HIGHBANK RESOURCES LTD.

Financial Statements

Years ended December 31, 2016 and 2015

Expressed in Canadian Dollars

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Independent Auditor's Report

To the Shareholders of
Highbank Resources Ltd.

We have audited the accompanying financial statements of Highbank Resources Ltd., which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, and the statements of comprehensive loss, 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 is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Highbank Resources Ltd. 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.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Highbank Resources Ltd. to continue as a going concern.

"Crowe MacKay LLP"

Chartered Professional Accountants
Vancouver, British Columbia
April 28, 2017

HIGHBANK RESOURCES LTD.
Statements of Financial Position
(Expressed in Canadian dollars)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Cash		$ 26,272	$ -
Accounts receivable	4	2,908	7,754
Due from related parties	12	1,946	1,946
Prepaid expenses		2,555	4,763
		33,681	14,463
Non-current assets			
Property and equipment	5	10,466,740	10,295,315
Reclamation bond	7	189,500	189,500
Exploration and evaluation assets	6	3	3
		10,656,243	10,484,818
TOTAL ASSETS		$ 10,689,924	$ 10,499,281
LIABILITIES			
Current liabilities			
Bank overdraft		$ -	$ 15,398
Trade payables and accrued liabilities	8	817,004	1,132,064
Promissory note	11	746,258	605,726
Due to related parties	12	236,934	257,069
Production loan	5, 11	900,000	-
Convertible debenture	11	3,901,420	-
		6,601,616	2,010,257
Non-current liabilities			
Production loan	5, 11	-	833,433
Convertible debenture	11	-	3,666,951
Reclamation obligation	7	94,750	94,750
		94,750	4,595,134
TOTAL LIABILITIES		6,696,366	6,605,391
SHAREHOLDERS' EQUITY			
Share capital	9	16,591,743	15,406,469
Share subscription advance (receivable)		(6,650)	5,750
Equity component of convertible debenture	11	380,344	380,344
Contributed surplus	10	1,319,793	1,269,485
Deficit		(14,291,672)	(13,168,158)
TOTAL SHAREHOLDERS' EQUITY		3,993,558	3,893,890
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 10,689,924	$ 10,499,281

Nature and continuance of operations (Note 1)
Commitments (Notes 5 and 12)
Contingency (Note 6)

Approved on behalf of the Board:

"James H. Place"	*"Gary Musil"*
Director	Director

HIGHBANK RESOURCES LTD.
Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Notes	Years ended December 31, 2016	2015
Expenses			
Amortization	5	$ 304	$ 371
Consulting fees		4,550	11,690
Environmental remediation		-	185,404
Foreign exchange		52	328
Interest and bank charges		36,503	6,937
Loan bonus shares	11	7,000	-
Management fees	12	90,000	95,625
Office and miscellaneous	12	11,161	19,204
Professional fees		65,323	52,435
Regulatory and transfer agent		33,366	23,542
Rent	12	28,200	28,200
Share-based payment	9,12		
Directors		41,264	32,545
Consultants		24,675	72,029
Travel and promotion		25,641	232,236
Wages and salaries	12	69,552	90,192
		437,591	850,738
Other items			
Other income		(466)	-
Gain on debt settlement	9,11	(105,180)	-
Interest on promissory notes, convertible debentures, and production loan	11	791,569	603,182
		685,923	603,182
Net and comprehensive loss for the year		$ 1,123,514	$ 1,453,920
Weighted average number of common shares outstanding (basic and diluted)		117,405,474	103,250,904
Basic and diluted net loss per share		$ (0.01)	$ (0.01)

See accompanying notes to the financial statements

HIGHBANK RESOURCES LTD.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share capital						
	Number of shares	Amount	Share subscription advance (receivable)	Equity component of convertible debenture	Contributed Surplus	Deficit	Total
Balance at January 1, 2015	98,933,699	$ 14,729,590	$ (6,650)	$ 380,344	$ 1,174,340	$ (11,714,238)	$ 4,563,386
Loss for the year	-	-	-	-	-	(1,453,920)	(1,453,920)
Shares issued for cash							
- private placement	2,006,250	160,500	-	-	-	-	160,500
- options	100,000	17,722	-	-	(7,722)	-	10,000
- warrant exercise	4,132,000	498,657	-	-	(1,707)	-	496,950
Share-based payment	-	-	-	-	104,574	-	104,574
Share subscriptions advanced	-	-	12,400	-	-	-	12,400
Balance at December 31, 2015	**105,171,949**	**$ 15,406,469**	**$ 5,750**	**$ 380,344**	**$ 1,269,485**	**$ (13,168,158)**	**$ 3,893,890**
Balance at January 1, 2016	105,171,949	$ 15,406,469	$ 5,750	$ 380,344	$ 1,269,485	$ (13,168,158)	$ 3,893,890
Loss for the year	-	-	-	-	-	(1,123,514)	(1,123,514)
Shares issued for cash							
– private placement	9,612,250	666,480	(12,400)	-	-	-	654,080
– option exercise	250,000	41,440	-	-	(16,440)	-	25,000
Share issue costs	-	(14,000)	-	-	-	-	(14,000)
Bonus shares and finders fee issued	200,000	7,000	-	-	-	-	7,000
Fair value of brokers warrants	-	(809)	-	-	809	-	-
Share-based payment	-	-	-	-	65,939	-	65,939
Shares issued for debt settlement	6,990,422	485,163	-	-	-	-	485,163
Balance at December 31, 2016	**122,224,621**	**$ 16,591,743**	**$ (6,650)**	**$ 380,344**	**$ 1,319,793**	**$ (14,291,672)**	**$ 3,993,558**

