | *10* | **63,813,207** | 62,799,807 |
| Reserve - Stock options | *10* | **4,704,251** | 4,661,234 |
| Reserve - Warrants | *10* | **586,600** | - |
| Accumulated other comprehensive income | | **(4,250)** | (3,250) |
| Deficit | | **(63,514,215)** | (62,043,791) |
| | | **5,585,593** | 5,414,000 |
| | | **6,504,565** | 5,448,004 |

Commitments and contingencies – Notes 13, Subsequent events – Note 15

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD OF DIRECTORS ON APRIL 19, 2017

| *"François Perron"* | *"Andrew Farncomb"* |
|---|---|
| Director | Director |

*See accompanying notes to financial statements*

Northern Superior Resources Inc.
Financial Statements
(Expressed in Canadian dollars)

## Statements of Loss and Comprehensive Loss

| | Notes | Years ended December 31, **2016** ($) | 2015 ($) |
|---|---|---|---|
| Expenses | | | |
| Consulting fees | *11* | **83,906** | 108,917 |
| Depreciation | | **6,351** | 10,798 |
| Legal and accounting | | **143,081** | 114,172 |
| Office expense | *11* | **482,624** | 540,047 |
| Shareholder information | | **210,024** | 114,041 |
| Travel | | **18,162** | 17,421 |
| Loss before the undernoted | | **(944,148)** | (905,396) |
| Interest income | | **9,382** | 26,065 |
| Ontario litigation costs | *8* | **(535,657)** | (916,362) |
| Writedown of exploration exploration and evaluation assets | *8* | **-** | (2,548,449) |
| **Net loss for the period** | | **(1,470,424)** | (4,344,142) |
| **Other comprehensive loss** | | | |
| *Items that may be classified subsequently to profit or loss* | | | |
| Change in value of available for sale investment | | **(1,000)** | (1,750) |
| **Total comprehensive loss** | | **(1,471,424)** | (4,345,892) |
| **Basic and diluted loss per share** | | **(0.01)** | (0.02) |
| | | **(#)** | (#) |
| **Weighted-average number of common shares outstanding** | | **194,714,581** | 189,207,051 |

*See accompanying notes to financial statements*

Northern Superior Resources Inc.
Financial Statements
(Expressed in Canadian dollars)

## Statements of Equity

| | Share Capital | | Reserves | | | | |
|---|---|---|---|---|---|---|---|
| | Number of Shares (#) | Amount ($) | Stock options ($) | Warrants ($) | Accumulated other comprehensive income ($) | Deficit ($) | Equity ($) |
| **Balance, December 31, 2014** | **188,962,583** | **62,784,407** | **4,600,764** | **-** | **(1,500)** | **(57,699,649)** | **9,684,022** |
| Common shares issued for exploration and evaluation properties | 615,386 | 15,400 | - | - | - | - | 15,400 |
| Share based payments | - | - | 60,470 | - | - | - | 60,470 |
| Change in value of available for sale investment | - | - | - | - | (1,750) | - | (1,750) |
| Net loss | - | - | - | - | - | (4,344,142) | (4,344,142) |
| **Balance, December 31, 2015** | **189,577,969** | **62,799,807** | **4,661,234** | **-** | **(3,250)** | **(62,043,791)** | **5,414,000** |
| Shares issued for cash | **40,000,000** | **1,413,400** | **-** | **586,600** | **-** | **-** | 2,000,000 |
| Share based payments | - | - | 43,017 | - | - | - | 43,017 |
| Flow-through shares premium liability | | (400,000) | - | - | - | - | (400,000) |
| Change in value of available for sale investment | - | - | - | - | (1,000) | - | (1,000) |
| Net loss | - | - | - | - | - | (1,470,424) | (1,470,424) |
| **Balance, December 31, 2016** | **229,577,969** | **63,813,207** | **4,704,251** | **586,600** | **(4,250)** | **(63,514,215)** | **5,585,593** |

*See accompanying notes to financial statements*

# Northern Superior Resources Inc.
# Financial Statements
(Expressed in Canadian dollars)

## Statements of Cash Flows

| | Years ended December 31, | |
|---|---|---|
| | **2016** | 2015 |
| | **($)** | ($) |
| **Operating Activities** | | |
| Net loss for the period | **(1,470,424)** | (4,344,142) |
| Items not involving cash: | | |
| Write-down of exploration and evaluation assets | **-** | 2,548,449 |
| Depreciation | **6,351** | 10,798 |
| Share based payments | **43,017** | 52,215 |
| Change in non-cash operating working capital items: | | |
| Decrease (increase) in prepaids and receivables | **17,977** | 27,266 |
| Increase in trade payables and accrued liabilities | **494,280** | (162,996) |
| Cash used in operating activities | **(908,799)** | (1,868,410) |
| **Investing Activities** | | |
| Exploration and evaluation expenditures | **(31,915)** | (502,545) |
| Recovery of exploration and evaluation expenditures | **22,752** | 370,924 |
| Cash used in investing activities | **(9,163)** | (131,621) |
| **Financing Activities** | | |
| Proceeds from private placements | **2,000,000** | - |
| Cash provided by financing activities | **2,000,000** | - |
| Increase (decrease) in cash during the period | **1,082,038** | (2,000,031) |
| Cash, beginning of the period | **1,615,034** | 3,615,065 |
| Cash, end of the period | **2,697,072** | 1,615,034 |
| **Supplemental cash flow information:** | | |
| *Non-cash investing activities* | | |
| *Change in working capital related to exploration and evaluation properties* | **140,090** | 278,684 |
| *Shares received pursuant to property agreements* | **5,000** | 15,400 |
| *Share based payments capitalized* | **-** | 8,255 |
| | **145,090** | 302,339 |
| *Interest received* | **16,517** | 37,399 |
| *Interest paid* | **-** | - |
| *Taxes paid* | **-** | - |

*See accompanying notes to financial statements*

## 1. DESCRIPTION OF BUSINESS AND NATURE OF OPERATIONS

Northern Superior Resources Inc. ("Northern Superior" or the "Company") is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of gold properties in Ontario and Québec. The Company has not determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and attaining future profitable production from the properties or proceeds from disposition.

