Matachewan Consolidated Mines, Limited

Financial statements
December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Matachewan Consolidated Mines, Limited:

We have audited the accompanying financial statements of Matachewan Consolidated Mines, Limited which comprise the statements of financial position as at December 31, 2016 and December 31, 2015 and the statements of income and comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the 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, these financial statements present fairly, in all material respects, the financial position of Matachewan Consolidated Mines, Limited as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

Toronto, Ontario
April 18, 2017

Chartered Professional Accountants
Licensed Public Accountants

MNP LLP

Matachewan Consolidated Mines, Limited

Statements of Financial Position

(expressed in Canadian dollars)

		As at December 31 2016	As at December 31 2015
Assets			
Current Assets			
Cash		$ 1,361	$ 252,536
Marketable securities	(Note 3, 9)	3,296,218	1,364,916
Accounts receivable		181,911	561,668
Income taxes receivable	(Note 14)	10,632	-
		3,490,122	2,179,120
Non-current Assets			
Investment in other companies	(Note 4)	179,610	241,021
Investment in petroleum interests	(Note 13)	443,225	596,929
Loan receivable	(Note 9)	150,000	150,000
Deferred income tax asset	(Note 14)	63,994	2,978
		$ 4,326,951	$ 3,170,048
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	(Note 8)	$ 39,033	$ 190,297
Dividend payable		248,900	-
Income taxes payable	(Note 14)	-	445,301
Loans payable	(Note 9)	900,636	423,288
		1,188,569	1,058,886
Shareholders' Equity			
Share capital	(Note 10)	2,878,391	2,878,391
Contributed surplus	(Note 11, 12)	363,800	363,800
Surplus (deficit)		(103,809)	(1,131,029)
		3,138,382	2,111,162
		$ 4,326,951	$ 3,170,048

Approved on behalf of the Board of Directors:

"R D McCloskey" *"E G Dumond"*

R D McCloskey, Director E G Dumond, Director

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

Matachewan Consolidated Mines, Limited
Statements of Changes in Shareholders' Equity
(expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Surplus (Deficit)	Shareholders' Equity
Balance at December 31, 2015	12,445,025	$ 2,878,391	$ 363,800	$ (1,131,029)	$ 2,111,162
Net income	-	-	-	1,276,120	1,276,120
Dividend declared during the year	-	-	-	(248,900)	(248,900)
Balance at December 31, 2016	12,445,025	$ 2,878,391	$ 363,800	$ (103,809)	$ 3,138,382
Balance at December 31, 2014	12,445,025	$ 2,878,391	$ 363,800	$ (1,500,625)	$ 1,741,566
Net income	-	-	-	742,946	742,946
Stock based compensation	-	-	-	-	-
Dividend paid during the year	-	-	-	(373,350)	(373,350)
Balance at December 31, 2015	12,445,025	$ 2,878,391	$ 363,800	$ (1,131,029)	$ 2,111,162

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

Matachewan Consolidated Mines, Limited

Statements of Income and Comprehensive Income

(expressed in Canadian dollars)

		For the years ended December 31 2016	2015
Income			
Investment in petroleum interests - net		$ 50,336	$ 49,636
Royalty/option	(Note 7)	434,609	1,995,976
Other income		64,955	47,180
Realized gain (loss) on sale of investment in other companies and marketable securities		443,280	(191,944)
Unrealized appreciation (depreciation) of investment in other companies and marketable securities		722,317	(275,711)
		1,715,497	1,625,137
Expenses			
Administrative		263,621	258,768
Impairment of petroleum interests	(Note 13)	236,772	170,298
		500,393	429,066
Income before provision for income taxes		1,215,104	1,196,071
Provision for income taxes			
Current	(Note 14)	-	458,051
Deferred	(Note 14)	(61,016)	(4,926)
		(61,016)	453,125
Net income and comprehensive income		$1,276,120	$ 742,946
Income per share			
Basic and diluted		$ 0.10	$ 0.06
Weighted average number of common shares outstanding			
Basic		12,445,025	12,445,025
Diluted		12,817,538	13,500,025