HIGHBANK RESOURCES LTD.
Statements of Cash Flows
(Expressed in Canadian dollars)

	Years ended December 31, 2016	2015
Operating activities		
Loss for the year	$ (1,123,514)	$ (1,453,920)
Adjustments for non-cash items:		
Amortization	304	371
Accrued interest expense	791,567	603,182
Share-based payment	65,939	104,574
Gain on debt settlement	(105,180)	-
Bonus and finders shares issued	7,000	-
Changes in non-cash working capital items:		
Accounts receivable	4,846	79,993
Prepaid expenses	2,208	129,956
Trade payables and accrued liabilities	(136,963)	556,675
Due from related parties	-	2,679
Due to related parties	71,349	(44,232)
Net cash flows used in operating activities	(422,444)	(20,722)
Investing activities		
Expenditures on exploration and evaluation assets and property and equipment	(76,729)	(1,897,534)
Sale of royalty interest	-	144,264
Accounts payable due to exploration activities and property and equipment	(174,237)	133,990
Net cash flows used in investing activities	(250,966)	(1,619,280)
Financing activities		
Proceeds on issuance of common shares - net of share issue costs	677,480	667,450
Share subscriptions	(12,400)	12,400
Production loan	-	755,736
Promissory note	50,000	-
Net cash flows from financing activities	715,080	1,435,586
(Decrease) increase in cash	41,670	(204,416)
Cash (bank overdraft), beginning	(15,398)	189,018
Cash (bank overdraft), ending	$ 26,272	$ (15,398)
Supplemental cash flow information		
Cash paid (received) for interest	$ 14,356	$ -
Cash paid for income taxes	$ -	$ -

Non-cash transactions (Note 15)

1. Nature and continuance of operations

Highbank Resources Ltd. (the "Company") is incorporated under the laws of the Province of British Columbia, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "HBK".

The corporate office and principal place of business of the Company is 625 Howe Street, Suite 600, Vancouver, British Columbia, Canada, V6C 2T6.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2016, the Company has a working capital deficiency of $6,567,935, has a deficit of $14,291,672, has not advanced its property to commercial production and is not able to finance day to day activities through operations. This material uncertainty raises significant doubt regarding the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration and development activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and/or private placement of common shares.

2. Significant accounting policies and basis of preparation

The financial statements were authorized for issue on April 28, 2017 by the directors of the Company.

Statement of compliance to International Financial Reporting Standards

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

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis, except for cash flow information, and are based on historical costs, except for financial instruments classified as available-for-sale or fair value through profit and loss, which are stated at their fair value. The financial statements are presented in Canadian dollars unless otherwise noted.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Significant estimates made in the preparation of these financial statements include the recoverable value of exploration and evaluation assets and equipment, fair value estimates for financial instruments and equity-based payments and the valuation of provisions for restoration and environmental liabilities. Actual results may differ from those estimates. Financial statement areas requiring significant judgment relate to the testing of impairment of exploration and evaluation assets

2. Significant accounting policies and basis of preparation (cont'd)

and mine under construction, recognition of deferred tax assets, determination of cash-generating units, selection of fair value models, and the determination of technical feasibility and commercial viability of mineral properties.

Foreign currency translation

The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exploration and evaluation expenditures

The Company is in the exploration stage in respect to its exploration and evaluation assets.

Pre-exploration costs are expensed in the year in which they are incurred.

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

Where the Company has entered into option agreements for the acquisition of an interest in exploration and evaluation assets which provided for periodic payments, such amounts unpaid are not recorded as a liability when they are payable entirely at the Company's discretion. Although the Company has taken steps to verify title to the exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. The exploration and evaluation assets may be subject to prior undetected agreements or transfers and title may be affected by such defects.

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

The Company assesses exploration and evaluation assets for impairment at each reporting date.

Provision for Environmental Rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of exploration and evaluation assets and equipment. The net present value of future rehabilitation costs is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory

2. Significant accounting policies and basis of preparation (cont'd)

requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as interest expense.