The head office, principal address and registered and records office of the Company is 1351C Kelly Lake Road, Unit 7, Sudbury, Ontario, Canada, P3E 5P5.

## 2. BASIS OF PREPARATION

### 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"). The financial statements were approved by the Board of Directors of the Company on April 19, 2016.

These financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value, as set out in the accounting policies in note 3.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(m).

As at December 31, 2016, the Company has cash and cash equivalents of $2,697,072, which amount includes $1,981,160 in respect of flow-through funds, and working capital of $1,853,011. In May 2016, the trial between Northern Superior and the Government of Ontario (the "Ontario litigation") was completed with the judge ruling against the Company ("the trial decision"). On August 26, 2016 (note 9), the Ontario Superior Court of Justice ordered Northern Superior to pay an aggregate of $440,570 in costs to the Province of Ontario in connection with the lawsuit. At December 31, 2016, the Company provided for the full amount as decided by the Court; both the trial decision and the cost award are now under appeal to the Ontario Court of Appeal and the Company will not be required to pay any amount to the Province until the appeal has been heard and a decision rendered.

While the Company has enough funds to allow it to continue its planned activities in the normal course, the Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake further exploration and development of its mineral properties. If the Company is unable to raise additional capital in the future and/or

attracting joint venture partners for further exploration on its properties, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favourable terms and/or pursue other remedial measures. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern beyond 2017.

These condensed interim financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

### b) Changes in Accounting Policies

The Company has adopted the following new standard, along with any consequential amendments, prior to or effective January 1, 2016. These changes were made in accordance with the applicable transitional provisions, and did not impact the Company's condensed interim financial statements.

- IAS 16, "*Property, Plant and Equipment*" and IAS 38, "*Intangible Assets*": were adopted effective January 1, 2016.
- IFRS 7, "*Financial Instruments: Disclosure*": was adopted effective January 1, 2016.
- IFRS 11, "*Joint Arrangements*": was adopted effective January 1, 2016.
- IAS 1, "*Presentation of Financial Statements*": was adopted effective January 1, 2016.
- IAS 19, "*Employee Benefits*": was adopted effective January 1, 2016.

### c) Accounting Standards Issued but not yet in Effect

- IFRS 2, "*Share-based payment*" (amended standard) is effective for annual periods beginning on or after January 1, 2018.
- IFRS 9, *"Financial Instruments: Classification and Measurement"*: is effective for annual periods beginning on or after January 1, 2018.
- IFRS 15, *"Revenue from Contracts and Customers"*: the effective date of adoption has been deferred to January 1, 2018 (with earlier application permitted).
- IFRS 16, *"Leases"*: is effective for annual periods beginning on or after January 1, 2019.
- IAS 7, "Statement of Cash Flows": is effective for annual periods beginning on or after January 1, 2017,
- IAS 12, *"Income Taxes"* (amended standard): is effective for annual periods beginning on or after January 1, 2017.

The Company is currently evaluating the impact of these new and amended standards on its financial statements. The impact is not expected to have a material impact on the statements of financial position or results of operations.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Cash and Cash Equivalents

Cash and cash equivalents includes cash and short-term money market instruments that are readily convertible to cash with original terms of three months or less. Interest income is recorded as earned on the accrual basis at the stated rate of interest over the term of the investment.

### b) Financial Instruments

Financial assets and liabilities are recognized when the Company becomes party to the contracts that give rise to them and are classified as loans and receivables, financial instruments fair valued through profit or loss, held to maturity, available for sale financial assets and other liabilities, as appropriate. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract if the host contract is not measured at fair value through profit or loss and when the economic characteristics and risks are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

*Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets at FVTPL include financial assets held for trading and financial assets designated upon initial recognition as at FVTPL. A financial asset is classified in this category principally for the purpose of selling in the short term, or if so designated by management.

*Available for sale financial assets*

Available for sale ("AFS") financial assets are those non-derivative financial assets that are designated as such or are not classified as loans and receivables, held to maturity investments or financial assets at FVTPL. AFS financial assets are measured at fair value upon initial recognition and at each period end, with unrealized gains or losses being recognized as a separate component of equity in other comprehensive income (loss) until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in reserves is included in net loss. The Company has classified its investments in certain public companies as available for sale.

*Loans and receivables*

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivable. Loans and receivable are initially recognized at the transaction value and subsequently carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

*Other financial liabilities*

Other financial liabilities, including borrowings, are recognized initially at fair value, net of transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in net loss when the liabilities are derecognized as well as through the amortization process. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the statement of financial position date, and are derecognized when, and only when, the Company's obligations are discharged or they expire.

*Derivative instruments*

Derivative instruments, including embedded derivatives, are recorded at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives are recorded in the statement of comprehensive income (loss). The Company does not hold or have any exposure to derivative instruments.

*Fair values*

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and, pricing models.

Financial instruments that are measured subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

*Impairment of financial assets*

Financial assets, other than those recorded at FVTPL, are assessed for indicators of impairment at each period end. A financial asset is considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been adversely impacted.

If an available for sale financial asset is impaired, the change in fair value is transferred from equity to net loss, including any cumulative gains or losses previously recognized in other comprehensive income (loss). Reversals of impairment in respect of equity instruments classified as available for sale are not recognized in net loss but included in other comprehensive income (loss).

**c) Share based Payments**

The fair value of the estimated number of stock options awarded to employees, officers and directors that will eventually vest, is recognized as share based compensation expense or capitalized in exploration and evaluation properties, if appropriate, over the vesting period of the stock options with a corresponding increase to equity. Share based payments to non employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in net loss or capitalized to exploration and evaluation properties if appropriate such that the accumulated expense reflects the revised estimate, with a corresponding adjustment to the share based payment reserve.