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

Matachewan Consolidated Mines, Limited

Statements of Cash Flows

(expressed in Canadian dollars)

	For the years ended December 31 2016	2015
Operating activities		
Net income and comprehensive income	$1,276,120	$ 742,946
Items not involving cash:		
Deferred income taxes	(61,016)	(4,926)
(Gain) loss on sale of marketable securities and investments	(443,280)	191,944
Unrealized (appreciation) depreciation on investment in other companies and marketable securities	(722,317)	275,711
Impairment of petroleum interests	236,772	170,298
	286,279	1,375,973
Decrease (increase) in accounts receivable	379,757	(188,687)
Increase (decrease) in income taxes payable / receivable	(455,933)	145,046
Increase (decrease) in accounts payable and accrued liabilities	(151,264)	167,708
Cash provided by operating activities	58,839	1,500,040
Investing activities		
Purchase of marketable securities	(3,830,472)	(1,194,231)
Proceeds on sale of marketable securities	3,130,328	441,999
Purchase of investments in other companies	(4,150)	(91,325)
Investment in loan receivable	-	(150,000)
Investment in petroleum interests	(83,068)	(210,306)
Cash used in investing activities	(787,362)	(1,203,863)
Financing activities		
Increase in loans payable	477,348	151,503
Dividend paid	-	(373,350)
Cash provided by (used in) financing activities	477,348	(221,847)
Net increase (decrease) in cash	(251,175)	74,330
Cash, beginning of the year	252,536	178,206
Cash, end of the year	$ 1,361	$ 252,536
Interest paid	$ 50,986	$ 24,965
Income taxes paid	458,387	314,241

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

1. Nature of Operations

Matachewan Consolidated Mines, Limited ("Matachewan" or "the Company") was incorporated in the Province of Ontario, Canada by letters patent dated July 10, 1933, and the common shares are listed on the TSX Venture Exchange, symbol MCM.A. The Company has an investment in petroleum interests that it does not operate, as well as direct and indirect interests in mineral properties located in Canada. Matachewan is indirectly exposed to other natural resource opportunities by investing in marketable securities and investment in other companies listed on recognized exchanges that are natural resource based. Effective July 1, 2016 the registered office of the Company is at Suite 410 – 150 York Street, Toronto, ON, M5H 3S5.

2. Summary of Significant Accounting Policies

a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements as at and for the year ended December 31, 2016 (with comparatives) were approved and authorized for issue by the board of directors on April 18, 2017.

b) Basis of preparation

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

The financial statements are prepared on the historical cost basis, except that financial instruments classified as fair value through profit or loss which are stated at their fair value, and have been prepared using the accrual basis of accounting except for cash flow information.

The accounting policies have been applied consistently to all periods presented in the financial statements.

c) Cash

Cash includes balances held with a Canadian chartered bank and brokerage accounts.

d) Revenue recognition

The operators of the various petroleum interests recognize the revenue from the sale of petroleum and natural gas when the product passes through the sales outlet meter of the processing plants. The Company recognizes the earnings from its investment in petroleum interests to the extent it is earned and receivable from these operations. The Company does not operate any of the interests it has in oil and natural gas.

Royalty income is recognized as earned in terms of the overriding royalty agreement.

Investment transactions are accounted for as of the settlement date. Realized gains and losses from investment transactions are calculated on an average cost basis. The difference between fair value and average cost is included in the Statements of Income and Comprehensive Income as part of the "Unrealized appreciation (depreciation) of investment in other companies and marketable securities".

e) Financial instruments

Financial assets

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

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking;

or

- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL, are stated at fair value with any resultant gain or loss recognized in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available for sale

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are measured at fair value with the resultant gain or loss recognized in other comprehensive income. Financial assets classified as available for sale are subsequently re-measured if they have quoted market value in an active market or if fair value can be reliably determined. Otherwise, these investments are carried at cost and are written down and recognized in profit or loss when there is objective evidence of impairment.