Share-based payment

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payment to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the contributed surplus. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. All equity-settled share-based payment is reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), loans and receivables, available-for-sale, held-to-maturity and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Held-to-maturity financial assets are measured at amortized cost.

Non-derivative other financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2. Significant accounting policies and basis of preparation (cont'd)

Financial instruments (cont'd)

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs with all other financial assets are included in the initial carrying amount of the asset.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted into shares of the Company at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to the initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition. Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. If the conversion option is exercised, the consideration received is recorded as share capital and the equity component of the compound financial instrument is transferred to share capital.

Impairment of assets

The carrying amount of the Company's assets (which include property and equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

2. Significant accounting policies and basis of preparation (cont'd)

Income taxes

Deferred income tax:

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:

The Company may from time to time, issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into (i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and (ii) share capital. Upon qualifying expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability and deferred tax expense for the amount of tax reduction renounced to the shareholders. The reduction of the premium previously recorded is recognized as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Tax Act). The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Lookback Rule, in accordance with the Tax Act. When applicable, this tax is accrued as a financial expense until paid.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

2. Significant accounting policies and basis of preparation (cont'd)

Equipment (cont'd)

Amortization is calculated at the following rates upon the asset being ready for use:

Computer equipment	30%
Office equipment	20%
Mining equipment	30%, capitalized to mine under development
Conveyor system	6 years straight line
Barge load out	20 years straight line

One-half the normal rate is recorded in the year of acquisition.

Share capital

The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company. The Company's common shares, share warrants and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Loss per Share

The Company applies the "Treasury Stock Method" to calculate loss per common share. Under this method, the basic loss per share is calculated based on the weighted average aggregate number of common shares outstanding during each period. The diluted loss per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the period and proceeds from dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share warrants and options had an anti-dilutive impact in 2016 and 2015.

Warrants

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in contributed surplus.

Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

(Expressed in Canadian dollars)

2. Significant accounting policies and basis of preparation (cont'd)

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in profit or loss in the period in which they are incurred.

3. New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2016 reporting period. The Company is assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements. The following is a brief summary of the new standards:

IFRS 15 Revenue from Contracts with Customers provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018.

IFRS 9 Financial Instruments – IFRS 9 is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". The standard will be effective for annual periods beginning on or after January 1, 2018.

Amendments to IFRS 2 Share-based Payment - These amendments added guidance that introduces accounting requirements for cash-settled share-based payments that follow the same approach as used for equity-settled share-based payments. They introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Finally, they clarify the accounting treatment in situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. These amendments are effective for reporting periods beginning on or after January 1, 2018.

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

4. Accounts receivable

	December 31, 2016	December 31, 2015
Goods and services tax receivables	$ 2,908	$ 7,754

5. Property and Equipment

Mine under development - Swamp Point

By an Earn-in Agreement dated August 22, 2003 (amended February 10, 2005 and December 9, 2005) with Portland Canal Aggregates Corporation ("PCAC"), the Company acquired a 100% Working Ownership Interest in PCAC's Swamp Point Gravel Deposit (the "Property") located in British Columbia for consideration of:

- Issuance of a total of 2,000,000 common shares of the Company's capital stock at a price of $0.20 per share (issued);
- Exploration and development expenditures of $1,300,000 (incurred).

In addition, the Company issued 150,000 common shares at a price of $0.20 per share in payment of finder's fees related to the transaction.

This Earn-in Agreement is subject to a 5% royalty payable to PCAC on the gross receipts from sales of product from the Property of 7,000,000 Metric Tonnes or less, and an 8% royalty on sales of product of greater than 7,000,000 Metric Tonnes.

In the event that the Company had not obtained production and sale of product from the Property on or before May 2006, the Company was obliged to make advanced royalty payments to PCAC as follows:

- $25,000 on or before May 31, 2006; (paid)
- $25,000 on or before November 30, 2006; (paid)
- $50,000 on or before May 31, 2007; (paid) and
- $50,000 on or before November 30, 2007 (paid).

Pursuant to the Original Agreement dated August 22, 2003 between the Company and PCAC, it was disclosed that an action was commenced by Hidden Rock Drilling Ltd. ("Hidden Rock") against unrelated parties. Other suits by Hidden Rock have since been filed concerning certain ownership claims of PCAC and the Swamp Point North Aggregates Project ("SPNAP"), and as a result the Company was named and consented to join as a co-defendant under a case management format to answer and deny any and all of Hidden Rock's claims.

In July 2010 the B.C. Supreme Court dismissed the action by Hidden Rock and has upheld the Company's ownership of the claims. Hidden Rock made an application to appeal the court's decision in February 2011 which was denied in May 2011. The Company is moving forward on development of this project and will seek costs against Hidden Rock. Any adjustment resulting from the settlement of this claim will be accounted for in the period of settlement.

