



# KING'S BAY

**King's Bay Gold Corporation**  
**(An Exploration Company)**

Financial Statements

December 31, 2016 and 2015

(Expressed in Canadian Dollars)

## **Management's Responsibility**

To the Shareholders of King's Bay Gold Corporation (the "Company"):

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

**April 21, 2017**

(signed)

Kevin Bottomley  
Director

(signed)

Bradley Hoepfner  
Director

## Independent Auditors' Report

To the Shareholders of King's Bay Gold Corporation:

We have audited the accompanying financial statements of King's Bay Gold Corporation (the "Company"), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of King's Bay Gold Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes the matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, British Columbia

April 21, 2017



Chartered Professional Accountants

# King's Bay Gold Corporation

## Statements of Financial Position

As at December 31, 2016 and 2015

Expressed in Canadian dollars

	2016	2015
<b>Assets</b>		
<b>Current</b>		
Cash	\$ 359,498	\$ 1,971
GST receivable	15,405	1,348
Share subscription receivable	50,000	-
Marketable securities (Note 5)	17,598	-
Prepaid expenses	130,500	-
Assets held for sale (Note 6)	100,000	-
	<b>673,001</b>	<b>3,319</b>
Exploration and evaluation assets (Note 6)	139,394	162,312
	<b>\$ 812,395</b>	<b>\$ 165,631</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 53,423	\$ 767,782
	<b>53,423</b>	<b>767,782</b>
<b>Shareholders' Equity</b>		
Share capital (Note 7)	17,917,249	16,103,286
Reserves (Note 8)	209,195	1,310
Deficit	(17,367,472)	(16,706,747)
	<b>758,972</b>	<b>(602,151)</b>
	<b>\$ 812,395</b>	<b>\$ 165,631</b>

Approved and authorized by the Board of Directors on April 21, 2017:

*"Kevin Bottomley"*

\_\_\_\_\_  
President

*"Bradley Hoepfner"*

\_\_\_\_\_  
Director

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

## King's Bay Gold Corporation

Statements of Operations and Comprehensive Loss

For the years ended December 31, 2016 and 2015

Expressed in Canadian dollars

	2016	2015
<b>Expenses</b>		
Accounting and audit fees	\$ 17,429	\$ 9,910
Administrative fees (Note 12)	150,000	-
Advertising and promotions	109,063	1,087
Consulting fees and salaries	69,955	87,825
Filing fees	42,758	27,388
Interest and banking expense	222	212
Office and general expenses	1,459	772
Professional services	9,513	4,627
Share-based payments (Note 8)	207,885	-
Travel and meals	28,106	509
	<b>636,390</b>	<b>132,330</b>
<b>Other Income (Expenses)</b>		
Interest income	20	-
Other income (Note 11)	359	62,430
Loss on sale of machinery and equipment	-	(1,707)
Impairment of machinery and equipment	-	(7,491)
Gain on sale of exploration assets (Note 6)	766	-
Unrealized loss on marketable securities (Note 5)	(9,203)	-
Realized gain on sale of marketable securities (Note 5)	-	14,225
Impairment of exploration and evaluation assets (Note 6)	(26)	(2,150,753)
Impairment of assets held for sale (Note 6)	(16,251)	-
Net loss before income taxes	<b>660,725</b>	2,215,626
Deferred tax (recovery) expense (Note 14)	-	(334,000)
<b>Net loss and comprehensive loss for the year</b>	<b>660,725</b>	<b>1,881,626</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.03)</b>	<b>\$ (0.19)</b>
<b>Weighted average number of common shares outstanding</b>		
– basic and diluted	<b>22,213,444</b>	<b>9,915,705</b>

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

**King's Bay Gold Corporation**  
 Statements of Changes in Equity  
 For the years ended December 31, 2016 and 2015  
 Expressed in Canadian dollars