Financial liabilities

FVTPL

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as FVTPL. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other financial liabilities

Non-derivative financial liabilities that have not been designated as FVTPL are classified as other liabilities, which are initially measured at fair value and are subsequently re-measured at amortized cost using the effective interest rate method.

The Company has classified its financial instruments as follows:

Financial instrument	Classification
Cash	FVTPL
Marketable securities	FVTPL
Accounts receivable	Loans and receivables
Investment in other companies	FVTPL or available for sale
Investment in petroleum interests	Available for sale
Accounts payable and accrued liabilities	Other financial liabilities
Loans payable/receivable	Other financial liabilities/ loans and receivables

f) *Marketable securities*

Marketable securities are carried at fair value and are in shares of companies listed on a recognized exchange and are primarily natural resource based. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

g) *Investment in other companies*

Investments in other companies are carried at fair value unless they are investments without an active market and fair value is not reliably measurable, in which case they are carried at cost unless there is objective evidence of impairment. These investments are in shares of companies predominately listed on a recognized exchange and are primarily natural resource based. The intention, on acquisition, is to hold these investments for periods in excess of twelve months.

h) *Investment in petroleum interests*

This investment represents participation agreements with Signalta Resources Limited ("Signalta"), a Canadian controlled private company and similar operators based in Calgary, Alberta. As this amount represents residual interests it has been considered as an investment in equity interests. Typically, the Company's proportionate share of specific yearly investment programs would range up to 1%. The Company, by agreement, does not exercise joint control or significant influence over Signalta, as operator of the petroleum participations.

Accordingly, this investment has been classified as an available for sale financial instrument. As this investment has no quoted market price in active markets and its fair value cannot be reliably measured, it is recorded at cost, unless there is objective evidence of an impairment.

i) *Income taxes*

Income tax expense consists of current and deferred tax expense. Current and deferred taxes are recognized in the Statements of Income and Comprehensive Income.

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

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

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

j) *Use of estimates*

The preparation of the financial statements under IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically, and as adjustments become necessary, they are made in the period in which they become known. Actual results could differ from those estimates.

Accounts which require management to make material estimates in determining amounts recorded include impairment of petroleum interests and securities held at cost, deferred income taxes and share-based compensation.

Fair value of investment in securities not quoted in an active market:

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values and cost may be considered the best approximation of fair value.

Fair value of purchase warrants:

The fair value of purchase warrants is valued either at their quoted market value if traded on an active market, or valued through specified valuation models based on specified criteria. These models may range from using the Black Scholes model to estimate fair value or in certain cases intrinsic value, if it is a better representation of the best estimate of fair value.

k) *Accounting for share-based payment*

The grant date fair value of options allotted to directors, officers, and employees is recognized as an expense, with a corresponding increase in contributed surplus, over the period that the grantee becomes unconditionally entitled to the options. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The fair value of the options is measured at grant date, using an option pricing model that takes into account the exercise price, the term of the option, the current share price, the expected forfeitures and the expected volatility of the underlying shares, the expected dividend yield, forfeiture rate and the risk free rate for the term of the option. If the options are exercised, contributed surplus will be reduced by the applicable amount with a corresponding charge to share capital.

For equity-settled share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case, the Company measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

l) *Income (loss) per share*

The Company presents basic and diluted income (loss) per share (IPS)/(LPS) data for its common shares. Basic IPS/LPS are calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted IPS/ LPS is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise share options granted to directors, officers, employees, consultants and other service providers of the Company.

m) *Impairment*

Financial assets

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset that is measured at amortized cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the original effective interest rate. All impairment losses are recognized in profit or loss.