On November 1, 2012 the Company entered into a Cooperation Agreement with the Metlakatla First Nation and the Metlakatla Development Corporation ("Metlakatla") which provides the Metlakatla with the opportunity to participate in the economic benefits arising from the development of SPNAP within their traditional territory. Consideration includes payment of $25,000 (paid), the issuance of a total of 5,000,000 share purchase warrants (issued), and a production benefit of $0.25 per metric tonne of aggregate produced.

On March 19, 2014, the Company received the Mines Act permit which carries special conditions which are to be satisfied prior to commencing production for the Swamp Point North Aggregate Project. The Company has also remitted $189,500 for the reclamation security deposit.

(Expressed in Canadian dollars)

5. Property and Equipment (cont'd)

Mine under development - Swamp Point (cont'd)

On October 1, 2014, the Company classified the SPNAP as a mine under development and transferred the capitalized costs to property and equipment. All subsequent expenditures were classified as property and equipment additions.

During the year ended December 31, 2015 the Company entered into a Royalty Agreement in which a $900,000 non-interest bearing production loan was advanced to the Company to be repaid from sales and a royalty of $0.50 per ton to be paid once the loan was repaid. The Company calculated the value of the sale of the royalty interest to be $144,264. The fair value of the royalty component was determined at the time of issue as the difference between the proceeds of the production loan and the fair value of the liability component. (See Note 11).

	Computer Equipment	Office Equipment	Mining Equipment	Mine under Development	Barge Load out	Conveyor System	Total
Cost:							
At December 31, 2014	$ 4,514	$ 5,379	$1,982,115	$ 4,095,981	$1,478,611	$1,326,800	$ 8,893,400
Additions	-	-	27,820	2,259,174	111,865	7,500	2,406,359
Sale of royalty interest	-	-	-	(144,264)	-	-	(144,264)
At December 31, 2015	4,514	5,379	2,009,935	6,210,891	1,590,476	1,334,300	11,155,495
Additions	-	-	2,187	803,939	-	-	806,126
Disposals	-	-	(117,700)	-	-	-	(117,700)
Recovery of sales tax	-	-	-	(187,062)	-	-	(187,062)
At December 31, 2016	$ 4,514	$ 5,379	$1,894,422	$ 6,827,768	$1,590,476	$1,334,300	$ 11,656,859
Depreciation:							
At December 31, 2014	$ 3,268	$ 4,305	$ 305,237	$ -	$ -	$ -	$ 312,810
Charge for the year	156	215	507,237	-	39,762	-	547,370
At December 31, 2015	3,424	4,520	812,474	-	39,762	-	860,180
Disposal	-		(47,700)	-	-	-	(47,700)
Charge for the year	131	173	338,567	-	38,768	-	377,639
At December 31, 2016	$ 3,555	$ 4,693	$1,103,341	$ -	$ 78,530	$ -	$ 1,190,119
Net book value:							
At December 31, 2015	$ 1,090	$ 859	$1,197,461	$ 6,210,891	$1,550,714	$1,334,300	$ 10,295,315
At December 31, 2016	**$ 959**	**$ 686**	**$ 791,081**	**$ 6,827,768**	**$1,511,946**	**$1,334,300**	**$ 10,466,740**

During the year ended December 31, 2016, $377,335 (December 31, 2015 - $546,999) of the amortization was recorded in mine under development. During the year the Company recovered $187,062 in provincial sales taxes previously paid (2015 - $Nil) and disposed of equipment to discharge debt of $70,000.

(Expressed in Canadian dollars)

6. Exploration and evaluation assets

The following is a description of the Company's exploration and evaluation assets and the related spending commitments:

Highland Valley Property

On December 8, 2009, the Company entered into an agreement to acquire a 50% interest in the Highland Valley Property, located in British Columbia.

The terms of the agreement include the issuance of a total of 20,000,000 common treasury shares of the Company, staged cash payments totalling $250,000 (paid $50,000), and expenditures of $1,000,000 in exploration and development within three years of Exchange approval (received). The Company obtained disinterested shareholder approval of the transaction.

On July 19, 2012, the Company negotiated an amendment of the agreement with MOAG to eliminate the remaining $200,000 in cash payments and $412,000 in exploration commitments required, and still earn its 50% interest, subject to other terms of the December 8, 2009 agreement remaining. On December 6, 2012, the Company resolved to cancel the agreement to acquire the property and recorded an impairment to reduce the carrying value to $1. On January 7, 2013 the Company cancelled the balance of 14,000,000 treasury shares remaining in escrow.

On December 23, 2013 the Company received a Notice of Civil Claim (the "Claim") in the B.C. Supreme Court from MOAG claiming losses as a result of the Company cancelling the balance of 14 million treasury shares in escrow, general damages, and interest on those general damages. On January 17, 2014 the Company filed a Response to the Civil Claim. The summary trial application filed by MOAG's counsel did not proceed on June 25, 2014 and has been postponed indefinitely. The Company is unable to determine the outcome at this time, as the matter is still before the courts.