	Number of Shares*	Share Capital \$	Reserves \$	Deficit \$	Total \$
<b>Balance, December 31, 2014</b>	<b>9,897,691</b>	<b>16,102,036</b>	<b>1,310</b>	<b>(14,825,121)</b>	<b>1,278,225</b>
Shares issued for property (Note 6)	25,000	1,250	-	-	1,250
Net loss for the year	-	-	-	(1,881,626)	(1,881,626)
<b>Balance, December 31, 2015</b>	<b>9,922,691</b>	<b>16,103,286</b>	<b>1,310</b>	<b>(16,706,747)</b>	<b>(602,151)</b>
Shares issued for cash (Note 7)	30,850,132	1,857,925	-	-	1,857,925
Shares issued for finders' fees (Note 7)	33,600	2,520	-	-	2,520
Share issuance costs	-	(46,482)	-	-	(46,482)
Share-based compensation (Note 8)	-	-	207,885	-	207,885
Net loss for the year	-	-	-	(660,725)	(660,725)
<b>Balance, December 31, 2016</b>	<b>40,806,423</b>	<b>17,917,249</b>	<b>209,195</b>	<b>(17,367,472)</b>	<b>758,972</b>

\* Number of shares have been adjusted to reflect the 10 to 1 share consolidation on July 6, 2016 (see note 8(b))

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

**King's Bay Gold Corporation**  
**Statements of Cash Flows**  
For the years ended December 31, 2016 and 2015  
Expressed in Canadian dollars

	2016	2015
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net loss for the year	\$ (660,725)	\$ (1,881,626)
Adjustments for items not involving cash:		
Gain on sale of marketable securities	-	(14,225)
Gain on sale mineral property	(766)	-
Share-based payments	207,885	-
Deferred tax (recovery) expense	-	(334,000)
Impairment of mineral properties	26	2,150,753
Impairment of assets held for sale	16,251	
Impairment of machinery and equipment	-	7,491
Loss on sale of machinery and equipment	-	1,707
Unrealized loss on marketable securities	9,203	-
Changes in non-cash operating working capital:		
GST receivable	(14,057)	1,129
Prepaid expenses	(130,500)	673
Accounts payable and accrued liabilities	(714,359)	35,065
<b>Net cash flows (used in) operating activities</b>	<b>(1,287,042)</b>	<b>(33,033)</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Exploration and evaluation costs	(129,394)	(1,673)
Sale of exploration and evaluation assets	10,000	
Sale of marketable securities	-	27,050
Sale of machinery and equipment	-	500
<b>Net cash flows from (used in) investing activities</b>	<b>(119,394)</b>	<b>25,877</b>
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES:</b>		
Proceeds from common shares issued for cash	1,807,925	-
Share issuance costs	(43,962)	-
<b>Net cash flows from financing activities</b>	<b>1,763,963</b>	<b>-</b>
<b>INCREASE (DECREASE) IN CASH</b>	<b>357,527</b>	<b>(7,156)</b>
<b>Cash, beginning of year</b>	<b>1,971</b>	<b>9,127</b>
<b>Cash, end of year</b>	<b>\$ 359,498</b>	<b>\$ 1,971</b>

**Supplemental disclosure with respect to cash flows – Note 13**

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

# **King's Bay Gold Corporation**

Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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## **1. NATURE OF OPERATIONS**

King's Bay Gold Corporation ("King's Bay" or the "Company") was incorporated in Canada pursuant to the *Canada Business Corporations Act* on March 20, 1998, and is in the business of acquiring, exploring, developing and evaluating mineral resource properties. The Company is a public company listed on Tier 1 of the TSX Venture Exchange in Canada with the symbol "KBG".

The head office, principal address and registered and records office of the Company are located at Suite 1450 – 789 West Pender, Vancouver, BC, Canada, V6C 1H2.