Financial assets with similar characteristics that are managed and evaluated as a portfolio are tested for impairment as a group. The remaining financial assets are assessed on an individual basis.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost this reversal is recognized in profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in comprehensive income, to income or loss. The amount of the cumulative loss that is recognized in other comprehensive income or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognized in income or loss.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

n) Dividends

Dividends on common shares are recognized in the financial statements in the period in which the dividends are approved by the Board of Directors.

o) *Recent accounting pronouncements*

IFRS 9 - *Financial Instruments* - published July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 - Revenue from Contracts with Customers – The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets From Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contract with customers. This standard is effective for annual periods beginning on or after January 1, 2018, and permits early adoption.

IFRS 16 - Leases – In January 2016 the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17 the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from contract with customers has also been applied.

The Company is in the process of determining the impact of these pronouncements on its financial statements.

3. Marketable Securities

The marketable securities on hand December 31, 2016 had a fair value of $3,296,218 and a cost of $3,696,468 (December 31, 2015 - $1,364,916 and $2,553,044). These marketable securities are in shares of companies listed on a recognized exchange and are primarily natural resource based. The intention, on acquisition, is to hold these securities for a period of less than twelve months.

4. Investment in Other Companies

The investment in other companies on hand December 31, 2016, had a carrying value of $179,610 and had a cost of $503,297 (December 31, 2015 - $241,021 and $499,147). This investment is in shares of companies that are primarily natural resource based. The intention, on acquisition, is to hold these investments for periods in excess of twelve months. The investment is entirely comprised of fair value through profit or loss securities.

5. Capital Management

The Company's capital structure consists of its shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available, to support the core nature of its business. The Company maintains its capital structure by using internally generated funds as the need arises. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable considering the relative size of the Company.

There were no changes in the Company's approach to capital management during this reporting period.

6. Financial Risk Factors

The Company's financial risk exposure and the impact of the Company's financial instruments are summarized below:

Credit risk
The Company's credit risk is attributable to its accounts receivable and loan receivable. The accounts receivable are the result of investment in petroleum interests. The loan receivable represents an advance to a private corporation. In the opinion of management the credit risk with respect to these instruments is low.

Liquidity risk
The Company ensures that there is sufficient cash and other short term assets readily convertible into cash in order to meet its liabilities when they come due. Additionally the Company's cash is held in business accounts with its bank. Management believes that the liquidity risk is low. All of the Company's liabilities mature within the next 12 months.

Interest rate risk
The Company has loans to supplement its investment strategies. The preceding exposes the Company to interest rate risk which fluctuates in accordance with market rates on its loans payable.

Commodity price risk
The Company is exposed to price risk with respect to the fluctuations in commodity prices. The volatility of prices received affect the Company's available cash and profits.

Notes to Financial Statements (expressed in Canadian dollars)

Fair Value
Fair value is determined using the following methods and assumptions:
The carrying value of accounts receivable, loans receivable and accounts payable and accrued liabilities approximate their fair value due from the relatively short periods to maturity of these instruments. The carrying value of the floating rate loans payable is assumed to approximate its fair value as interest is based on market related variable rates.

Foreign currency risk
The Company is exposed to foreign currency risk. This would be in conjunction with its investments in currency of the United States of America. This is a negligible part of the Company's business and with the amount of foreign currency involved management considers the foreign currency risk to be low.

Cash, marketable securities, investment in other companies and investment in petroleum interests (except the available for sale investments carried at cost) are carried at fair value as these instruments are considered FVTPL.

Sensitivity Analysis
As at December 31, 2016 had the prices on the respective stock exchanges for marketable securities and publicly held investments in other companies raised or lowered by 5%, with all other variables held constant, the equity of the Company would have increased or decreased by $170,711 (December 31, 2015 - $80,297).

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the comparable asset or liability, either directly or indirectly.
Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair value of the instruments.

The following table outlines the Company's marketable securities and investments in other companies classified by their fair value hierarchy. There were no significant transfers between Level 1 and Level 2 during the years.