7. Reclamation deposit and obligation

During the year ended December 31, 2014, the Company posted a bond totaling $189,500 with the British Columbia government. The purpose of the bond is to cover any costs of reclamation and rehabilitation of the Swamp Point mine site.

Management has recorded an obligation of $94,750 (December 31, 2015 - $94,750) at this time based on the estimated level of disturbance at the reporting date.

8. Trade payables and accrued liabilities

	December 31, 2016	December 31, 2015
Trade payables	$ 296,418	$ 239,084
Accrued liabilities	26,000	218,695
Interest payable on convertible debentures	469,975	649,674
Other liabilities - Part XII tax payable	24,611	24,611
	$ 817,004	$ 1,132,064

9. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

At December 31, 2016 there were 122,224,621 issued and fully paid common shares (December 31, 2015 – 105,171,949).

Private Placement

On September 20, 2016 the Company completed a non-brokered private placement of 1,525,000 units at a price of $0.06 per unit for gross proceeds of $91,500. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.10 per share for the first year and $0.15 per share for the second year. A total of 16,000 brokers warrants were issued with a fair value of $300. The broker's warrants were valued at a volatility of 92.95%, expected life of 2 years, discount rate of 0.51% and a dividend rate of 0%. Finders' fees of $4,080 were paid in cash.

On July 11, 2016 the Company completed a non-brokered private placement of 600,000 units at a price of $0.05 per unit for gross proceeds of $30,000. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.10 per share for the first year and $0.15 per share for the second year.

On June 14, 2016 the Company completed a non-brokered private placement of 1,800,000 units at a price of $0.05 per unit for gross proceeds of $90,000. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.10 per share for the first year and $0.15 per share for the second year. A total of 24,000 brokers warrants were issued with a fair value of $509. The broker's warrants were valued at a volatility of 91.38%, expected life of 2 years, discount rate of 0.54% and a dividend rate of 0%.

On March 9, 2016 the Company completed a non-brokered private placement of 1,051,250 units at a price of $0.08 per unit for gross proceeds of $84,100. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.15 per share the first year and $0.20 per share for the second year.

On February 18, 2016 the Company completed a non-brokered private placement of 256,000 units at a price of $0.08 per unit for gross proceeds of $20,480. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.15 per share the first year and $0.20 per share for the second year.

On January 14, 2016 the Company completed a non-brokered private placement of 4,380,000 units at a price of $0.08 per unit for gross proceeds of $350,400. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.15 per share for the first year and $0.20 per share for the second year. Finders fees of $9,920 were paid in cash.

9. Share capital (cont'd)

On October 1, 2015, the Company completed a non-brokered private placement of 2,006,250 units at a price of $0.08 per unit for gross proceeds of $160,500. Each unit consisted of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one additional common share of the Company for a period of two years at a price of $0.15 per share to October 1, 2016 and $0.20 per share to October 1, 2017.

Bonus shares

On December 21, 2016 the Company issued 200,000 common shares valued at $7,000 as bonus shares as part of a finance fee for a loan made to the Company.

Shares for debt

On September 30, 2016 the Company issued 416,667 common shares to settle $25,000 in trade payables.

On March 29, 2016 the Company issued 6,573,755 common shares to settle $565,343 in Convertible Debenture Interest accruals with certain Debenture Holders who agreed to take shares for the debt up to December 31, 2015. The shares had a fair value of $460,163 resulting in a gain on debt settlement of $105,180.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

A total of 250,000 options priced at $0.10 per share were exercised for total proceeds of $25,000 during the period ended September 30, 2016. Fair value of $16,440 has been transferred from contributed surplus and allocated to share capital in connection with the exercise.

The weighted average share price at the date options were exercised during the period was $0.05.

A total of 100,000 options priced at $0.10 per share were exercised for total proceeds of $10,000 during the year ended December 31, 2015. Fair value of $7,722 has been transferred from contributed surplus and allocated to share capital in connection with the exercise.

The weighted average share price at the date options were exercised during the year ended December 31, 2016 was $0.06 (2015 - $0.18).

(Expressed in Canadian dollars)

9. Share capital (cont'd)

Stock options (cont'd)

The changes in options during the years ended December 31, 2016 and 2015 are as follows:

	December 31, 2016		December 31, 2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning	6,400,000	$ 0.12	5,600,000	$ 0.12
Options granted	1,100,000	0.10	900,000	0.10
Options expired	(2,075,000)	0.10	-	-
Options exercised	(250,000)	0.10	(100,000)	0.10
Options outstanding, ending	5,175,000	$ 0.13	6,400,000	$ 0.12
Options exercisable, ending	5,175,000	$ 0.13	6,200,000	$ 0.12

Details of options outstanding as at December 31, 2016 are as follows:

Exercise Price	Number of options outstanding	Expiry Date
$0.10	850,000	February 28, 2017
$0.15	50,000	May 1, 2017
$0.15	125,000	May 26, 2017
$0.10	550,000	October 25, 2017
$0.10	250,000	August 27, 2018
$0.10	250,000	January 10, 2019
$0.10	200,000	April 26, 2019
$0.10	100,000	May 10, 2019
$0.25	600,000	July 24, 2019
$0.22	500,000	August 11, 2019
$0.10	400,000	November 1, 2020
$0.10	500,000	December 23, 2020
$0.10	800,000	February 16, 2021
$0.13	5,175,000	2.31 weighted average years

The weighted average fair value of options granted during the period ended December 31, 2016 was $0.05 (December 31, 2015 - $0.05). The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

	Year ended December 31, 2016	Year ended December 31, 2015
Expected life of options	4.45 years	5 years
Annualized volatility	99.15%	104.01%
Risk-free interest rate	0.64%	0.82%
Dividend rate	0%	0%
Share price	$0.08	$0.07

Annualized volatility is calculated using the historical share price of the Company.

(Expressed in Canadian dollars)

9. Share capital (cont'd)

Warrants

A total of 4,095,000 warrants were exercised at $0.12 and 37,000 warrants were exercised at $0.15 during the year ended December 31, 2015 for total proceeds of $496,950. Fair value of $1,707 has been transferred from contributed surplus and allocated to share capital in connection with the exercise.

	Number of Warrants	Weighted average Exercise Price
Warrants outstanding, December 31, 2014	5,602,000	$ 0.13
Granted	2,006,250	0.18
Exercised	(4,132,000)	0.12
Expired	(1,470,000)	0.17
Warrants outstanding, December 31, 2015	2,006,250	0.18
Granted	9,652,250	0.13
Warrants outstanding, December 31, 2016	11,658,500	$ 0.16

Details of warrants outstanding as at December 31, 2016 are as follows:

Number	Exercise Price ($)	Expiry Date
2,006,250	0.20	October 1, 2017
4.380,000	0.15	January 14, 2017
	0.20	January 14, 2018
256,000	0.15	February 18, 2017
	0.20	February 18, 2018
1,051,250	0.15	March 9, 2017
	0.20	March 9, 2018
1,824,000	0.10	June 14, 2017
	0.15	June 14, 2018
600,000	0.10	July 11, 2017
	0.15	July 11, 2018
1,541,000	0.10	September 20, 2017
	0.15	September 20, 2018
11,658,500		

10. Contributed surplus

Contributed surplus includes share-based payment expense of stock options granted and fair value of share purchase warrants issued.

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 1,269,485	$ 1,174,340
Share-based payment	65,939	104,574
Transfers to share capital	(16,440)	(9,429)
Value of agents' warrants	809	-
Balance, end of year	$ 1,319,793	$ 1,269,485

(Expressed in Canadian dollars)

11. Convertible debentures, promissory notes, and production loan

On April 15, 2014 the Company issued convertible debentures totaling $2,700,000. The debentures have a maturity of three years from the date of signing, accrue interest at 10% per annum, paid or accrued quarterly, and are convertible into common shares based on the following terms, or repaid from aggregate production revenues, upon providing ninety calendar days' notice to the Company:

(a) converting the principal amount within one year of anniversary of signing – the conversion price will be calculated at $0.45 per share;

(b) converting the principal amount within two years of anniversary of signing – the conversion price will be calculated at $0.35 per share;

(c) converting the principal amount within three years of anniversary of signing – the conversion price will be calculated at $0.25 per share.

On August 8, 2014 the Company issued convertible debentures totaling $1,300,000. The debentures have a maturity of three years from the date of signing, accrue interest at 10% per annum, payable quarterly in cash or shares, and are convertible into common shares based on the above terms, or repaid from aggregate production revenues.

These convertible debentures are secured against the Company's mining equipment.

The convertible debentures were compound financial instruments containing a liability component and an equity component. The liability component was measured at amortized cost and was accreted over the expected term to maturity using the effective interest method. The fair value of the liability component at the time of issue was calculated using an estimated effective interest rate for a debenture without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the proceeds of the compound convertible debenture and the fair value of the liability component.

The Company paid cash finder's fees equal to 7-1/2% on a portion of the gross proceeds raised from the convertible debentures totaling $232,500, filing fees of $20,750, and issued 22,727 finders' shares valued at $6,591.

During the year ended December 31, 2016, the Company paid interest totaling $14,356 in cash and settled an additional $565,343 of interest payable through the issuance of 6,573,756 common shares.

	December 31, 2016	December 31, 2015
Balance, beginning of year	$ 3,666,951	$ 3,468,271
Accretion included in interest expense	234,469	198,680
Balance, end of year	$ 3,901,420	$ 3,666,951

On October 10, 2014, the Company entered into short term promissory notes totaling $500,000 with arm's length creditors. Terms included interest payable at 1.5% per month and the issuance of 227,273 bonus shares valued at $62,500. Repayment is upon demand, dependent upon the Company completing a debt or other financing which would allow the Company to repay the notes in full. The $62,500 for the bonus shares was expensed due to the short-term nature of the note.