## **2. GOING CONCERN**

The Company has not generated any revenues and has incurred accumulated losses of \$17,367,472 (2015 – \$16,706,747) since inception. As at December 31, 2016, the Company has a working capital of \$619,578 (2015 – \$764,463 deficiency). These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The application of the going concern concept is dependent upon the Company's ability to satisfy its liabilities as they become due and to obtain the necessary financing to continue operations, the attainment of profitable mining operations or the receipt of proceeds from the disposition of its mineral property interests. Management is actively engaged in the review and due diligence on opportunities of merit in the mining sector and is seeking to raise the necessary capital to meet its funding requirements. The conditions described above, cast significant doubt as to the appropriateness of the use of the going concern assumption.

The Company is not expected to be profitable during the ensuing twelve months and therefore must rely on securing additional funds from either debt or equity financings for cash consideration. While the Company is expanding its best efforts to achieve the continued financing, there is no assurance that any such activity will generate sufficient funds for future operations.

## **3. BASIS OF PRESENTATION**

### **Statement of Compliance**

The financial statements 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 Measurement**

These financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### **Approval of the Financial Statements**

The financial statements of King's Bay Gold Corporation for the year ended December 31, 2016, were authorized for issue in accordance with a resolution of the directors on April 21, 2017.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**3. BASIS OF PRESENTATION – continued**

**Significant Accounting Judgments, Estimates and Assumptions**

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of 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.

Estimates and assumptions

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements includes:

- The recoverability of the carrying value of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest;
- The inputs used in assessing the recoverability of deferred tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income;
- The assumptions and inputs used in the Black-Scholes pricing model to calculate the fair value of share based payments;

Management judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies from those involving estimations that have the most significant effect on the amounts recognized in the Company's financial statements are as follows:

- Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

- Going concern

Significant judgments used in the preparation of these financial statements include, but are not limited to those relating to the assessment of the Company's ability to continue as a going concern.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**Cash**

Cash consists of cash on hand and deposits in banks.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Marketable Securities**

Marketable securities consist of equity securities over which the company does not have control or significant influence and are designated as financial assets at fair value through profit or loss ("FVTPL"). Unrealized gains and losses due to year end revaluation to fair value are included in profit or loss for the year.

**Assets held for sale**

Non-current assets are classified as assets held for sale if it is highly probable that their carrying value will be recovered primarily through sale rather than through continuing use.

The assets are presented as held for sale in the statements of financial position when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, and it is expected that the sale will be completed within one year from the date of classification.

Assets held for sale are measured at the lower of carrying amount and fair value less cost of disposal. Impairment losses recognized on initial classification as held for sale and any subsequent gains and losses on re-measurement are recognized in the statement of operations.

**Financial instruments**

*i. Financial assets*

The Company classifies its financial assets in the following categories: Fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at recognition.

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

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through income. Cash and marketable securities are included in this category of financial assets.

- Held-to-maturity investments ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations.

- Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payment that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counter party will default. If there is objective evidence that an impairment loss has been incurred, the amount of impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The amount of loss is recognized in the statement of operations.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Financial instruments – continued**

- Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

Management assesses the carrying value of AFS financial assets at least annually. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of operations and comprehensive loss.

The previously recognized impairment loss is reversed in a subsequent period if the amount of impairment loss decreases and the decrease is related to an event occurring after the initial recognition of the impairment loss. However, the reversal will not result in the carrying amount of the financial asset that exceeds the amortized cost would have been had the impairment not been recognized at the date of impairment reversal. The amount of impairment reversal is recognized in the statements of operations and comprehensive loss.

*ii. Financial liabilities*

The Company classifies its financial liabilities into one of two categories, at initial recognition. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – this category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in the fair value recognized in the statements of operations and comprehensive loss.

Other financial liabilities – this category includes accounts payable and accrued liabilities of which are recognized at amortized cost.

