# CONQUEST RESOURCES LIMITED

## CONSOLIDATED FINANCIAL STATEMENTS

## DECEMBER 31, 2015 AND 2014

(Expressed in Canadian $000's)

**CONQUEST RESOURCES LIMITED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2015 AND 2014**

(Expressed in Canadian $000's)

**McGovern, Hurley, Cunningham, LLP**
Chartered Accountants

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Conquest Resources Limited

We have audited the accompanying consolidated financial statements of Conquest Resources Limited and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of operations and comprehensive loss (income), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Conquest Resources Limited and its subsidiaries as at December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that Conquest Resources Limited had continuing losses during the year ended December 31, 2015 and a cumulative deficit as at December 31, 2015. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about Conquest Resources Limited's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 27, 2016

**CONQUEST RESOURCES LIMITED**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

| As at, | | December 31, 2015 | December 31, 2014 | January 1, 2014 |
|---|---|---|---|---|
| (Expressed in thousands of Canadian dollars) | Notes | $ | $ | $ |
| | | | (Note 3) | (Note 3) |
| **ASSETS** | | | | |
| Current | | | | |
| Cash and cash equivalents | | 226 | 4 | 9 |
| Marketable securities | 6 | - | 351 | 80 |
| Amounts receivable | | 11 | 9 | 4 |
| Prepaid expense | | 4 | 5 | 7 |
| Total assets | | 241 | 369 | 100 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | 8 | 81 | 71 | 54 |
| Total liabilities | | 81 | 71 | 54 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Capital stock | 9 | 14,189 | 14,189 | 14,189 |
| Share-based payment reserve | 11 | 151 | 118 | 239 |
| | | 14,340 | 14,307 | 14,428 |
| Deficit | | (14,180) | (14,009) | (14,382) |
| | | 160 | 298 | 46 |
| | | 241 | 369 | 100 |

Commitments and contingencies (Notes 1 and 12)

The financial statements were approved by the Board of Directors on April 27, 2016 and signed on its behalf by:

Signed "John F. Kearney" , Director

Signed "Robert Kinloch" , Director

**CONQUEST RESOURCES LIMITED**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED DECEMBER 31,**

| (Expressed in thousands of Canadian dollars) | Notes | 2015<br>$ | 2014<br>$<br>(Note 3) |
|---|---|---|---|
| **Expenses** | | | |
| Share-based payments | 5 | 33 | 34 |
| Corporate expenses | | 27 | 23 |
| Professional fees | 5 | 80 | 117 |
| Office and general | | 27 | 37 |
| Exploration and evaluation expenses | 7 | 77 | 20 |
| Travel | | 1 | 1 |
| Loss from operations | | 245 | 232 |
| **Other expenses and revenues** | | | |
| Change in fair value of investments | 6 | - | (140) |
| Gain on disposal of marketable securities | 6 | (74) | - |
| Proceeds from sale of Sunday Lake property | | - | (310) |
| | | (74) | (450) |
| **Net (loss) income and comprehensive (loss) income for the year** | | (171) | 218 |
| **Net (loss) earnings per common share** | | | |
| - Basic and diluted | | (0.002) | 0.002 |
| **Weighted average common shares outstanding** | | | |
| - Basic and diluted | | 95,477,728 | 95,477,728 |

See accompanying notes to the consolidated financial statements

**CONQUEST RESOURCES LIMITED**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

| (Expressed in thousands of Canadian dollars) | Capital Stock<br>$ | Share-based payment reserve<br>$ | Deficit<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Balance, January 1, 2014 (Note 3)** | 14,189 | 239 | (14,382) | 46 |
| Share-based payments expired | - | (155) | 155 | - |
| Recognition of share-based payments | - | 34 | - | 34 |
| Income for the year | - | - | 218 | 218 |
| **Balance, December 31, 2014 (Note 3)** | 14,189 | 118 | (14,009) | 298 |
| Recognition of share-based payments | - | 33 | - | 33 |
| Loss for the year | - | - | (171) | (171) |
| **Balance December 31, 2015** | 14,189 | 151 | (14,180) | 160 |

