BAYHORSE SILVER INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

Expressed in Canadian dollars, Unless Noted Otherwise

Index

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charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: the Shareholders of Bayhorse Silver Inc.

We have audited the accompanying consolidated financial statements of Bayhorse Silver Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Emphasis of Matters
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred losses to date. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

"Charlton & Company"
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
May 1, 2017

BAYHORSE SILVER INC.
Consolidated Statements of Financial Position
Expressed in Canadian Dollars, Unless Noted Otherwise

	Note		December 31 2016		December 31 2015
ASSETS					
Current					
Cash		$	9,699	$	385
Advances to a related party	11		12,487		2,732
GST receivable	5		13,758		8,185
Prepaid expenses			65,300		5,062
Assets included in disposal group classified as discontinued operations	4		-		537
			101,244		16,901
Non-current					
Equipment	6		188,481		-
		$	289,725	$	16,901
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current					
Accounts payable	11	$	471,578	$	513,328
Accrued liabilities			493,933		70,737
Current portion of convertible debenture	7		208,603		61,434
Loan payable	8		8,450		8,450
Promissory note and interest payable	9		50,000		296,000
Liabilities included in disposal group classified as discontinued operations	4		-		743,616
			1,232,564		1,693,565
Non-current					
Convertible debenture	7		1,302,937		379,240
			2,535,501		2,072,805
Shareholders' equity					
Share capital	10		10,157,664		8,557,473
Contributed surplus	10		3,898,457		3,349,266
Deficit			(16,301,897)		(13,962,643)
			(2,245,776)		(2,055,904)
		$	289,725	$	16,901

Nature of operations and going concern (Note 1)
Commitments (Notes 12 and 15)
Subsequent events (Note 17)

Approved on behalf of the Board:

"Graeme O'Neill"
Director

"Clay Conway"
Director

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

BAYHORSE SILVER INC.
Consolidated Statements of Loss and Comprehensive Loss
Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	Year Ended December 31, 2016	December 31, 2015
Mineral expenses			
Mineral property costs	12	$ 1,434,568	$ 607,844
Expenses			
Communications		9,087	24,056
Financing fee	7, 9, & 11(b)	774,809	117,047
Foreign exchange and bank charges		34,072	27,043
Insurance		5,625	6,308
Management fees	11 (a)	120,000	120,000
Office and other	11 (c)	61,755	36,730
Office rent	11 (a)	30,600	28,800
Professional fees	11 (e)	95,498	102,643
Promotion		62,799	37,055
Share-based compensation	11 (g)	288,561	106,104
Transfer, listing and filing fees		28,771	25,586
Travel		25,004	3,642
		(1,536,581)	(635,014)
Loss before other items		(2,971,149)	(1,242,858)
Other items			
Loss from re-measurement of convertible debenture	7	(29,771)	(20,347)
Loss on shares for debt settlement	11	(62,500)	-
Loss on shares converted from convertible debenture		(12,463)	-
Gain on write-off of discontinued operations	4	753,239	-
Net loss and comprehensive loss for the year from continuing operations		(2,322,644)	(1,263,205)
Loss for the year from discontinued operations	4	(16,610)	(199,345)
Net loss and comprehensive loss for the year		(2,339,254)	(1,462,550)
Weighted average number of common shares outstanding - basic and diluted		31,391,490	26,059,683
Basic and diluted loss per common share		$ (0.07)	$ (0.06)

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

BAYHORSE SILVER INC.
Consolidated Statements of Cash Flows
Expressed in Canadian Dollars, Unless Noted Otherwise