**Share-based payment transactions**

The Company grants stock options to buy common shares of the Company to directors, officers and employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the company. The maximum number of common shares which may be issued pursuant to the stock option plan is limited to 10% of the issued and outstanding common shares. In addition, the number of common shares which may be reserved for issuance to any one individual may not exceed 5% of the issued common shares on a yearly basis

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Share-based payment transactions – continued**

Options granted to directors, employees and consultants, other than consultants engaged in investor relations activities, will vest fully upon the expiry of the hold period of four months from the award date, unless otherwise approved by the relevant regulatory authorities. Options granted to consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three month period.

Share-based payments to non-employees are measured at the fair value of the 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.

Where the terms of a stock option is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

**Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Share Capital**

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the common shares are issued.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Warrants**

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

**Loss per share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on loss per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

**Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**Exploration and evaluation assets**

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation costs incurred are capitalized. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the statement of comprehensive loss to the extent that they are not expected to be recovered.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to "Mines under construction". No amortization during the exploration and evaluation phase.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Long lived assets and impairment**

The carrying values of long-lived assets with fixed or determinable lives are reviewed for impairment whenever events or changes in circumstances indicate the recoverable value may be less than the carrying amount. Recoverable value determinations are based on management's estimates of discounted future net cash flows expected to be recovered from specific assets or groups of assets through use or future disposition. Impairment charges are recorded in the period in which determination of impairment is made by management.

Assets with indefinite or indeterminable lives are not amortized and are reviewed for impairment on a reporting period basis using fair value determinations through management's estimate of recoverable value.

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

For assets, excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the profit or loss.

**Future Accounting Pronouncements**

Pronouncements that are not applicable to the Company have not been included in these financial statements

***IFRS 9 - Financial instruments ("IFRS 9")***

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014), incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015, as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements). The extent of the impact of adoption of the standard has not yet been determined.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**4. SIGNIFICANT ACCOUNTING POLICIES - continued**

**Future Accounting Pronouncements**

***IAS 7 - Statement of Cash Flows (Amendment)***

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB's Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The extent of the impact of adoption of the standard has not yet been determined.

***IFRS 16 - Leases***

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

**5. MARKETABLE SECURITIES**

During the year ended December 31, 2016, the Company received 200,000 common shares and 200,000 share purchase warrants of Intact Gold Corporation ("Intact") in accordance with the sale agreement of the Blackjack Property. At December 31, 2016, the shares have a fair value of \$14,000 and the warrants have a value of \$3,598, determined using the Black Scholes valuation method. The Company recognized the unrealized loss of \$9,203 for the year ended December 31, 2016.

During the year ended December 31, 2015, the Company sold 285,000 common shares of Mega Precious Metals Inc. ("Mega") and recognized the gain of \$14,225.

**6. EXPLORATION AND EVALUATION ASSETS**

Lynx Lake Copper-Cobalt Property

On October 27, 2016, the Company announced the acquisition of a 100% interest in the Lynx Lake Copper-Cobalt Property, consisting of 66 mineral claims encompassing 20 square kilometers, located in southern Labrador. In consideration, the Company will pay \$100,000 (\$10,000 paid) and issue 900,000 common shares to the vendors (200,000 shares have been issued subsequent to December 31, 2016) in staged payments. There is a 1.5% Net Smelter Return ("NSR") on future production payable to original vendors. During December 2016, the Company increased the size of the property to 959 claims by staking additional property. As the newly staked claims are considered to be in the area of influence, these claims are also covered by the NSR. The acquisition was approved by the TSX Venture Exchange on January 20, 2017.

Quebec Cobalt Properties

*Ninuk Lake Project:*

The Ninuk Lake Project is located approximately 175 kilometres northeast of Umiujag, Quebec and consists of 19 mineral claims encompassing 2,164 acres. The property was acquired from Zimtu Capital Corp. ("Zimtu") for \$17,000 (paid).

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**6. EXPLORATION AND EVALUATION ASSETS - continued**

Quebec Cobalt Properties - continued

*Broadback River Cobalt Property*

The Broadback River Project is located 24 kilometres northwest of the Nuinsco Discovery zone and consists of 9 mineral claims encompassing 1,035 acres. The property was acquired from Zimtu for \$14,000 (paid).