**d) Equipment**

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the assets to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Equipment is depreciated, using the straight-line method over their estimated useful lives. The significant classes of equipment and their estimated useful lives are as follows:

| | |
|---|---|
| Office and other equipment | 4 - 5 years |
| Computer equipment | 2 - 3 years |
| Leasehold improvements | 5 years |

Where an item of equipment consists of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

**e) Exploration and Evaluation Expenditures**

Exploration and evaluation expenditures are recorded at cost on a property by property basis. The Company defers all exploration and evaluation costs, including acquisition costs, field exploration and field supervisory costs relating to specific properties, until those properties are brought into production, at which time, they will be amortized on a unit of production basis, or until the properties are abandoned, sold or considered to be impaired in value, at which time, an appropriate charge will be made. Costs incurred for general exploration, including expenditures of a general reconnaissance nature, that are not project specific or do not result in the acquisition of exploration and evaluation properties are charged to net loss.

All capitalized exploration and evaluation costs are reviewed for indications of impairment regularly to determine whether a write down of their carrying amount is required. Factors such as metal prices, the ability of the Company to finance the projects, and exploration results to date are considered in determining whether indicators of impairment exists.

### f) Impairment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment or whenever indicators of impairment exist. Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. Fair value is based on an estimate of the amount that the Company may obtain in a sale transaction on an arm's-length basis. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash generating unit to which the asset belongs. The Company's cash generating units are the lowest level of identifiable groups of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

### g) Deferred Income Taxes

Deferred income taxes are recognized in net loss, except where they relate to items recognized in other comprehensive income (loss) or directly in equity, in which case the related taxes are recognized in other comprehensive income (loss) or equity. Deferred income taxes are provided using the balance sheet liability method, providing for unused tax losses, unused tax credits and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. As an exception, deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or an asset or liability in a transaction (other than in a business combination) that affects neither accounting profit nor taxable profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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

### h) Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Contingent liabilities are not recognized in the financial statements, if not estimable and probable, and are disclosed in notes to the financial information unless their occurrence is remote. Contingent assets are not recognized in the financial statements, but are disclosed in the notes if their recovery is deemed probable.

*Environmental rehabilitation*

Provisions for environmental rehabilitation are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pre-tax rate, and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates and operating lives.

Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. Management has determined that no environmental rehabilitation provision is required at this time.

### i) Share Capital

Common shares issued by the Company are classified as equity. Incremental costs directly attributable to the issue of new common shares are recognized in equity, net of tax, as a deduction from the share proceeds (share issue costs).

### j) Flow through Shares

Under Canadian income tax legislation, a company is permitted to issue flow through shares whereby the company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company allocates the proceeds from the issuance of these shares between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the shares and the amount the investor pays for the shares. A deferred flow through premium liability is recognized for the difference. The liability is reversed when the expenditures are made and is recorded in other income. The spending also gives rise to a deferred tax timing difference between the carrying value and tax value of the qualifying expenditure.

### k) Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported, all outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive.

### l) Other Comprehensive Income (Loss)

Other comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net loss such as unrealized gains and losses on financial assets classified as available for sale, net of income taxes.

### m) Use of Estimates and Judgments

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

*Impairment of assets*

The carrying amounts of evaluation and exploration properties and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. If there are indicators of impairment, an exercise is undertaken to determine whether the carrying values are in excess of their recoverable amount. Such review is undertaken on an asset by asset basis, except where such assets do not generate cash flows independent of other assets, and then the review is undertaken at the cash generating unit level ("CGU").

The assessment requires the use of estimates and assumptions such as, but not limited to, long-term commodity prices, foreign exchange rates, discount rates, future capital requirements, resource estimates, exploration potential and operating performance as well as the CGU definition. It is possible that the actual fair value could be significantly different from those assumptions, and changes in these assumptions will affect the recoverable amount of the mining interests. In the absence of any mitigating valuation factors, adverse changes in valuation assumptions or declines in the fair values of the Company's CGUs or other assets may, over time, result in impairment charges causing the Company to record material losses.

The Company considers both external and internal sources of information in assessing whether there are any indications that mining interests are impaired. External sources of information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of the assets. Internal sources of information the Company considers include the manner in which exploration and evaluation properties and equipment are being used or are expected to be used and indications of economic performance of the assets.

*Environmental rehabilitation*

Significant estimates and assumptions are made in determining the environmental rehabilitation costs as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases, and changes in discount rates.

Those uncertainties may result in actual expenditures in the future being different from the amounts currently provided, if any.

*Deferred income taxes*

Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the statement of financial position date, if any, could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Company and its subsidiaries operate could limit the ability of the Company to obtain tax deductions in future periods.

*Share based payments*

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in note 3(c). The fair value of stock options is measured using the Black-Scholes option valuation model. The fair value of stock options granted using valuation models is only an estimate of their potential value and requires the use of estimates and assumptions.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

## 4. CASH AND CASH EQUIVALENTS

During the year ended December 31, 2016, the Company issued a total of 40,000,000 flow-through shares (2015 - $Nil) for a total of $2,000,000 (2015 - $Nil) (Notes 9 and 10). As at December 31, 2016, the Company has $1,981,160 (2015 - $Nil) remaining to be spent on qualifying Canadian exploration expenditures under the terms of the flow-through share agreements (Note 15).

## 5. PREPAIDS AND RECEIVABLES

| *As at* | **December 31, 2016 ($)** | December 31, 2015 ($) |
|---|---|---|
| Quebec government refundable tax credits | **3,241** | 154,862 |
| Sales tax receivable | **25,180** | 30,825 |
| Prepaid and advances | **21,557** | 26,755 |
| Interest receivable | **14,686** | 21,821 |
| Other receivables | **4,247** | 2,026 |
| Total Current Prepaids and Receivables | **68,911** | 236,289 |
| Receivables (non-current): | | |
| Quebec Government refundable tax credits | **-** | 3,241 |
| Total | **68,911** | 239,530 |

The fair value of receivables approximates their carrying value. None of the amounts included in receivables at December 31, 2016 are past due.