See accompanying notes to the consolidated financial statements

**CONQUEST RESOURCES LIMITED**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31,**

| (Expressed in thousands of Canadian dollars) | 2015<br>$ | 2014<br>$<br>(Note 3) |
|---|---|---|
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| Net (loss) income for the year | (171) | 218 |
| Adjustments for: | | |
| Share-based payments | 33 | 34 |
| Shares received from sale of Sunday Lake property | - | (310) |
| Change in fair value of marketable securities | (74) | (140) |
| | (212) | (198) |
| Movements in working capital | | |
| (Increase) in amounts receivable and prepaid expense | (1) | (3) |
| Increase in accounts payable and accrued liabilities | 10 | 17 |
| Net cash used in operating activities | (203) | (184) |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Disposal of marketable securities | 425 | 179 |
| | 425 | 179 |
| Increase (decrease) in cash | 222 | (5) |
| Cash, beginning of year | 4 | 9 |
| Cash, end of year | 226 | 4 |

See accompanying notes to the consolidated financial statements

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Conquest Resources Limited (the "Company") has interests in exploration and evaluation properties located in northern Ontario. Substantially all of the Company's efforts are devoted to financing and developing these properties. The Company's head office is located at 220 Bay Street, Suite 1200, Toronto, Ontario, M5J 2W4.

There has been no determination whether the Company's interests in its properties contain ore reserves which are economically recoverable. The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted. Major expenditures are required to locate and establish reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The Company's continued existence is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition. Although the Company has taken steps to verify title to properties in which it has an interest in accordance with industry standards for the current stage of development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's properties may also be subject to increases in taxes and royalties, renegotiating contracts and political uncertainty.

These consolidated financial statements are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Several conditions discussed below create a material uncertainty and significant doubt about the Company's ability to continue as a going concern.

At December 31, 2015, the Company had limited working capital, had not achieved profitable operations, had an accumulated deficit since inception and expects to incur further losses in the development of its business. The Company has relied on equity financing to fund its working capital requirements. The Company will need to generate additional financial resources in order to fund its planned exploration programs. There is a risk that additional financing will not be available to the Company on a timely basis or on acceptable terms. There are no assurances that the Company will continue to obtain additional financial resources and/or achieve positive cash flows or profitability. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities.

## 2. BASIS OF PREPARATION

These consolidated financial statements of the Company and its subsidiaries are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the periods presented, unless otherwise noted.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 27, 2016.

These consolidated financial statements have been prepared on a historical cost basis except for marketable securities which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except cash flow information.

## 3. CHANGE IN ACCOUNTING POLICY

During the year ended December 31, 2015, in accordance to IFRS 6, "Exploration for and evaluation of mineral resources", the Company changed its accounting policy of capitalizing exploration and evaluation expenditures.

Under the new policy, all costs associated with the exploration and evaluation of properties, including acquired mineral use rights for mineral properties held by the Company, the amount of consideration paid (in cash or share value) for mineral use rights and the amounts spent for exploration and evaluation expenditures are expensed until it has been established that a mineral property is commercially viable and a mine development decision has been made by the Company.

Upon establishment of a NI 43-101 compliant resource, and where the directors consider that the resource is economic, the Company capitalises any further evaluation expenditure under Exploration and evaluation assets.

The financial statements as at and for the year ended December 31, 2014 have been restated to reflect adjustments made as a result of this change in accounting policy. The accumulated effect of the change of $6,555 has been reflected in the opening deficit of the consolidated financial statements as at January 1, 2014.