	Year Ended December 31, 2016	Year Ended December 31, 2015
Operating activities		
Net loss	$ (2,339,254)	$ (1,263,205)
Items not involving cash:		
Depreciation	2,590	-
Stock-based compensation	288,561	106,104
Loss from re-measurement of convertible debenture	29,771	20,347
Loss on settlement of debt	62,500	-
Loss on conversion of convertible debenture	12,463	-
Warrants issued as financing fee	519,019	69,827
Shares issued for acquisition of property	70,000	-
Convertible debenture issuance cost	25,485	-
Changes in non-cash working capital:		
Loan interest accrued on promissory note	(51,000)	34,711
GST receivable	(5,573)	(4,712)
Prepaid expenses	(60,238)	(1,137)
Accounts payable and accrued liabilities	139,449	154,761
Cash from continuing operations	(1,306,227)	(883,304)
Cash from discontinued operations	537	319
Cash used in operating activities	(1,305,690)	(882,985)
Investing activity		
Equipment	(191,071)	-
Cash from continuing operations		
Cash from discontinued operations	-	-
Cash used in investing activities	(191,071)	-
Financing activities		
Gross proceeds of share issuance	-	430,000
Share issuance costs	-	(10,658)
Convertible debenture issuance cost	(5,588)	-
Options exercised during the year	136,810	20,000
Warrants exercised during the year	469,755	-
Advances to related parties	(9,755)	-
Repayment of loan payable	-	(18,062)
Note payable	(88,564)	-
Proceeds from convertible debenture	1,003,417	458,945
Cash from continuing operations	1,506,075	880,225
Cash from discontinued operations	-	-
Cash provided by financing activities	1,506,075	880,225
Increase (decrease) in cash	9,314	(2,760)
Cash, beginning of the year	385	3,682
Cash, end of the year	9,699	922
Included in disposal group	-	(537)
Cash, end of the year	$ 9,699	$ 385

Supplemental cash flow information (Note 13)

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

BAYHORSE SILVER INC.

Consolidated Statement of Changes in Shareholders' Equity

Expressed in Canadian Dollars, Unless Noted Otherwise

	Note	Number of Shares	Share Capital	Subscriptions Payable	Contributed Surplus	Deficit	Total
Balance, December 31, 2014		21,203,517	$ 8,447,632	$ 30,000	$ 2,775,217	$ (12,500,093)	$ (1,247,244)
Shares issued for cash	10 (b)	6,500,000	460,000	(30,000)	-	-	430,000
Share issuance costs	10 (b)	-	(10,659)	-	-	-	(10,659)
Shares issued for options	10 (c)	200,000	20,000	-	-	-	20,000
Options exercised	10 (c)	-	12,353	-	(12,353)	-	-
Fair value of warrants granted with debentures	7	-	-	-	69,827	-	69,827
Convertible debenture	7	-	-	-	38,618	-	38,618
Fair value of warrants granted	10 (d)	-	(371,853)	-	371,853	-	-
Share-based compensation	10 (c)	-	-	-	106,104	-	106,104
Net loss and comprehensive loss		-	-	-	-	(1,462,550)	(1,462,550)
Balance, December 31, 2015		27,903,517	8,557,473	-	3,349,266	(13,962,643)	(2,055,904)
Shares issued for options exercised	10 (c)	1,328,100	136,810	-	-	-	136,810
Options exercised	10 (c)	-	89,332	-	(89,332)	-	-
Shares issued for warrants exercised	10 (d)	5,500,100	638,565	-	-	-	638,565
Warrants exercised	10 (d)	-	302,783	-	(302,783)	-	-
Shares issued on conversion of Debentures	10 (b)	276,961	50,201	-	(3,118)	-	47,083
Shares issued for acquisition of mineral property	10 (b)	500,000	70,000	-	-	-	70,000
Shares issued for debt settlement	10 (b)	2,232,143	312,500	-	-	-	312,500
Fair value of warrants granted with debentures	7	-	-	-	519,019	-	519,019
Convertible debenture issuance	7	-	-	-	111,883	-	111,883
Convertible debenture issuance cost	7	-	-	-	24,961	-	24,961
Share-based compensation	10 (c)	-	-	-	288,561	-	288,561
Net loss and comprehensive loss		-	-	-	-	(2,339,254)	(2,339,254)
Balance, December 31, 2016		37,740,821	$ 10,157,664	$ -	$ 3,898,457	$ (16,301,897)	$ (2,245,776)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Bayhorse Silver Inc. (the "Company") was incorporated under the Canada Business Corporations Act on April 6, 2004 and continued its incorporation into British Columbia on May 3, 2010. The Company is engaged in the acquisition and exploration of mineral property interests.

The Company is listed on the TSX-V under ticker symbol BHS as a Tier 2 mining issuer, the Frankfurt Exchange, Germany, under the symbol 7KXN, and in the US under the symbol KXPLF.

The address of the Company's corporate office and principal place of business is 137 Ranelagh Ave, Burnaby, British Columbia, V5B 3N2, Canada.

Going Concern

The accompanying consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. At December 31, 2016, the Company had a working capital deficit of $1,196,620 (2015: $1,676,664), had not yet achieved profitable operations and expects to incur further losses in the development of its business. For the year ended December 31, 2016, the Company reported a comprehensive loss of $2,339,254 (2015: $1,462,550) and has incurred accumulated losses of $16,301,897 (2015: $13,962,643) since inception.