## 6. AVAILABLE FOR SALE INVESTMENT

At December 31, 2016 and 2015, the Company held the following available for sale investments:

| As at | **December 31, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Shares (#)** | **Cost ($)** | **Fair Value ($)** | Shares (#) | Cost ($) | Fair Value ($) |
| Bold Ventures Inc. | **200,000** | **10,250** | **6,000** | 100,000 | 5,250 | 2,000 |

In 2016, the Company received 100,000 of shares of Bold Ventures Inc. (“Bold”) valued at $6,000 (2015: received 50,000 shares valued at $2,000) as provided in the option earn-in agreement between the Company and Bold for the Lac Surprise property (note 8).

During the year ended 2016, the Company recorded in other comprehensive loss $1,000 unrealized loss related to the investment (2015: $1,750), representing the difference between the carrying value of the investment and its fair value at each year end.

## 7. EQUIPMENT

A summary of the changes in the Company's equipment for the years ended December 31, 2016 and 2015 follow:

| | Office and other equipment ($) | Leasehold Improvements ($) | Total ($) |
|---|---|---|---|
| **Cost** | | | |
| At December 31, 2015 | 41,618 | 27,817 | 69,435 |
| **At December 31, 2016** | **41,618** | **27,817** | **69,435** |
| **Depreciation** | | | |
| At December 31, 2015 | 40,831 | 18,081 | 58,912 |
| Change for the year | 787 | 5,564 | 6,351 |
| **At December 31, 2016** | **41,618** | **23,645** | **65,263** |
| **Net book value** | | | |
| At December 31, 2015 | 787 | 9,736 | 10,523 |
| **At December 31, 2016** | **-** | **4,172** | **4,172** |

| | Office and other equipment ($) | Leasehold Improvements ($) | Computer equipment ($) | Total ($) |
|---|---|---|---|---|
| **Cost** | | | | |
| At December 31, 2014 | 41,618 | 27,817 | 96,479 | 165,914 |
| Additions | - | - | - | - |
| Disposals | - | - | - | - |
| **At December 31, 2015** | **41,618** | **27,817** | **96,479** | **165,914** |
| **Depreciation** | | | | |
| At December 31, 2014 | 39,780 | 12,517 | 92,296 | 144,593 |
| Change for the year | 1,051 | 5,564 | 4,183 | 10,798 |
| **At December 31, 2015** | **40,831** | **18,081** | **96,479** | **155,391** |
| **Net book value** | | | | |
| At December 31, 2014 | 1,838 | 15,300 | 4,183 | 21,321 |
| **At December 31, 2015** | **787** | **9,736** | **-** | **10,523** |

## 8. EXPLORATION AND EVALUATION PROPERTIES

| *For the year ended December 31, 2016* | Ti-pa-haa-kaa-ning ($) | Croteau Est ($) | Lac Surprise ($) | Wapistan ($) | Total ($) |
|---|---|---|---|---|---|
| **Balance, December 31, 2015** | 1,152,408 | 1,682,508 | 717,638 | 28,363 | 3,580,917 |
| **Acquisition, assessment and maintenance** | 1,793 | 7,888 | 11,935 | - | 21,616 |
| **Analytical** | - | 350 | - | - | 350 |
| **Geophysics** | - | - | - | | - |
| **Geology** | 10,090 | 39,638 | 4,504 | 374 | 54,606 |
| **Drilling** | - | 1,386 | 2,047 | - | 3,433 |
| **Research** | 88,781 | - | - | - | 88,781 |
| **Project administration** | 231 | 2,034 | 476 | 309 | 3,050 |
| **Cost recoveries** | - | - | (22,752) | - | (22,752) |
| **Refundable tax credits and adjustments** | - | (1,591) | - | - | (1,591) |
| **Write-off exploration and evaluation properties** | - | - | - | - | - |
| **Net (decrease) increase for the year** | **100,895** | **49,705** | **(3,790)** | **683** | **147,493** |
| **Balance, December 31, 2016** | **$1,253,303** | **$1,732,213** | **713,848** | **29,046** | **$3,728,410** |

| *For the year ended December 31, 2015* | Ti-pa-haa-kaa-ning ($) | Croteau Est ($) | Lac Surprise ($) | Wapistan ($) | Waconichi ($) | Grizzly ($) | Total ($) |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2014 | 2,254,124 | 1,917,421 | 1,161,115 | - | 234,766 | 105,053 | 5,672,479 |
| Acquisition, assessment and maintenance | 74,541 | 176,697 | - | 29,062 | 105 | 5,969 | 286,374 |
| Analytical | - | 998 | - | - | - | - | 998 |
| Geology | 13,841 | 63,840 | 20,817 | 9,315 | - | 31,326 | 139,139 |
| Drilling | 384 | 689 | - | - | - | - | 1,073 |
| Research | 72,684 | 228 | - | - | - | - | 72,912 |
| Project administration | 1,526 | 5,388 | 2,031 | 765 | - | 1,434 | 11,144 |
| Cost recoveries | - | (52,223) | (20,247) | - | - | - | (72,470) |
| Refundable tax credits and adjustments | - | 27,246 | 3,593 | (3,062) | - | (10,060) | 17,717 |
| Write-off exploration and evaluation properties | (1,264,692) | (457,776) | (449,671) | (7,717) | (234,871) | (133,722) | (2,548,449) |
| Net (decrease) increase for the year | (1,101,716) | (234,913) | (443,477) | 28,363 | (234,766) | (105,053) | (2,091,562) |
| Balance, December 31, 2015 | 1,152,408 | 1,682,508 | 717,638 | 28,363 | - | - | 3,580,917 |

***Ti-pa-haa-kaa-ning ("TPK") property***
The Company owns a 100% interest in the TPK property. Under an agreement with Lake Shore Gold Corp. ("Lake Shore") dated May 27, 2010, the Company granted Lake Shore an assignable 2% Net Smelter Royalty ("NSR") on all minerals produced from claims associated with the TPK property as at May 27, 2010 (subject to a right of first refusal in favour of the Company), with the Company having the right to purchase back one quarter of the NSR (0.5%) for $1,000,000. Regarding the current claim package for TPK, Lake Shore's NSR provisions only apply to 141 of the current 193 active claims. On 5 of the TPK claims, there is also a 2% NSR on all commodities in favour of Vale S.A., and on 7 of the TPK claims there is a 2% NSR for diamonds only in favour of Vale S.A.