(Expressed in thousands of Canadian Dollars)

### 3. CHANGE IN ACCOUNTING POLICY (continued)

The following is a reconciliation of the Company's financial statements as at December 31, 2014.

| **Consolidated Statement of Financial Position** | December 31, 2014 | | |
|---|---|---|---|
| | As previously reported | Adjustments | Restated |
| | $ | $ | $ |
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | 4 | - | 4 |
| Marketable securities | 351 | - | 351 |
| Amounts receivable | 9 | - | 9 |
| Prepaid expense | 5 | - | 5 |
| | 369 | - | 369 |
| Non-current assets | | | |
| Exploration assets | 7,347 | (7,347) | - |
| Total assets | 7,716 | (7,347) | 369 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 71 | - | 71 |
| **DEFERRED INCOME TAX LIABILITY** | 790 | (790) | - |
| | 861 | (790) | 71 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | 14,414 | (225) | 14,189 |
| Share-based payment reserve | 118 | - | 118 |
| | 14,532 | (225) | 14,307 |
| Deficit | (7,677) | (6,332) | (14,009) |
| Total shareholders' equity | 6,855 | (6,557) | 298 |
| Total liabilities and shareholders' equity | 7,716 | (7,347) | 369 |

(Expressed in thousands of Canadian Dollars)

### 3. CHANGE IN ACCOUNTING POLICY (continued)

| **Consolidated Statement of Financial Position** | January 1, 2014 | | |
|---|---|---|---|
| | As previously reported | Adjustments | Restated |
| | $ | $ | $ |
| **ASSETS** | | | |
| Current | | | |
| Cash and cash equivalents | 9 | - | 9 |
| Marketable securities | 80 | - | 80 |
| Amounts receivable | 4 | - | 4 |
| Prepaid expense | 7 | - | 7 |
| | 100 | - | 100 |
| Non-current assets | | | |
| Exploration assets | 7,670 | (7,670) | - |
| Total assets | 7,770 | (7,670) | 100 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 54 | - | 54 |
| **DEFERRED INCOME TAX LIABILITY** | 890 | (890) | - |
| | 944 | (890) | 54 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | 14,414 | (225) | 14,189 |
| Share-based payment reserve | 239 | - | 239 |
| | 14,653 | (225) | 14,428 |
| Deficit | (7,827) | (6,555) | (14,382) |
| Total shareholders' equity | 6,826 | (6,780) | 46 |
| Total liabilities and shareholders' equity | 7,770 | (7,670) | 100 |

(Expressed in thousands of Canadian Dollars)

### 3. CHANGE IN ACCOUNTING POLICY (continued)

**Consolidated Statement of Operations and Comprehensive Income (Loss)**

| | | December 31, 2014 | | |
|---|---|---|---|---|
| | | As previously reported | Adjustments | Restated |
| | | $ | $ | $ |
| **Expenses** | | | | |
| Share-based payments | | 34 | - | 34 |
| Corporate expenses | | 23 | - | 23 |
| Professional fees | | 117 | - | 117 |
| Office and general | | 37 | - | 37 |
| Exploration and evaluation expenses | | - | 20 | 20 |
| Loss on disposal of exploration property | | 34 | (34) | - |
| Travel | | 1 | - | 1 |
| Loss from operations | | 246 | (14) | 232 |
| **Other expenses revenues** | | | | |
| Change in fair value of investments | 6 | (141) | - | (141) |
| Proceeds from sale of Sunday Lake property | | - | (309) | (309) |
| | | (141) | (309) | (450) |
| **Net (loss) income and comprehensive (loss) income** | | 105 | (323) | (218) |

| **Consolidated Statement of Cash Flows** | December 31, 2014 | | |
|---|---|---|---|
| | As previously reported | Adjustments | Restated |
| | $ | $ | $ |
| Operating cash flow before working capital changes | (178) | (20) | (198) |
| Net change in non-cash working capital | 14 | - | 14 |
| Net cash used in operations | (164) | (20) | (184) |
| Cash flow from investing activities | 159 | 20 | 179 |

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**(a) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its wholly-owned subsidiaries, Baobab Minerals Inc., Vancouver, B.C., and African Gold B.V., Netherlands). Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Company. All material intra-company transactions, balances, income and expenses are eliminated on consolidation.