*Roberge Cobalt Property*

The Roberge Project is located 2.1 kilometres southeast of Chesterville, Quebec and consists of 3 mineral claims encompassing 443 acres. The property was acquired from Zimtu for \$8,000 (paid).

Menary Gold Project

The Company has entered into several agreements between 2011 to 2013 to acquire a number of claim units in a property known as Menary Gold Project in the Province of Ontario. Throughout 2011 to 2015, the Company has paid \$114,000 and issued 2,050,000 common shares under the agreements.

During the year ended December 31, 2016, the Company formalized its decision to sell the property and has reclassified the balance to the assets held for sale as at December 31, 2016.

On February 23, 2017, the Company entered into an agreement with Destroismaisons CLM Holding Corporation ("CLM") for the sale of the Menary Gold Project. In consideration, the Company will receive 15% of the issued and outstanding shares of CLM.

The Company measured the Menary Gold Project at the lower of its carrying amount and fair value less costs to sell being \$100,000 and has impaired the Project of \$16,251 as at December 31, 2016 (2015 - \$Nil).

Blackjack Property

In 2013, the Company entered into an agreement to acquire an option in a number of claim units known as Gold Hill – Blackjack Property in the townships of Kirkup and Manross in the Kenora Mining District in the Province of Ontario. Throughout 2012 to 2013, the Company has paid \$17,875 and issued 500,000 common shares.

On February 3, 2016, the Company signed an agreement with Intact Gold Corp. ("Intact") for the sale of the Blackjack Property. In consideration, the Company will receive cash of \$10,000 (received), 200,000 post-split common shares of Intact (received and fair valued at \$19,000, see Note 5) within 10 days of TSX Venture approval, and 200,000 post-split purchase warrants of Intact priced at \$0.17 for a term of 24 months from the date of the agreement (received and fair valued at \$7,801, see Note 5). There is a 2% Net Smelter Return ("NSR") on future gold production payable to original vendors. Intact can buy back one half or 1% of the NSR at any time by paying \$1,000,000 to the original vendors.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**6. EXPLORATION AND EVALUATION ASSETS - continued**

Halkirk-Watten Claims

In 2004, the Company staked 4 claims, totaling 672 hectares, in an area where microdiamonds had been found. The Company has determined it will not complete any further exploration and has impaired the property of \$26 in 2016 (2015 - \$640,590).

Hook Bay of Helena Lake

In 2003, the Company staked 2 claims to explore for gold. In 2005, the Company staked one claim and in 2014, the Company staked one additional claim. The current property covers 560 hectares. The Company has determined it will not complete any further exploration and has impaired the property of \$Nil in 2016 (2015 - \$78,754).

Darkwater at Sturgeon Lake

In 2010, the Company staked 3 claims totaling 752 hectares, in the pursuit of exploring for gold. The Company has determined it will not complete any further exploration and has impaired the whole property in 2015.

# King's Bay Gold Corporation

Notes to the Financial Statements

For the year ended December 31, 2016

Expressed in Canadian dollars

## 6. EXPLORATION AND EVALUATION ASSETS - continued

The following schedule shows the property costs for the years ended December 31, 2016 and 2015:

	Lynx Lake	Broadback River	Ninuk Lake	Roberge Claims	Menary Gold	Halkirk-Watten	Blackjack	Hook Bay of Helena Lake	Darkwater at Sturgeon Lake	Total
<b>Balance, January 1, 2015</b>	\$ -	\$ -	\$ -	\$ -	\$1,455,322	\$640,590	\$35,968	\$88,754	\$89,508	\$2,310,142
Additions during the year										
Exploration	-	-	-	-	1,580	26	67	-	-	1,673
Shares	-	-	-	-	1,250	-	-	-	-	1,250
Total additions during the year	-	-	-	-	2,830	26	67	-	-	2,923
Impairment	-	-	-	-	(1,341,901)	(640,590)	-	(78,754)	(89,508)	(2,150,753)
<b>Balance, December 31, 2015</b>	\$ -	\$ -	\$ -	\$ -	\$116,251	\$ 26	\$36,035	\$10,000	\$ -	\$162,312
Additions during the year										
Cash	10,000	14,000	17,000	8,000	-	-	-	-	-	49,000
Staking	56,875	-	-	-	-	-	-	-	-	56,875
Assays	250	-	-	-	-	-	-	-	-	250
Geological expense	1,050	-	-	-	-	-	-	-	-	1,050
Reports	18,150	-	-	-	-	-	-	-	-	18,150
Travel and accommodation	4,069	-	-	-	-	-	-	-	-	4,069
Total additions during the year	90,394	14,000	17,000	8,000	-	-	-	-	-	129,394
Proceeds received for sale	-	-	-	-	-	-	(36,801)	-	-	(36,801)
Impairment	-	-	-	-	-	(26)	-	-	-	(26)
Gain on sale of property	-	-	-	-	-	-	766	-	-	766
Reclassified to assets held for sale	-	-	-	-	(116,251)	-	-	-	-	(116,251)
<b>Balance, December 31, 2016</b>	\$90,394	\$ 14,000	\$ 17,000	\$8,000	\$ -	\$ -	\$ -	\$10,000	\$ -	\$139,394

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

**7. SHARE CAPITAL**

a) Authorized: Unlimited Class A common voting shares with no par value, and  
Unlimited Class B common non-voting shares with no par value

b) Issued and Outstanding:

On July 6, 2016, the shares of the Company were consolidated on the basis of ten (10) pre-consolidation Shares for one (1) post-consolidation Share (the “**Consolidation**”). Upon the Consolidation becoming effective, a total of 28,256,123 Shares, subject to adjustments for rounding, were issued and outstanding.

As at December 31, 2016, the Company had 40,806,423 (2015 – 9,922,691 post-consolidated) shares issued and outstanding.

**During the year ended December 31, 2016:**

On April 26, 2016, the Company closed the first tranche of a private placement of 15,383,432 common shares at a price of \$0.05 per share for proceeds of \$771,672.

On May 27, 2016, the Company closed the second and final tranche of a private placement of 2,950,000 common shares at a price of \$0.05 per share for proceeds of \$147,500.

The Company paid finder’s fees totaling \$ 27,373 total for both tranches.

On December 30, 2016, the Company closed a non-brokered private placement of 12,516,700 Units at a price of \$0.075 per Unit for gross proceeds of \$938,753. Each unit consists of one common share and one share purchase warrant. Each Warrant will entitle the holder to purchase one additional common share of the Company at a price of \$0.12 per share for a period of 24 months from closing. The shares will be subject to a four-month hold period from the date of closing. The fair value of the common share component of the Units at the date of issuance was \$0.09 being equal to market price therefore the Company allocated the entire proceeds to common shares and \$nil to warrants. In connection with the closing of the private placement, the Company paid finder’s fees totaling \$16,589 and 33,600 Units with fair value of \$2,520.

**During the year ended December 31, 2015:**

On April 15, 2015 the Company issued 25,000 common shares under a land option agreement relating to the Menary Gold Project. Based on the estimated fair value of the land options, the shares were valued at \$1,250 (Note 6).