On December 3, 2016 the Company entered into a short term promissory note totaling $50,000 with an arm's length creditor. Terms included interest payable at 1.5% per month and the issuance of 200,000 bonus shares valued at $7,000. Repayment is upon demand, dependent upon the Company completing a debt or other financing which would allow the Company to repay the notes in full. The $7,000 for the bonus shares was expensed due to the short-term nature of the note.

At December 31, 2016 the Company has accrued $196,258 (December 31, 2015 - $105,726) in interest payable on the notes.

(Expressed in Canadian dollars)

11. Convertible debentures, promissory notes, and production loan (cont'd)

In May 2015 the Company arranged a non-interest bearing production loan totaling $900,000 to be repaid from production sales. The Company also arranged a $250,000 bridge loan, without interest, which was applied against the proceeds of the financing. General terms are repayment of $1.00 per tonne from sales until the $900,000 financing is repaid and $0.50 per tonne interest royalty for the life of operations. No finders fees were paid in connection with this financing. Of the $900,000, $675,000 was advanced from a non-related third party and $225,000 from Melsar Management Inc. (a company controlled by William Loucks, Director).

The production loan was a financial instrument containing a liability component and a sale of royalty component. The liability component was initially measured at fair value and is being accreted over the expected term to maturity using the effective interest method. The fair value of the liability component at the time of issue was calculated using an effective interest rate of 15% and an estimated expected term of 15 months. The fair value of the royalty component was determined at the time of issue as the difference between the proceeds of the production loan and the fair value of the liability component. Interest of $144,264 has been accrued and capitalized in the year ended December 31, 2016 (2015 - $77,696).

During the year ended December 31, 2015 the Company capitalized $163,195 of borrowing costs.

12. Related party transactions

Related party balances

The following amounts due to related parties:

	December 31, 2016	December 31, 2015
Directors of the Company	$ 82,421	$ 64,500
Companies with common officer and directors	154,513	192,569
	$ 236,934	$ 257,069

The following amounts due from related parties:

	December 31, 2016	December 31, 2015
Company with common directors	$ 1,946	$ 1,946

The amounts due to and from directors and companies related by common directors and officers are unsecured, non-interest bearing and have no fixed terms of repayment, accordingly fair value cannot be reasonably measured.

Related party transactions

The Company incurred the following transactions with a company related by common directors.

	Years ended December 31,	
	2016	2015
Rent	$ 28,200	$ 28,200
Office and secretarial	6,960	6,960
	$ 35,160	$ 35,160

(Expressed in Canadian dollars)

12. Related party transactions (cont'd)

The Company incurred the following transactions with companies owned by a former senior officer.

	Years ended December 31, 2016	2015
Consulting	$ -	$ 24,070
Equipment purchases	-	24,864
Exploration costs	-	1,035,674
	$ -	$ 1,084,608

Key management personnel compensation

	Years ended December 31, 2016	2015
Short-term employee benefits – management fees	$ 90,000	$ 95,625
Short-term employee benefits – salaries and wages	60,395	62,224
Share based payment	41,264	32,545
	$ 191,659	$ 190,394

On June 1, 2014 the Company Amended the Office Services Agreement with its Chief Financial Officer for compensation of $5,000 per month plus benefits for a term of 24 months. The contract was automatically renewed for an additional 24 month term.

On September 1, 2012 the Company entered into a Management Agreement with its former President for compensation of $5,000 per month for a term of 24 months. On July 1, 2014 the Company amended the Management Services Agreement (the "Agreement") with V.N. Bryant & Associates (the "Consultant") increasing the monthly remuneration to $7,500 per month, plus applicable taxes (the "Fee") for a term of 24 months. Effective October 31, 2015 the Agreement was terminated.

On November 1, 2015 the Company entered into a Management Services Agreement (the "Agreement") with Geomorph Consulting (the "Consultant") for monthly remuneration to $7,500 per month, plus applicable taxes (the "Fee") for a term of 24 months.

13. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit Risk

The Company is exposed to credit risk by holding cash. Holding the cash in large Canadian financial institutions minimizes this risk. The Company has minimal accounts receivable exposure, and its various refundable credits are due from the Canadian government.

Currency Risk

The Company's functional currency is the Canadian dollar. There is minimal foreign exchange risk to the Company as its mineral property interests are located in Canada. Management monitors its foreign currency balances and makes adjustments based on anticipated need for currencies. The Company does not engage in any hedging activities to reduce its foreign currency risk.