		Level 1		Level 2		Level 3		Total
2016								
Marketable securities	$	3,296,218	$	-	$	-	$	3,234,618
Investment in other companies	$	179,610	$	-	$	-	$	179,610
Total	$	3,475,828	$	-	$	-	$	3,475,828
2015								
Marketable securities	$	1,364,916	$	-	$	-	$	1,364,916
Investment in other companies	$	241,021	$	-	$	-	$	241,021
Total	$	1,605,937	$	-	$	-	$	1,605,937

7. Royalty and Option Interests

Mining property descriptions: Powell and Cairo Townships, Matachewan Area, Ontario

The Company has a royalty interest in the Matachewan property consisting of 24 mining claims that form part of the Young-Davidson Mine operated by Alamos Gold Inc. The former operator AuRico Gold Inc. merged with Alamos Gold Inc. on June 30, 2015.

The base royalty on the property is $1.1025 U.S. per tonne of ore mined and processed from the property. When applicable, an additional royalty is paid when the price of gold exceeds $270 U.S. per ounce. This amounts to 5% of the increase per ounce recovered above the base rate of $270 U.S. The royalties are paid quarterly.

Hislop and Guibord Townships: Matheson Area, Ontario

Under the terms of the Option and Joint Venture Agreement dated June 21, 2011, by arrangement Osisko Mining Inc. ("Osisko") has earned a 50% interest and the Company retains a 50% interest, in 8 mining leases located in Hislop and Guibord Townships near Matheson, Ontario. Osisko will earn an additional 10% interest by completing a feasibility study or spending an additional $1,000,000 in exploration expenditures on the property, Osisko will earn a final 10% interest by obtaining financing to construct a mining operation on the property or spending an additional $2,000,000 in exploration expenditures on the property. The Company will retain a

Notes to Financial Statements (expressed in Canadian dollars)

30% assessable interest in the property together with a 2% net smelter royalty of which 1% can be repurchased for $1,000,000. The Company receives an annual $25,000 advance royalty effective with Osisko's 50% earned interest in the property.

8. Related Party Transactions and Disclosures

Included in accounts payable, amounts due to related parties as at December 31 2016 were $3,096 (December 31, 2015 – $144,304). This is a company related to the Company by shareholdings, officers, and directors. The amounts payable were the result of the Company's investment in petroleum interests which are in the normal course of its business. The related parties have common directors and officers. Administrative fees were paid to a related party in the amount of $825 for the year ended December 31, 2016 (2015 - $ 1,317).

The Company paid during the year ended December 31, 2016, lease and operating costs for its office premises of $12,000 (2015 - $24,000) to a party related by shareholdings, officers and directors. There were no balances owing at December 31, 2016 or December 31, 2015.

Key management personnel and directors compensation

	Period ended December 31, 2016	Period ended December 31, 2015
Directors' and Management fees	$64,000	$64,000
Share based payments	nil	nil

9. Loans Payable / Loans Receivable

The loans payable, representing broker margin accounts at December 31, 2016 were $900,636 (December 31, 2015 - $423,288). They were secured by certain of the Company's marketable securities. Interest payable on the margin accounts was at the rates of prime plus 1.00% to prime plus 1.50% annually (see Note 3).

The loan receivable, representing an advance to an unrelated company at December 31, 2016 was $150,000 (December 31, 2015 – $150,000). The loan bears interest at eight percent (8%) per annum to be calculated and paid annually from the date of the advance. The loan receivable is due for repayment on May 12, 2017 and is unsecured. Interest accrued for 2016 and outstanding was $12,000 (2015 - $7,660).

10. Share Capital

a) *Authorized*
Unlimited common shares

b) *Common shares issued*:

	Number of shares	Value
Balance – December 31, 2016 and December 31, 2015	12,445,025	$2,878,391

11. Contributed Surplus

The December 31, 2016 contributed surplus of the Company was $363,800 (December 31, 2015 - $363,800). The contributed surplus resulted from the fair market value of stock options granted in 2014.

12. Share - Based Compensation

Stock options
The Company has adopted a stock option plan ("the Plan"). Pursuant to the Plan, the Board of Directors may, from time to time at its discretion, allocate non-transferable options to purchase shares to directors, officers, employees and consultants of the Company.