The Company is dependent on equity and debt financings to fund its operations. The recoverability of the underlying value of assets is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The Company's consolidated financial statements for the year ended December 31, 2016 do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary should the going concern assumption be inappropriate, and such adjustments could be material.

2. BASIS OF PRESENTATION

a. Statement of Compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements for the year ended December 31, 2016 were approved and authorized for issue by the Board of Directors on May 1, 2017.

b. Basis of Measurement

The consolidated financial statements have been prepared in accordance with IFRS on a historical cost basis except for convertible debentures which are measured at fair value through profit and loss. These consolidated statements have been prepared using an accrual basis of accounting, except for cash flow information.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary, New Zealand based Kent Exploration NZ Limited ("Kent NZ") up to June 23, 2016, after which Kent NZ was dissolved and no longer consolidated. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All intercompany transactions, balances and any unrealized gains and losses from intercompany transactions are eliminated in preparing the consolidated financial statements.

b. Foreign currency

The financial statements for the Company and its subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which an entity operates. The presentation currency of the Company is the Canadian dollar. The functional currency of all companies in the group is the Canadian dollar.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the consolidated income statements.

c. Cash and cash equivalents

The Company considers cash to include amounts held in banks. The Company places its cash with major financial institutions in Canada.

d. Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses or at the lower of its carrying value and estimated recoverable amount. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item.

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

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

The residual values, useful lives, and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate. Equipment is depreciated over 3 years on a straight-line basis.

e. Mineral Property Expenditures

The Company does not capitalize option payments on mineral properties as the Company is of the opinion that option payments do not meet the definition of tangible capital property.

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes: 1) researching and analyzing historical exploration data 2) gathering exploration data through topographical, geochemical and geophysical studies 3) exploratory drilling, trenching and sampling 4) determining and examining the volume and grade of the resource 5) surveying transportation and infrastructure requirements 6) conducting market and finance studies. Exploration and evaluation costs are charged to the income statement as incurred. If it were determined that a mineral property could be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop that property would be capitalized. As of the date of these financial statements, the Company has incurred only acquisition and exploration costs that have been expensed. Also, the Company has not established any National Instrument 43-101 compliant proven or probable reserves on any of its mineral properties which have been determined to be economically viable**.**

f. Site restoration obligations

Rehabilitation obligations have been created based on the Company's internal estimates. Assumptions, based on the current economic environment have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed at least annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market conditions at the time of the rehabilitation costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation obligation generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

g. Impairment of non-financial assets

At each statement of financial position date, in accordance with IAS 36 "Impairment of Assets", the Company assesses whether there is any indication that any of those assets have suffered an impairment loss. If any indication exists, the Company estimates the asset's recoverable amount.

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

An impairment loss for an individual asset or CGU shall be reversed if there has been a change in estimates used to determine the recoverable amount since the last impairment loss was recognized and is only reversed to the extent that the assets carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The recoverable amount is the greater of an asset's or CGU fair value less costs 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 current market assessments of the time value of money and risks specific to the asset. For an asset that does not generate largely independent cash inflows, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

h. Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of the financial asset or financial liability. The Company's common shares and share warrants that have no derivative elements are classified as equity instruments. Incremental costs directly attributable to the issue of new share or options are shown in equity as a deduction from the proceeds.

i. Flow-through shares

The Company will, from time to time, issue flow-through common shares to finance a portion of 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 allocates the flow-through share into i) fair value of capital stock and ii) the residual as a flow-through share premium, which is recognized as a liability. On issuance of a flow-through unit, the Company allocates the flow-through unit into i) fair value of capital stock, ii) fair value of a warrant and iii) the residual as a flow-through share premium, which is recognized as a liability. Upon expenses being incurred, the Company derecognizes the liability and recognizes a credit to deferred tax expense.