The agreement with Lake Shore also provides that:

(i) the Company will be responsible for all expenditures on TPK from January 1, 2010 onward
(ii) for a period of 5 years and so long as Lake Shore maintains at least a 10% ownership interest on the Company, it will be offered the right to participate in any future equity financings pro rata in order to maintain its ownership interest
(iii) for so long as Lake Shore maintains at least a 19.9% ownership interest on the Company it will be entitled to nominate at least two directors to serve on the Company's board, and should its holdings drop below 19.9% but remain above 10% it shall be entitled to nominate one director.

Effective April 1, 2016, Tahoe Resources Inc. ("Tahoe") entered into a plan or arrangement, pursuant to which it acquired all the shares of Lake Shore. During the year ended December 31, 2016, Tahoe divested itself of its holdings in the Company. As such, the Provisions summarized in the previous paragraph no longer apply.

***Croteau Est property***
Under an agreement signed in 2011, the Company acquired a 100% interest in the Croteau Est gold property in Québec by spending $1.7 million in exploration and evaluation on the property, making cash payments of $350,000 and issuing $280,000 worth of common shares, all over a period of 4 years. Pursuant to terms of the agreement, the number of shares issued by the Company was based on the greater of the market price of the Company's shares at the time of issuance and $0.26 per share. In 2015, the Company made the final payment of $160,000 and issued 615,386 shares valued at $15,400.

The previous holders of the interest on the property retain a 1.0% NSR on any commercial production with the Company having the right to buyback 0.5% of the NSR for $1.5 million, at any time.

***Option Earn-in Agreement Signed on Croteau Est Property***
On April 21, 2015, the Company signed an option and joint venture agreement with Chalice Gold Mines Limited ("Chalice") relating to the Company's Croteau Est gold property in Québec.

Under the terms of the agreement, Chalice could earn a 65% joint venture interest in the Croteau Est property by spending an aggregate of $4,000,000 on exploration expenditures over three years, of which a minimum of $500,000 was to be expended in the first year (completed). During fiscal 2015, Chalice notified the Company of its intention to not exercise the earn-in option, and the agreement was terminated on December 21, 2015.

***Option Earn-in Agreement on Lac Surprise Property***

In April 2014, the Company signed an option agreement with Bold Ventures Inc. ("Bold") whereby Bold can earn a 50% working interest in the Company's 100% owned Lac Surprise property in consideration for the following (note 6):

| | Common shares of Bold to be issued to the (#) | | Minimum exploration expenditures on the property ($) | |
|---|---|---|---|---|
| On signing of the agreement | 50,000 | (received 2014) | - | |
| 1 year anniversary | 50,000 | (received 2015) | 500,000 | (incurred 2015) |
| 2 year anniversary | 100,000 | (received 2016) | 500,000 | (incurred 2016) |
| 3 year anniversary | 150,000 | | 1,000,000 | |
| | **350,000** | | **2,000,000** | |

Pursuant to the terms of the agreement, Bold can earn an additional 10% in the property by delivering a positive feasibility study within five years from the date of execution of the formal option agreement, bringing its total interest in the property to 60%. Upon Bold earning its interest in the property (either 50% or 60%), the Company and Bold shall form a joint venture to hold the property and conduct further exploration activities.

***Wapistan Property***

The Wapistan property, located in Québec, was staked by the Company in July 2015, and is 100% owned by the Company.

***Waconichi property***

Under an agreement entered into in May 2013, the Company acquired a 100% interest in the Waconichi property in Québec by making a one-time cash payment of $225,000 and granting a 1% NSR royalty on a majority of the Waconichi claims.

The 1% NSR royalty covers all except 7 claims (comprising approximately 287 hectares) which were already subject to a prior 2% NSR royalty in favor of the prospector who originally staked the claims. The Company has the right to repurchase one half of the 1% NSR royalty (reducing it to a 0.5% NSR royalty) at any time for $1,000,000. Similarly, the Company has the right to repurchase half of the Charbonneau 2% NSR royalty (reducing it to a 1% NSR royalty) at any time, for $1,000,000. In either case, should the Company exercise its buy-back right, it will then have a right of first refusal with respect to the remaining NSR royalty.

***Grizzly Property***

In July 2013, the Company entered into an option agreement to acquire the Grizzly property in Québec by incurring certain exploration expenditures, making certain cash payments and issuing a number of shares of the Company. On October 29, 2015, the Company terminated its option on the Grizzly property, and wrote off its investment in the property.

***Ontario litigation***

In 2013, the Company recorded a write-off of $6,005,125, representing the unamortized balance of its deferred exploration costs incurred in connection with the exploration of the Company's Meston Lake, Rapson Bay and Thorne Lake properties (the "Properties"). The decision to write-off the Properties was based on the Company's determination that it had lost the ability to access the Properties, as well as its ability to realize the benefits of any value created from its exploration expenditures to date, due to the actions of third parties. On October 24, 2013, the Company filed a civil lawsuit against the Government of Ontario (the "Crown") seeking among other things, damages of $110 million and consisting mainly of amounts expended to date as well as for lost value of the Properties, as a result of lost access to the Properties.

In May 2016, the Ontario Superior Court (the "Court") handed down its decision with respect to the trial dismissing the Company's claim. The Court also required both the Crown and the Company to make submissions regarding costs. The Crown requested the Court to award costs in the amount of $544,655. Northern Superior contested the Crown's costs and countered with an offer of $260,000. On August 26, 2016, the Ontario Superior Court ordered the Company to pay $440,570 in costs to the Province of Ontario in connection with the lawsuit; a provision for the full amount has been recorded as at December 31, 2016 (Note 9). Both the trial decision and the cost award are now under appeal to the Ontario Court of Appeal and the Company will not be required to pay any amount to the Province until the appeal has been heard and a decision rendered (Note 15).