**(b) Exploration and evaluation expenditures**

Exploration expenditure relates to the initial search for precious and base metals. Evaluation expenditure arises from a detailed assessment of deposits that have been identified as having economic potential.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(b) Exploration and evaluation expenditures (continued)**
Exploration and evaluation costs are expensed as incurred and included in the statement of loss and comprehensive loss until technical feasibility and commercial viability of extraction of reserves are demonstrable. Once a mine development division has been made by the Company, subsequent expenditures incurred to develop the mine are capitalized to mineral properties. Exploration costs include an allocation of administration and salary costs (including share-based payments) as determined by management, where they relate to specific projects.

**(c) Rehabilitation Provisions**
The Company will record a liability for the estimated future costs associated with legal and constructive obligations relating to the reclamation and closure of its exploration assets. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion expense on the discounted liability. Management is currently not aware of any existing significant legal or constructive obligations relating to the reclamation of its interest in exploration assets and therefore no such liability has been recorded at December 31, 2015 and 2014.

**(d) Impairment of non-financial assets**
At the end of each reporting period, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in loss.

**(e) Interests in joint arrangements**
A joint arrangement involves the use of assets and/or other resources of the Company and other venturers rather than the establishment of a corporation, partnership or other entity. The Company accounts for the assets it controls and the liabilities and expenses it incurs. As at December 31, 2015, no joint arrangement existed for accounting purposes.

**(f) Cash**
Cash is comprised of cash on hand, deposits in banks and highly liquid investments having original terms to maturity of 90 days or less when acquired.

**(g) Financial instruments**
Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

**(i) Financial assets and liabilities at fair value through profit or loss:** A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Marketable securities are included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss in the period in which they arise.

**(ii) Available-for-sale investments:** Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of loss and are included in other gains and losses.

**(iii) Loans and receivables:** Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise cash and amounts receivable. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Financial instruments (continued)**

**(iv) Financial liabilities at amortized cost:** Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable and accrued liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

**(h) Impairment of financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**(i) Functional and presentation currencies**

The functional currency of the Company and its subsidiaries is the Canadian dollar. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items denominated in foreign currencies are retranslated at the rates prevailing on the transaction dates. Foreign currency translation differences are recognized in the consolidated statement of loss.

**(j) Flow-through financing**

The Company finances a portion of its project exploration and development through the issuance of flow-through shares.

Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors and deferred income tax expense and income tax liabilities are increased by the estimated income tax benefits renounced by the Company to the investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the closing market price of the Company's common shares is allocated to liabilities. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized through profit or loss.

Where the Company has unused tax benefits on loss carry forwards and tax pools in excess of book value available for deduction which have not been previously accounted for as deferred tax assets, the Company records a deferred tax asset to offset the increase in deferred tax liabilities resulting in an offsetting recovery of deferred income taxes being recognized through profit or loss in the reporting period.

**(k) Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Company records compensation cost using the fair value method of accounting for share-based payments. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as share-based payments expense and share-based payment reserve. When options are exercised, the proceeds received, together with any related amount in share-based payment reserve, will be credited to capital stock.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. On expiry, any related amount in share-based payment or warrant reserve will be credited to deficit.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies above, management has identified the judgemental areas that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations), which are dealt with below:

*Key sources of estimation uncertainty*

Preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. The key sources of estimation uncertainty are discussed below:

*Mineral reserve estimates*

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

*Share-based payments*

Estimation of share-based payment costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own shares, the probable life of options granted and the time of exercise of those options. The model used by the Company is the Black-Scholes valuation model.

*Income, value added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

### (m) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As a result, all outstanding convertible securities during the years ended December 31, 2015 and 2014 have been excluded from diluted loss per share.

### (n) Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) Changes in Accounting Policies

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2015. These changes were made in accordance with the applicable transitional provisions and did not result in any significant financial statement impact.