**Warrants**

A summary of the Company’s outstanding warrants as at December 31, 2016 and 2015 are as follows:

	Expiry Date	Number of Warrants	Weighted Average Exercise Price
<b>December 31, 2015 and 2014</b>		-	\$ -
Issued	December 30, 2018	12,550,300	\$ 0.12
<b>December 31, 2016</b>		<b>12,550,300</b>	<b>\$ 0.12</b>

There are 33,600 finders’ warrants included in the outstanding number of warrants as at December 31, 2016.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

**8. SHARE-BASED PAYMENTS**

**Options**

The Company has a Stock Option Plan (the "Plan") under which it is authorized to grant options to directors, officers, consultants or employees of the Company. At the Company's Annual and Special General Meeting on May 31, 2016, the shareholders approved the "2016 Stock Option Plan", and set the number of options granted under the Plan to not exceed 10% of the issued and outstanding shares. Options granted to employees vest fully on grant. Options issued to investor relations consultants vest in stages over 12 months with one quarter of the options vesting in any three month period.

On April 1, 2016, the Company cancelled the remaining 800,000 options that were issued to former directors and officers of the Company.

On October 27, 2016, the Company granted 2,800,000 stock options priced at \$0.075, expiring in 2 years. Of the total granted, 1,900,000 were issued to directors and officers of the Company and 900,000 were granted to the Company's consultants.

The following is a summary of movements in the number of share options outstanding and their related weighted average exercise prices under the Company's stock option plan for the years ended December 31, 2016 and 2015:

	2016		2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>Balance, beginning of year</b>	<b>800,000</b>	<b>\$ 0.10</b>	<b>800,000</b>	<b>\$ 0.10</b>
Cancelled	(800,000)	0.10	-	-
Granted	2,800,000	0.075	-	-
<b>Balance, end of year</b>	<b>2,800,000</b>	<b>\$ 0.075</b>	<b>800,000</b>	<b>\$ 0.10</b>

Out of the 2,800,000 outstanding options (2015 – 800,000), 1,900,000 options (2015 – 800,000) were exercisable.

The weighted average remaining contractual life of the outstanding stock options as at December 31, 2016 is 1.82 years (2015 – 0.86 year).

The fair value of the options issued during the year was calculated as of the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	2016
Risk-free interest rate	0.72%
Expected life in years	2 years
Expected volatility	409%
Expected dividend yield	0%
Estimated forfeiture rate	0%

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**8. SHARE-BASED PAYMENTS - continued**

**Options – continued**

The Company recorded \$207,885 (2015 - \$Nil) of share-based payments for the year ended December 31, 2016.

**9. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2016 and 2015, the Company incurred the following transactions to officers or directors of the Company or companies with common directors:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Key management compensation*</b>		
Salaries and benefits	42,000	-
Consulting fees (c)	-	85,260
Share-based payments (Note 8)	179,894	-
Total	221,894	85,260

  

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Amounts due to related parties</b>		
Kevin Bottomley (a)	2,245	-
Bradley Hoepfner. (b)	957	-
Due to related parties included in accounts payable	3,202	-

- a) Kevin Bottomley is the President, CEO, and a director
- b) Bradley Hoepfner is a director
- c) 7851235 Canada Ltd., a business owned by a former director, for consulting services relating to marketing and administrative support.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount which is the amount of consideration established and agreed to by the related parties. The amounts due are unsecured, non-interest bearing, and have no specific terms of repayment.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

---

**10. FINANCIAL RISK MANAGEMENT**

The Company is exposed in varying degrees to a variety of financial instrument-related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) Credit risk

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

(c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and is not exposed to any significant interest rate risk.

(d) Capital management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. As at December 31, 2016, the Company's shareholders' equity was \$758,972 (2015 – \$602,151 deficiency). The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. 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, given the relative size of the Company, is reasonable.

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

**10. FINANCIAL RISK MANAGEMENT – continued**

(e) Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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.

The following is an analysis of the Company's financial assets measured at fair value as at December 31, 2016 and 2015:

	As at December 31, 2016		
	Level 1	Level 2	Level 3
Cash	\$ 359,498	\$ -	\$ -
Marketable securities	\$ 17,598	\$ -	\$ -
<b>Total</b>	<b>\$ 377,096</b>	<b>\$ -</b>	<b>\$ -</b>
	As at December 31, 2015		
	Level 1	Level 2	Level 3
Cash	\$ 1,971	\$ -	\$ -
<b>Total</b>	<b>\$ 1,971</b>	<b>\$ -</b>	<b>\$ -</b>

**11. OTHER INCOME**

During the year ended December 31, 2015, the Company received a refund from the Canada Revenue Agency for payroll taxes, interest, and penalties that had been previously paid by the Company in prior years and were recovered through an appeal and settlement.