## 9. TRADE PAYABLES AND ACCRUED LIABILITIES

| *As at* | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| | **($)** | ($) |
| Trade payables | **19,073** | 9,126 |
| Amounts due to related parties (Note 11) | **10,492** | 763 |
| Accrued liabilitites - general | **48,837** | 24,115 |
| Flow-through shares premium liability | **400,000** | - |
| Provision for Ontario litigation costs (Note 8) | **440,570** | - |
| | **918,972** | 34,004 |

The fair value of accounts payable and accrued liabilities approximate their carrying amount. Trade payables relate mainly to the acquisition of materials, supplies and contractor services. These payables do not accrue interest and no guarantees have been granted. Trade payables and accrued liabilities at December 31, 2016 and 2015 are denominated in Canadian dollars.

During the year ended December 31, 2016, the Company issued 40,000,000 flow-through shares (2015 – Nil) for total proceeds of $2,000,000 (2015 - $Nil). This issuance of flow-through shares resulted in a flow-through premium liability of $400,000 (2015 - $Nil) (Notes 4 and 10).

During the year ended December 31, 2016, the Company incurred approximately $18,840 (2015 - $Nil) in qualifying Canadian exploration expenditures.

## 10. SHARE CAPITAL

### a) Authorized

Unlimited common shares without par value.

As at 31 December 2016, the Company had 229,577,969 common shares outstanding (2015 – 189,577,969 common shares).

### b) Issued Capital

On November 15, 2016, the Company announced the closing of an offering of units (the "Private Placement") for gross proceeds of $2,000,000. Pursuant to the terms of the Private Placement, the Company issued 40,000,000 units ("Units") at a price of $0.05 per Unit. Each Unit is comprised of one flow-through common share in the capital of the Company and 1/2 of a non-transferable warrant, with each whole warrant entitling the holder to purchase one additional non-flow-through common share in the capital of the Company at a price of $0.075 per share until November 14, 2018, provided, however, that in the event the closing price of the Company's shares on the TSX Venture Exchange ("TSX-V") exceeds $0.15 for a period of 10 consecutive trading days, the Company may thereafter provide notice to warrant holders accelerating the expiry of their warrants to 30 days from the date such notice is given (Notes 4 and 9). No commission, dealer or finders' fees were paid in connection with the Private Placement. This issuance of flow-through shares resulted in a flow-through share premium liability of $400,000 at the date of issue (Note 9).

In August 2015, the Company issued 615,386 common shares of the Company, valued at $15,400, in connection with an option agreement to acquire a 100% interest in the Croteau Est property in Québec (note 7).

### c) Stock Options

As at December 31, 2016, the Company had 7,950,000 (2015 – 8,930,000) stock options outstanding of which 4,875,000 (2015 – 5,355,000) were exercisable under the Company's stock option plan. The terms of all options cannot exceed ten years and the minimum exercise price cannot be less than the closing price of the Company's common shares on the TSX Venture Exchange on the last trading day preceding the grant of the option. All of the outstanding options of the Company were issued with an expiry date of 5 years from the date of issue. The Board of Directors determines the vesting terms of the options, with a typical vesting schedule of 1/3 of the options under the grant vesting on each anniversary over a three year period after the date of grant.

A summary of the changes in the Company's stock option plan for the years ended December 31, 2016 and 2015 follows:

| | **Year ended December 31, 2016** | | Year ended December 31, 2015 | |
|---|---|---|---|---|
| | **Number of options** | **Weighted-average exercise price** | Number of options | Weighted-average exercise price |
| Outstanding, beginning of year | **8,930,000** | **$0.11** | 11,160,000 | $0.19 |
| Granted | **1,650,000** | **$0.07** | 1,400,000 | $0.05 |
| Expired | **(1,105,000)** | **$0.24** | (1,400,000) | $0.55 |
| Forfeited | **(1,525,000)** | **$0.13** | (2,230,000) | $0.20 |
| Outstanding, end of year | **7,950,000** | **$0.07** | 8,930,000 | $0.11 |
| Exercisable, end of year | **5,000,000** | **$0.08** | 5,355,000 | $0.14 |

The following table summarizes information regarding stock options outstanding and exercisable at December 31, 2016:

| **Grant Date** | **Expiry Date** | **Options Outstanding (#)** | **Exercise Price ($)** | **Remaining Contractual Life (years)** | **Options Exercisable (#)** |
|---|---|---|---|---|---|
| December 10, 2012 | December 10, 2017 | 1,525,000[(1)] | 0.10 | 0.94 | 1,525,000 |
| December 3, 2013 | December 3, 2018 | 1,625,000[(1)] | 0.10 | 1.92 | 1,625,000 |
| November 10, 2014 | November 10, 2019 | 1,925,000[(1)] | 0.05 | 2.86 | 1,283,333 |
| November 5, 2015 | November 5, 2020 | 1,325,000[(1)] | 0.05 | 3.85 | 441,667 |
| August 1, 2016 | August 1, 2021 | 500,000[(2)] | 0.10 | 4.59 | 125,000 |
| November 21, 2016 | November 21, 2021 | 1,050,000[(1)] | 0.05 | 4.89 | - |
| | | **7,950,000** | **0.08** | **2.84** | **5,000,000** |

(1) Provided to directors, officers, consultants and employees; the options vest as to 1/3 each on the first, second and third anniversary of the grant.

(2) Provided to a consulting firm as part of the compensation for providing certain marketing services to the Company; the options vest as to 1/4 each every three months following the date of the grant.

The weighted average grant-date fair value for options granted during the year ended December 31, 2016 was $0.03 (2015 - $0.004), which was determined using the Black-Scholes Option Pricing Model and the following assumptions: no dividends to be paid; volatility of 143.38% (2015 – 40%); risk-free interest 0.50% (2015 – 0.97%); and expected life of 5 years (2015 – 5 years).