IFRS 8 - Operating Segments ("IFRS 8") was amended to require an entity to disclose the judgments made by management in aggregating segments. IFRS 8 was also amended to clarify that an entity needs to present a reconciliation between the total reporting segment's assets to the entities' total assets if this information is usually provided to the chief operating decision maker. The amendments are effective for annual periods beginning on or after July 1, 2014.

IAS 24 – Related Party Disclosures ("IAS 24") was amended to clarify that an entity providing key management services to the reporting entity or the parent of the reporting entity is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. The amendments to IAS 24 are effective for annual periods beginning on or after July 1, 2014.

### (p) New standards and interpretations not yet adopted

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. 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. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

IFRS 10 – Consolidated Financial Statements ("IFRS 10") and IAS 28 – Investments in Associates and Joint Ventures ("IAS 28") were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

IAS 12 – Income Taxes ("IAS 12") was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment were amended in May 2014 to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The amendment is effective for annual periods beginning on or after January 1, 2016.

(Expressed in thousands of Canadian Dollars)

## 5. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

Transactions with related parties that are not subsidiaries were as follows:

**Related Party Transactions**

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| **Office and general** | - | 14 |
| **Key Management Personnel** | | |
| Professional fees | 19 | 59 |
| Share-based payments | 33 | 34 |

The above expenditures were incurred with directors and officers of the Company, or corporations with directors and/or officers in common with the Company, or corporations controlled by directors and/or officers of the Company.

No fees were paid by the Company to directors for their services as directors of the Company in the years ended December 31, 2015 or December 31, 2014. Professional fees comprise administration, geological, investor relations and legal services provided by persons or corporations controlled by persons who are directors.

Included in accounts payable and accrued liabilities at December 31, 2015 is $51 (2014 - $32) due to related parties. See Note 8. Such amounts are due on demand, unsecured and non-interest bearing.

## 6. MARKETABLE SECURITIES

Fair value through profit and loss investments:

| | December 31, 2015 | Gain on disposal | (Disposals) | December 31, 2014 | Additions | Change in fair value | (Disposals) | January 1, 2014 |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Detour Gold Corporation | - | 74 | (425) | 351 | 310 | 140 | (179) | 80 |
| | - | 74 | (425) | 351 | 310 | 140 | (179) | 80 |

During the year ended December 31, 2015, the Company sold 37,040 (2014 – 15,400) Detour Gold Corporation (“Detour Gold”) shares for gross proceeds of $425 (2014 - $179). At December 31, 2015, the Company owned Nil (2014 – 37,040) shares of Detour Gold.

During the year ended December 31, 2014, the Company sold its remaining 50% joint venture interest in the Sunday Lake property to Detour Gold for a one-time payment of 33,000 common shares of Detour Gold.

(Expressed in thousands of Canadian Dollars)

## 7. EXPLORATION AND EVALUATION EXPENDITURES

The following table shows the Company's cumulative exploration and evaluation expenditures:

| | December 31, 2015 | Additions | December 31, 2014 | Disposal | Additions | December 31, 2013 |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Alexander | 6,236 | 9 | 6,227 | - | 3 | 6,224 |
| Smith Lake | 1,188 | 68 | 1,120 | - | 17 | 1,103 |
| King Bay | 996 | 3 | 993 | - | 3 | 990 |
| Sunday Lake | - | - | - | (343) | - | 343 |
| Total | 8,420 | 80 | 8,340 | (343) | 23 | 8,660 |

**Alexander Property, Red Lake, Ontario**
The Company has earned a 100% interest in the Alexander Property, a group of patented mining claims situated in Central Balmer Township, Red Lake Mining District, Ontario, subject to a 2% net smelter return ("NSR") in favour of Energold Minerals Inc. ("Energold"). Energold is controlled by a director of the Company.

**Smith Lake Property, Missinabie, Ontario**
The Company holds six (6) patented claims and twenty five (25) unpatented mining claims in the Missinabie area of Northern Ontario, in Leeson, Stover and Rennie Townships, Sault Ste. Marie Mining Division, located approximately 100 kilometres northeast of Wawa.