The Company is required to spend the proceeds received from the issuance of flow-through shares on Canadian resource property exploration expenditures within a two-year period. During the year ended December 31, 2015, the Company has spent all of the funding raised from flow-through private placements on Canadian resources property exploration expenditures.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

j. Share-based payments

The Company has an incentive stock option plan (the "Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan provide that board of directors has the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant less any allowable discounts and at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Where the terms and conditions are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

k. Warrants

The Company uses the Black-Scholes method of valuing warrants. When warrants are issued to an agent as compensation for assistance with a share offering, the Company records these as share issuance costs, with the offset going to contributed surplus. Warrants issued in conjunction with share offerings are recorded as a decrease in share capital and an increase to contributed surplus. Amounts are transferred from contributed surplus to share capital upon exercise of the warrants.

l. Loss per share

Basis earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

m. Comprehensive loss

Comprehensive loss is defined as the change in net assets that results from transactions and other events from non-owner sources and includes items that are not included in net loss, such as unrealized gains and losses related to available for sale securities, gains and losses on certain derivative instruments and foreign currency and gains and losses resulting from the translation of self-sustaining foreign operations.

n. Income taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for table temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

o. Financial instruments

The Company classifies its financial assets, as loans and receivables, held-to-maturity investments, available-for-sale and fair value through profit and loss (“FVTPL”). Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in the active market. Financial assets in this category includes accounts receivable, loan receivable, and taxes receivable and are initially measured at fair value and subsequently at amortized cost less any impairment. Accounts receivable is assessed for evidence of impairment at each reporting date, with any impairment recognized in earnings for that period.

Held-to-Maturity Investments

An instrument is classified as held-to-maturity if it is a non-derivative financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at amortized cost using the effective interest method. A gain or loss is recognized in profit or loss when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

Available-for-Sale

Available-for-sale (“AFS”) financial assets are those non-derivative financial assets that are designated as such or are not classified as loans and receivables, held-to-maturity investments or FVTPL. AFS financial assets are measured at fair value with unrealized gains and losses recognized in other comprehensive income, unless such assets are determined to be impaired in which case the impairment loss is reclassified out of other comprehensive income and recognized in the Statements of Comprehensive Income for that period. The reversal of previously recognized impairment losses is recognized directly in equity and not reversed through the Statements of Comprehensive Income.

Fair Value through Profit and Loss

Financial assets are designated as FVTPL when they are held for trading. A financial asset is held for trading if it was acquired for the purpose of selling in the near term. Financial instruments classified as FVTPL are stated at fair value with any changes in fair value recognized in earnings for that period. The Company classifies its financial liabilities as financial liabilities through profit or loss, and financial liabilities measured at amortized cost.

Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities, including derivatives, are designated at as FVTPV upon initial recognition as FTPL. They are initially recorded at their fair market value. They are subsequently measured at their fair market value, with gains or losses recognized in the income statement. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. The net gain or loss recognized in profit or loss excludes any interest paid on the financial liabilities.

Financial Liabilities Measured at Amortized Cost

Financial liabilities are measured at amortized cost and are initially recorded at fair value, net of transaction costs, and are subsequently measured at amortized cost. Subsequent to initial measurement, financial liabilities measured at amortized cost are carried at amortized cost using the effective interest method.

Transaction costs on financial assets and liabilities other than those classified as FVTPL are treated as part of the carrying value of the asset or liability. Transaction costs for assets and liabilities at FVTPL are expensed as incurred.

The Company includes fair value measurement disclosures as required under IFRS 7. These disclosures include the classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Cash	Loans and receivables
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost
Loan and promissory note payable	Financial liabilities measured at amortized cost
Convertible Debenture	Fair value through profit or loss

p. Derivative Financial Instruments

The Company may issue or hold compound financial instruments with embedded derivatives. An embedded derivative is separated from its host contract and accounted for as a derivative only when three criteria are satisfied:

- When the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- The entire instrument is not measured at fair value with changes in fair value recognized in the statement of profit or loss and other comprehensive income.

The Company designates certain financial liabilities with embedded derivatives as FVTPL on the initial recognition and accordingly does not bifurcate between the host contract and the embedded derivative; however, other financial liabilities with embedded derivatives are bifurcated into the debt host component and the embedded derivative component, depending on the instrument. In the case of the latter, the debt host component is classified as other financial liabilities and is measured as amortized cost using the effective interest rate method and the embedded derivatives are classified as FVTPL and all changes in fair value are recorded in profit or loss. The difference between the debt host component and the principal amount of the loan outstanding is accreted to profit or loss over the expected life of the financial liabilities.

q. Segment reporting

A reportable segment, as defined by 'IFRS 8-*Operating Segments*', is a distinguishable business or geographical component of the Company, which are subject to risks and rewards that are different from those of other segments. The Company considers its primary reporting format to be business segments. The Company considers that it has only one reportable segment, being the mineral exploration segment. As the political risks, likelihood of positive results, assets, liabilities and cash flows of the mineral exploration segment are substantially the same to those of the consolidated Company; no separate analysis has been provided.