**d) Share Based Payments**

Share based payments recognized in the period are capitalized to exploration and evaluation properties or expensed as consulting fees and office expense, as appropriate. The following table summarizes the share based payments expense on the vesting of stock option for the years ended December 31, 2016 and 2015:

| | Years ended December 31, | |
|---|---|---|
| | **2016** | 2015 |
| | **($)** | **($)** |
| Consulting fees | **23,111** | 7,917 |
| Office expense | **19,906** | 44,298 |
| | **43,017** | 52,215 |
| Capitalized on exploration and evaluation properties | **-** | 8,255 |
| Total share based payments | **43,017** | 60,470 |

### e) Warrants

Pursuant to the Private Placement, the Company issued, on November 14, 2016, warrants allowing for the purchase of up to, in the aggregate, 20,000,000 common share in the capital of the Company at a price of $0.075 per share until November 14, 2018, provided, however, that in the event the closing price of the Company's shares on the TSX Venture Exchange ("TSX-V") exceeds $0.15 for a period of 10 consecutive trading days, the Company may thereafter provide notice to warrant holders accelerating the expiry of their warrants to 30 days from the date such notice is given ("Accelerated Provisions").

A summary of the changes in the Company's warrants for the years ended December 31, 2016 and 2015 follows:

| | Outstanding | |
|---|---|---|
| | **Number of warrants (#)** | **Weighted average exercise price ($)** |
| **Outstanding, December 31, 2014** | - | - |
| **Outstanding, December 31, 2015** | - | - |
| Issued | 20,000,000 | 0.075 |
| **Outstanding, December 31, 2016** | 20,000,000 | 0.075 |

The following table summarizes information regarding warrants outstanding at December 31, 2016:

| Issue Date | Expiry Date | Warrants Outstanding (#) | Exercise Price ($) | Remaining Contractual Life (years) |
|---|---|---|---|---|
| November 14, 2016 | November 14, 2018 | 20,000,000 | 0.075 | 1.87 |
| | | **20,000,000** | **0.075** | **1.87** |

(1) Subject to Accelerated Provisions

### f) Basic and Diluted Loss per Share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive.

Potentially dilutive items not included in the calculation of diluted loss per share for the years ended December 31, 2016 were 7,950,000 (2015 – 8,930,000) stock options that were anti-dilutive.

## 11. RELATED PARTY TRANSACTIONS

The Company has arrangements pursuant to which parties related to the Company by way of directorship or officership provide certain services, either directly or through companies owned or controlled by the officers and directors. Transactions were in the normal course of operations and all of the costs recorded are based on fair value. The Company's related party expenses are allocated as follows:

| *For the years ended December 31,* | **2016** | 2015 |
|---|---|---|
| | **($)** | ($) |
| Management fees | **64,000** | 101,000 |
| Directors' fees | **45,500** | 94,750 |
| Salaries and wages | **225,000** | 253,004 |
| Share based payments (Note 10) | **27,216** | 42,667 |
| | **361,716** | 491,421 |

During the years ended December 31, 2016 and 2015, the Company was charged for services, net of any share-based payments, by these parties as follows:

| *For the years ended December 31,* | **2016** | 2015 |
|---|---|---|
| | **($)** | ($) |
| CEO and President | **225,000** | 253,004 |
| Company controlled by CFO | **7,500** | - |
| Former CFO | **17,500** | 67,000 |
| Corporate Secretary | **39,000** | 34,000 |
| Directors and former directors | **45,500** | 94,750 |
| | **334,500** | 448,754 |

Included in trade payables at December 31, 2016 is $10,492 due to related parties (December 31, 2015 - $763) (Note 9).

## 12. FINANCIAL INSTRUMENTS

**Management of Capital risk**

The Company manages its capital structure and makes adjustments to it to effectively support the acquisition, exploration and development of mineral properties. In the definition of capital, the Company includes, as disclosed on its statement of financial position: share capital, deficit, equity reserves and cash and cash equivalents.

The Company's capital at December 31, 2016 and 2015 is as follows:

| *As at* | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| | **($)** | ($) |
| Share Capital | **63,813,207** | 62,799,807 |
| Reserves | **5,290,851** | 4,657,984 |
| Deficit | **(63,514,215)** | (62,043,791) |
| | **5,589,843** | 5,414,000 |

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will be using its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2016. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

**Carrying Values of Financial Instruments**

The carrying value of financial assets and liabilities as at December 31, 2016 and 2015 follow:

| *As at* | **December 31, 2016 ($)** | December 31, 2015 ($) |
|---|---|---|
| Financial Assets | | |
| *At fair value through profit or loss* | | |
| Cash and cash equivalents | **2,697,072** | 1,615,034 |
| *Loans and receivable, measured at amortized cost* | | |
| Receivables *note 5* | **18,933** | 212,774 |
| *Available-for-sale, measured at fair value* | | |
| Investments in public companies | **6,000** | 2,000 |
| Financial Liabilities | | |
| *Other financial liabilities, measured at amortized cost* | | |
| Accounts payable and accrued liabilities | **470,135** | 34,004 |

**Fair Values of Financial Instruments**

The fair values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their carrying values due to the short term to maturity of these financial instruments. The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

| *As at* | **December 31, 2016 ($)** | December 31, 2015 ($) |
|---|---|---|
| | **Level 1** | Level 1 |
| Cash and cash equivalents | **2,697,072** [(1)] | 1,615,034 |

[(1)] Included in cash and cash equivalents at December 31, 2016, is restricted cash of $1,981,160 (December 31, 2015: $Nil) in respect of the unspent balance from the flow-through private placements during the year ended December 31, 2016.

The Company does not have any financial instruments measured using Level 2 or 3 inputs. The Company does not offset financial assets with financial liabilities and there were no transfers between Level 1 and Level 2 input financial instruments.