**King Bay Property, Sturgeon Falls, Ontario**
The King Bay property comprises a combination of Mining Leases and Mineral Claims.

**Sunday Lake Property, Detour Lake, Ontario**
The Sunday Lake property comprised a group of mining leases and mining claims situated at Detour Lake, Ontario. On December 2, 2014, the Company sold its remaining 50% joint venture interest in the Sunday Lake property to Detour Gold for a one-time payment of 33,000 common shares of Detour Gold valued at $310.

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Trade payables | - | 8 |
| Payable to related parties (Note 5) | 51 | 32 |
| Accrued liabilities | 30 | 31 |
| Accounts payable and accrued liabilities | 81 | 71 |

## 9. CAPITAL STOCK

### Common shares

| | Common shares (000's) | Amount $ |
|---|---|---|
| **Authorized** | | |
| Unlimited common shares, with no par value | | |
| **Issued and fully paid** | | |
| Balance at December 31, 2015, 2014 and 2013 | 95,478 | 14,189 |

(Expressed in thousands of Canadian Dollars)

## 10. STOCK OPTIONS

The board of directors has approved a stock option plan for directors, officers, management, employees and other persons who perform ongoing services for the Company or any of its subsidiaries. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through stock options, to acquire a proprietary interest in the Company and to benefit from its growth.

The maximum number of common shares reserved for issuance upon the exercise of options is not to exceed ten percent of the total number of common shares outstanding immediately prior to such an issuance. The maximum number of common shares reserved for issuance to any one participant upon the exercise of options is not to exceed five percent of the total number of common shares outstanding immediately prior to such an issuance. The options are non-assignable and may be granted for a term not exceeding ten years. The exercise price of the options is fixed by the board of directors at the market price of the shares at the time of grant, subject to all applicable regulatory requirements.

On May 21, 2014, the Company granted 5,800,000 stock options at an exercisable price of $0.05 per share, with a five year term expiring May 20, 2019, all vesting over a period of two years, to directors, officers and service providers. Directors and officers were awarded 5,400,000 options. The grant date fair value of these options was estimated at $67. The estimated fair value was calculated using the Black-Scholes option pricing model with the following assumptions: expected divided yield of 0%; expected volatility of 135%; risk free interest rate of 1.56% and expected life of 5 years.

The following table summarizes the stock options outstanding and exercisable as at December 31, 2015:

| Number of stock options exercisable (000's) | Weighted Average exercise price $ | Expiry Date |
|---|---|---|
| 1,200 | 0.11 | June 1, 2016 |
| 5,800 | 0.05 | May 20, 2019 |
| 7,000 | 0.06 | |

The weighted average remaining contractual life of options outstanding at December 31, 2015 is 2.9 years (2014 – 3.9 years).

Share-based payment transactions for the period ended December 31, 2015 were as follows:

| | Number of Options (000's) | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, December 31, 2013 | 4,300 | 0.10 |
| Expired | (3,100) | 0.10 |
| Granted | 5,800 | 0.05 |
| Balance, December 31, 2014 and 2015 | 7,000 | 0.06 |

## 11. SHARE-BASED PAYMENT RESERVE

Share-based payment reserve transactions relate to the Company's stock options. Share-based payment reserve transactions for the period ended December 31, 2015 were as follows:

| | $ |
|---|---|
| Balance, December 31, 2013 | 239 |
| Expired | (155) |
| Granted | 34 |
| Balance, December 31, 2014 | 118 |
| Granted | 33 |
| Balance, December 31, 2015 | 151 |

(Expressed in thousands of Canadian Dollars)

## 12. COMMITMENTS AND CONTINGENCIES

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company 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.