13. Financial risk management (cont'd)

Interest Rate Risk

The Company's exposure to interest rate risk relates to its outstanding loans to unrelated third parties which bear interest at 10% to 18% per annum. The interest rates are fixed and will have minimal risk.

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk). The Company is at risk to changes in commodity prices which may affect financing options available to the Company.

Liquidity Risk

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations as they become due, or can only do so at excessive cost. At December 31, 2016, the Company had a cash balance of $26,272 which will not be sufficient to meet its obligations related to its accounts payable and accrued liabilities of $817,004, promissory notes of $746,258, production loans of $900,000 (to be repaid by a royalty, see Note 11), convertible debentures of $3,901,420, and amounts due to related parties of $236,934. The Company's ability to continue operations remains uncertain and dependent on its ability to obtain additional financing and the ongoing support of its creditors.

The Company includes cash and equity in the definition of capital. Equity is comprised of issued common shares, contributed surplus, share subscription advance (receivable), and deficit.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, purchase shares for cancellation pursuant to normal course issuer bids or make special distributions to shareholders. The Company is not subject to any externally imposed capital requirements and does not presently utilize any quantitative measures to monitor its capital.

There were no changes in the Company's approach to capital management during the year.

Classification of financial instruments

The Company has designated its cash as FVTPL which is measured at fair value. Due from related parties and reclamation bond are classified as loans and receivables, which is measured at amortized cost. Trade payables and accrued liabilities, promissory notes, production loans, bank overdraft, convertible debentures, and amounts due to related parties are classified as other financial liabilities, which are measured at amortized cost.

The fair value of the Company's financial assets and liabilities approximates the carrying amount, unless otherwise noted. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

(Expressed in Canadian dollars)

13. Financial risk management (cont'd)

Fair value

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair measurement.

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair measurement.

As at December 31, 2016, the Company's financial instruments measured at fair value are as follows:

	Assets	Level 1	Level 2	Level 3	Total
2016	Cash	$ 26,272	$ -	$ -	$ 26,272
2015	Cash	$ -	$ -	$ -	$ -

14. Segmented information

The Company's activities are all in the one industry segment of mineral property acquisition, exploration and development in Canada.

15. Non-cash transactions

During the years ended December 31, 2016 and 2015, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	Years ended December 31, 2016	2015
Non-cash financing activities:		
Issuance of share capital for:		
Shares for debt	$ 590,343	$ -
Fair value of broker's warrant	809	-
Transfers from contributed surplus	16,440	9,429
Equipment sold to settle balances due to related parties	70,000	-

16. Income tax

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

	Years ended December 31, 2016	December 31, 2015
Net loss for the year	$ (1,123,514)	$ (1,453,920)
Statutory Canadian corporate tax rate	26.00%	26.00%
Anticipated tax expense (recovery)	(292,114)	(378,019)
Unrecognized items for tax purposes	19,009	28,128
Non-capital loss expiry	-	59,834
Tax benefits not realized	273,105	290,057
Actual income tax recovery	$ -	$ -

(Expressed in Canadian dollars)

16. Income tax (cont'd)

The significant components of the Company's deferred tax assets (liabilities) are as follows:

	December 31, 2016	December 31, 2015
Production loan	$ -	$ (17,307)
Property and equipment	321,833	223,647
Share issue costs	40,824	56,162
Exploration and development deductions	126,528	224,635
Convertible debenture	(25,631)	(86,593)
Non-capital loss carry forwards	1,640,335	1,424,792
Net capital loss carry forwards	52,020	52,020
	2,155,909	1,877,356
Unrecognized deferred tax assets	(2,155,909)	(1,877,356)
Net deferred tax assets	$ -	$ -

The Company has available non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized the non-capital losses in the amount of $6,308,982 expire as follows:

2026	$ 123,603
2027	396,896
2028	411,486
2029	422,773
2030	505,390
2031	377,868
2032	373,443
2033	527,178
2034	1,031,034
2035	1,310,295
2036	829,016
	$ 6,308,982

At December 31, 2016, the Company has unclaimed resource and other deductions that do not expire in the amount of $5,510,607 (2015 - $5,271,065) which may be deducted against future taxable income on a discretionary basis.

In addition, the Company has available capital losses for Canadian income tax purposes totaling $400,157 (2015 - $400,157) which may be carried forward indefinitely to reduce capital gains in future years.

In addition, the Company has share issue costs totaling $157,017 (2015 - $215,969) which have not been claimed for income tax purposes.

17. Subsequent events

(i) On February 28, 2017 a total of 850,000 options exercisable at $0.10 expired unexercised.

(ii) On March 6, 2017 the Company issued 282,000 common shares valued at $12,690 as bonus shares as part of a finance fee for promissory notes totaling $70,500 received by the Company.

(iii) On March 21, 2017 the Company issued 7,400,000 common shares to settle $370,000 in Convertible Debenture Interest accruals with certain Debenture Holders who agreed to take shares for the debt up to December 31, 2016.