**12. COMMITMENTS**

On January 1, 2016, the Company signed a Management Services Agreement with Zimtu Capital Corp. ("Zimtu") to provide management and administrative services at a rate of \$12,500 per month for one year.

On January 1, 2016, the Company signed a corporate development and marketing agreement with Zimtu to provide services, including, but not limited to, business development, strategic planning, marketing, financial services, research, and communication products, at a rate of \$5,000 per month for one year.

On October 5, 2016, the Company signed a special corporate development and marketing agreement with Zimtu to provide services, including, but not limited to, business development, strategic planning, marketing, financial services, research, and communication products, at a rate of \$9,500 per month for one year.

**13. SUPPLEMENTAL CASH FLOW INFORMATION**

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statements of cash flows for the year ended December 31 2016 and 2015:

	2016	2015
Shares issued for finder's fees	\$ 2,520	\$ -

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

**14. DEFERRED TAXES**

The following table reconciles the expected income tax expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Loss before income tax from continuing operations	\$ (660,725)	\$ (2,215,626)
Statutory tax rate	26.00%	26.50%
Expected income tax (recovery)	(171,789)	(587,141)
Non-deductible items	56,894	4,957
Expiry of non-capital losses carried forward	-	164,605
Change in deferred tax asset not recognized	114,895	83,579
Total income tax expense (recovery)	\$ -	(334,000)
Current tax expense (recovery)	\$ -	-
Deferred tax expense (recovery)	-	(334,000)
Total income tax expense (recovery)	\$ -	(334,000)

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

The unrecognized deductible temporary differences are as follows:

	<b>2016</b>	<b>2015</b>
Exploration and evaluation assets	\$ 335,164	\$ 335,164
Mineral properties	570,777	586,440
Marketable securities	9,203	-
Financing costs	37,186	-
Capital losses	101,675	24,950
Non-capital losses	5,118,035	5,577,982
Unrecognized deductible temporary differences	\$ 6,172,040	\$ 6,524,536

**King's Bay Gold Corporation**  
Notes to the Financial Statements  
For the year ended December 31, 2016  
Expressed in Canadian dollars

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**14. DEFERRED TAXES – continued**

The Company has non-capital loss carryforwards of approximately \$5,118,035 (2015: \$5,577,982) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	Total
2026	\$ 548,969
2027	638,118
2028	582,143
2029	495,912
2030	377,922
2031	538,049
2032	424,562
2033	629,007
2034	329,093
2035	106,924
2036	447,336
<b>TOTAL</b>	<b>\$ 5,118,035</b>

**15. SUBSEQUENT EVENTS**

- (a) On January 18, 2017, the Company issued 200,000 common shares in connection with the Lynx Lake Copper-Cobalt Property. (see Note 6)
- (b) On February 1, 2017, the Company granted 816,128 stock options priced at \$0.135, exercisable for a period of two years. On March 1, 2017, 200,000 of these options were exercised for gross proceeds of \$27,000
- (c) On February 16, 2017, the Company announced they had acquired a 100% interest in the Trump Island Property, consisting of 8 mineral claims covering an area of 2 square kilometres, located in north-central Newfoundland. In consideration, the Company will pay \$7,000 (paid) issue the vendors 200,000 common shares (issued). The Property is subject to a 2.0% net smelter return royalty payable by the Company to the Vendors, of which 50% can be repurchased for \$1-million. The agreement was accepted by the TSX Venture Exchange on February 21, 2017.
- (d) Menary Property sale (see Note 6)