Under the Plan, the aggregate number of shares to be issued upon the exercise of outstanding options granted hereunder may not exceed 1,240,000 shares.

Exercise prices shall be determined by the Board of Directors. The exercise price shall not be less than the closing price ("the market price") of the shares on the exchange immediately preceding the day on which the Board grants the options and provides notice to the exchange of such. There is no vesting period and the term is five years for options granted.

Notes to Financial Statements (expressed in Canadian dollars)

The Company granted 1,055,000 stock options on October 21, 2014.

A summary of the status of the Company's stock option plan as of December 31, 2016, and December 31, 2015, and changes during the year ended on those dates are presented in the following table:

	2016		2015	
	Number	Exercise price	Number	Exercise price
Outstanding and exercisable, beginning	1,055,000	$0.205	1,055,000	$0.205
Granted	nil	n/a	nil	n/a
Expired	nil	n/a	nil	n/a
Outstanding and exercisable, ending	1,055,000	$0.205	1,055,000	$0.205

Stock option disclosure
The fair market value of stock options granted on October 21, 2014 expiring October 20, 2019, was estimated using the Black Scholes fair value option-pricing model.

The weighted average remaining contractual life is three years.

13. Investment in Petroleum Interests

Balance –	December 31, 2014		$556,921
	Capital contributions		210,306
	Impairment loss recognized	(i)	(170,298)
Balance –	December 31, 2015		$596,929
	Capital contributions		83,068
	Impairment loss recognized	(ii)	(236,772)
Balance –	December 31, 2016		$443,225

(i) Based on a 12.5% discounted cash flow analysis an impairment loss of $170,298 was recognized in 2015 on a twenty year cash flow projection utilizing the AECO–C spot price ranging from $2.67 to $6.63 per MCF for natural gas

(ii) Based on a 12.5% discounted cash flow analysis an impairment loss of $236,772 was recognized in 2016 on a twenty year cash flow projection utilizing the AECO–C spot price ranging from $1.59 to $4.99 per MCF for natural gas

Notes to Financial Statements (expressed in Canadian dollars)

14. Income Taxes

The effective combined Canadian federal and provincial statutory income tax rate for the current year is 26.75% (2015 – 26.25%). The combined enacted tax rate for deferred tax assets and liabilities is 26.75% (2015 – 26.25%). The reconciliation of the combined Canadian federal and provincial statutory income tax rate to the effective tax rate is as follows:

		December 31, 2016		December 31, 2015
Net Income before recovery of income taxes	$	1,215,104	$	1,196,071
Expected income tax expense	$	325,040	$	313,969
Tax rate changes and other adjustments		(38,774)		(22,688)
Non-deductible items		7,052		85,625
Stock based compensation		-		-
Non-taxable items		(159,635)		(3,512)
Utilization of losses not previously recognized		(59,289)		(4,758)
Changes in tax benefits not recognized		(135,410)		84,489
Income tax (recovery) expense	$	(61,016)	$	453,125

The Company's income tax (recovery) is allocated as follows:

Current tax expense	$	-	$	458,051
Deferred tax recovery		(61,016)		(4,926)
	$	(61,016)	$	453,125

Deferred Tax

The following table summarizes the components of deferred tax:

Deferred Tax Assets		December 31, 2016		December 31, 2015
Property, plant and equipment	$	4,136	$	5,514
Intangible Asset		452		486
Mineral properties		59,406		-
Non capital losses carried forward		-		-
Net capital losses carried forward		-		-
Deferred Tax Liabilities				
Mineral properties	$	-	$	(3,022)
Net deferred tax assets	$	63,994	$	2,978

Deferred tax assets and liabilities have been offset where they relate to income taxes by the same taxation authority and the Company has the legal right and intent to offset:

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Marketable securities and investments in other companies	$	1,441,787	$	2,424,207
Capital losses carried forward		144,109		651,814

The capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. 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 utilize the benefits there from.