## 13. INCOME TAXES

a) **Provision for Income Taxes**

Major items causing the Company's income tax rate to differ from the combined Canadian federal and provincial statutory rate of approximately 25% (2014 – 25%) were as follows:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| (Loss) income before income taxes | (171) | 218 |
| Expected income taxes based on statutory rate | (43) | 55 |
| Adjustment to expected income tax benefit: | | |
| Stock-based compensation | 8 | 9 |
| Expenses not deductible for tax purposes | (11) | (17) |
| Other | 94 | (47) |
| Change in statutory tax rates | - | - |
| Deferred tax assets not recognized | (48) | - |
| Deferred income tax provision (recovery) recognized in operations | - | - |
| Deferred tax recognized directly in equity | - | - |
| Total taxation | - | - |

b) Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Non-capital losses | 718 | 370 |
| Exploration assets | 3,724 | 3,649 |
| Capital losses | 929 | 917 |
| Marketable securities | - | 82 |
| Total | 5,371 | 5,018 |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

c) **Tax loss Carry-Forwards**

The Company has approximately $3,724 of Canadian development expenditures which, under certain circumstances, may be utilized to reduce taxable income of future years.

As at December 31, 2015, the Company has approximately $718 of non-capital losses in Canada, which expire as follows:

| | $ |
|---|---|
| 2031 | 23 |
| 2032 | 211 |
| 2033 | 60 |
| 2034 | 211 |
| 2035 | 213 |
| | 718 |

## 14. FINANCIAL INSTRUMENTS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures.

**Fair value**
The carrying amounts for cash, marketable securities, amounts receivable and accounts payable and accrued liabilities on the consolidated statements of financial position approximate fair value because of the limited term of these instruments. The marketable securities are stated at the quoted market value. At December 31, 2015, the Company had no financial instruments to classify within the fair value hierarchy

**Interest rate risk**
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by major Canadian banks. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

**Credit risk**
Credit risk is the risk that a client or vendor will be unable to pay or receive any amounts owed or owing by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to funds held in Canadian banks.

**Commodity price risk**
The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals, particularly gold.

**Fair Value Hierarchy and Liquidity Risk Disclosure**
The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At December 31, 2014, the Company's financial instruments that are carried at fair value, consisting of marketable securities, have been classified as Level 1 within the fair value hierarchy. At December 31, 2015, the Company had no financial instruments to classify within the fair value hierarchy.

**Liquidity Risk**
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At December 31, 2015, the Company had cash of $226 (December 31, 2014 - $4) to settle accounts payable and accrued liabilities of $81 (December 31, 2014 - $71). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**Market Risk**
Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is no longer exposed to market risk with respect to its marketable securities as all marketable securities were sold by the Company and none are held at December 31, 2015.

**Price Volatility of Publicly Traded Securities**
Securities of exploration companies have experienced substantial volatility in the past, often based on factors unrelated to the financial performance or prospects of the companies involved. These factors include macroeconomic developments in North America and globally, and market perceptions of the relative attractiveness of particular industries. The Company's share price is also likely to be significantly affected by short-term changes in metal prices or in the Company's financial condition or results of operations.

**Capital Risk**
The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain and explore its exploration assets. The capital structure of the Company consists of shareholders' equity.

**Sensitivity Analysis**
Cash is invested in investment-grade short-term deposit certificates. Based on management's knowledge and experience in the financial markets, sensitivity to a plus or minus 1% change in rates, based on the current balance of cash at December 31, 2015, would affect the net income by plus or minus $2 during a one-year period.

As at December 31, 2015 and 2014, the Company did not hold any material balances in foreign currencies that would give rise to exposure to foreign exchange risk.

## 15. CAPITAL MANAGEMENT

The capital of the Company consists primarily of its shareholders' equity.

The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition, development and exploration of mineral properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. All equity financings require the approval of the Board of Directors.

The Company invests all capital that is surplus to its immediate operational needs in short term, highly-liquid financial instruments, such as short term guaranteed investment certificates, held with a major Canadian financial institution.

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 to the Company's approach to capital management during the years ended December 31, 2015 and 2014. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.