**Management of Financial Risks**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

**i. Credit Risk**

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. The Company's surplus cash at December 31, 2016 and 2015, is invested in liquid low risk accounts in A rated Canadian Banks. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote. The Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

**ii. Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meets its financial obligations as they fall due. 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 had unrestricted cash and cash equivalents of $715,912 (December 31, 2015 - $1,615,034) to settle trade payables and accrued liabilities totaling $519,698 (December 31, 2015 - $34,004).

**iii. Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash balances. A 1% change in short term rates would change the interest income and net loss of the Company, assuming that all other variables remained constant, by approximately $26,971 for the year ended December 31, 2016.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or commodity risk arising from financial instruments.

## 13. SEGMENTED INFORMATION

The Company conducts its business as a single operating segment being the mining business in Canada. All resource properties and equipment are situated in Canada.

## 14. INCOME TAXES

The provision for income taxes in the statement of loss and deficit represents an effective rate different than would be computed by applying the combined Canadian statutory federal and provincial income tax rates to the loss before income taxes due to the following:

| *As at December 31,* | **2016** ($) | **2015** ($) |
|---|---|---|
| Net loss for the year | 1,470,424 | 4,344,142 |
| Canadian federal and provincial income tax rates | 26.50% | 26.50% |
| Expected income tax recovery | 389,662 | 1,151,198 |
| Permanent differences | (96,222) | (97,399) |
| Change in prior year provision to actual | 79,550 | (268,074) |
| Change in enacted tax rates | - | - |
| Change in valuation allowance | (372,990) | (785,725) |
| Total income tax recovery | - | - |

The tax effect of temporary differences that gives rise to the Company's net future income tax assets is as follows:

| *As at December 31,* | **2016** ($) | **2015** ($) |
|---|---|---|
| **Deferred tax assets** | | |
| Non-capital loss carryforward | 4,526,754 | 4,137,427 |
| Non capital loss | 1,092,786 | 1,092,786 |
| Mineral properties, tax value in excess of carrying value | 6,610,759 | 6,649,591 |
| Share issue costs | - | - |
| Other | 81,548 | 59,053 |
| | 12,311,847 | 11,938,857 |
| Less: Valuation allowance | (12,311,847) | (11,938,857) |
| Total deferred tax assets | - | - |

At December 31, 2016, the Company had capital losses for tax purposes in Canada totaling $8,247,440 that may be carried forward indefinitely, cumulative exploration and development expenses of $28,674,671, and a non-capital loss carry forward of $17,082,092 available for tax purposes in Canada which expire as follows:

| Tax Operating Losses | Year of Expiry |
|---:|---:|
| 479,151 | 2026 |
| 872,751 | 2027 |
| 1,263,477 | 2028 |
| 1,518,538 | 2029 |
| 1,512,554 | 2030 |
| 2,457,492 | 2031 |
| 2,277,147 | 2032 |
| 1,670,556 | 2033 |
| 1,605,921 | 2034 |
| 2,009,617 | 2035 |
| 1,414,888 | 2036 |
| $17,082,092 | |

## 15. COMMITMENTS AND CONTINGENCIES

As at December 31, 2016, the Company has $1,981,160 (2015 - $Nil) remaining to be spent on qualifying Canadian exploration expenditures under the terms of the flow-through share agreements (Note 4).

The Company has the following commitments relating to its operating lease:

| | | **2017 ($)** |
|---|---|---:|
| Operating lease - office lease | $ | 29,150 |

As at December 31, 2016, the Company has the following contingencies:

a) The Company has indemnified the subscribers of flow-through shares of the Company issued in prior years against any tax related amounts that may become payable as a result of the Company not making eligible expenditures.

b) The Company's exploration and evaluation activities are subject to various Canadian federal and provincial laws and regulations governing the protection of the government. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

c) As at December 31, 2016, the Company owns various exploration and evaluation properties (Note 8). Management does not consider that any amounts related to decommissioning liabilities are payable although there is no assurance that a formal claim will not be made against the Company for some or all of these obligations in the future.

d) The Company has been ordered by the Ontario Superior Court to pay $440,570 in costs to the Province of Ontario in connection with the lawsuit. The company has accrued this amount for the year ended 31 December 2016 and is appealing this ruling (Note 8).

## 16. SUBSEQUENT EVENT

a) On February 13, 2017, the Company announced concurrent financings ("Concurrent Financings"), as to:

- a non-brokered private placement of 40,000,000 units ("Units") at a price $0.05 per Unit for gross proceeds of $2,000,000 (the "Offering"). Each Unit is comprised of one non flow-through common share ("NFT Share") and one non-transferable share purchase warrant ("NFT Warrant") exercisable at a price of $0.075 per share for a period of two years from date of closing.
- an additional non-brokered private placement to raise gross proceeds of up to $2,500,000 by way of Units under the same terms as the Offering (the "Unit Offering") and flow-through common shares ("FT Share") at a price of $0.055 per share (the "FT Offering"). The Unit Offering and the FT Offering are collectively referred to as the "Concurrent Offering", and subscribers may elect to receive Units or flow-through shares or a combination thereof.
- The Concurrent Financings closed as follows:

| | **Tranche #1** | **Tranche #2** | **Total** |
|---|---|---|---|
| Closing Date | March 2, 2017 | March 6, 2017 | |
| Gross Proceeds | $3,097,000 | $1,403,000 | **$4,500,000** |
| FT Shares Issued | 3,400,000 | 7,499,999 | **10,899,999** |
| NFT Shares Issued | 58,200,000 | 19,810,000 | **78,010,000** |
| Finders' Fees | | | |
| Cash | $41,250 | $54,150 | **$95,400** |
| NFT Warrants Issued | 58,200,000 | 19,810,000 | **78,010,000** |
| NFT Warrant Exercise Price | $0.08 | $0.08 | |
| NFT Warrant Expiry Date | March 2, 2019 | March 6, 2019 | |

b) On April 6, 2017, the Company engaged Renmark Financial Communications Inc. to provide investor relation services. For the services, there will be a cash consideration of up to $8,000 CDN starting April 1, 2017 for a period of six months ending on September 30, 2017, and monthly thereafter.