r. Critical Accounting Estimates

Critical accounting estimates are estimates and assumptions used by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

i. Valuation of equity instruments - The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they were granted. Estimating the fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, and dividend yield and making assumptions about them.

ii. Valuation of derivatives – certain derivatives issued by the Company are valued using the Black Scholes Option Pricing Model. The Black Scholes Option Pricing Model is a formula that is used to determine the fair value of a call or put option based on factors such as underlying stock volatility, days to expiration, and others. The key inputs used by the Company in its Black Scholes Option Pricing Model are further disclosed within these consolidated financial statements. Changes in the inputs to the valuation model could impact the carrying value of the derivatives and the amount of unrealized gains or losses recognized in profit or loss.

iii. Valuation of convertible loan – the Company's convertible loans are valued using the present value of the future cash flows. This method is used based on underlying factors such as the current interest rate, foreign exchange rate, and Company's ability to make all interest payments on timely basis. The key input used by the Company in this calculation are further disclosed within this consolidated financial statements. Changes in the input to the calculation could impact the carrying value of the convertible loan and the amount of unrealized gains or losses recognized in profit or loss.

iv. Deferred income taxes – The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the consolidated financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

s. Critical Accounting Judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

i. The assumption that the Company is a going concern and will continue in operation for the foreseeable future and at least one year.

ii. The determination of functional currency. Management has determined that the functional currency of the Company is the Canadian dollar.

iii. The determination or absence of asset retirement obligation.

iv. Determination of categories of financial assets and financial liabilities involves assessments made by management.

v. Assessment of impairment, recoverability of the carrying value of financial assets.

vi. Refundable tax credits and flow-through expenditures - The Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits. The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management's judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities can materially increase the flow-through premium liability and outstanding commitments.

t. New Accounting Pronouncements

There have been no new and/or revised standards and interpretations issued by the IASB or IFRIC adopted by the Company effective January 1, 2016 that have had a material impact on the consolidated financial statements of the Company.

The Company is currently evaluating the following standards issued but not yet in effect and has not yet determined the impact on its financial position and results of operations:

IFRS 15, Revenue from Contracts with Customers – On May 28, 2014, the IASB issued IFRS 15 that provides a single, principles based five-step model to be applied to all contracts with customers. Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

(Expressed in Canadian dollars, Unless Noted Otherwise)

IFRS 9 Financial Instruments - In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory.

IFRS 16, Leases - On January 13, 2016, the IASB published a new standard, IFRS 16, Leases. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under the new standard, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The standard is effective for annual periods beginning after December 15, 2019 (i.e., calendar periods beginning on January 1, 2020), and interim periods thereafter. Early adoption is permitted.

4. DISCONTINUED OPERATIONS

On June 23, 2016, the Company's New Zealand subsidiary, Kent Exploration NZ Limited ("Kent NZ") was removed from the New Zealand's Companies register and dissolved. The Company did not receive any proceeds from the disposition. All permits previous held by Kent NZ have been relinquished and the Company no longer holds any Exploration Permits in New Zealand.

Consequently, assets and liabilities allocable to Kent NZ were classified as a disposal group. Expenses and losses relating to the discontinued operations have been eliminated from the Company's continuing operations and are shown as a single line item on the face of the statement of net loss and comprehensive loss.

Operating loss of Kent NZ is shown as a single line on the statement of loss and comprehensive loss and assets and liabilities held for sale are summarized as follows:

		2016		2015
Cash write-off	$	(460)	$	-
Accounts payable write-off		753,699		-
Gain on write-off of discontinued operations	$	753,239	$	-
Mineral property costs	$	-	$	(26,616)
Foreign exchange and bank charges		(13,908)		(18,941)
Financing fee		-		(116,969)
Office expense		(2,702)		(5,565)
Transfer, listing and filing fees		-		(40)
Other items		-		(31,214)
Income/(loss) for the year from discontinued operations	$	(16,610)	$	(199,345)

(Expressed in Canadian dollars, Unless Noted Otherwise)

The carrying amounts of assets and liabilities in this disposal group are summarised as follows:

	2016	2015
Current Assets		
Cash	$ -	$ 537
Assets classified as held for sale	$ -	$ 537
Current liabilities		
Accounts payable and accrued liabilities	$ -	$ (743,616)
Liabilities classified as held for sale	$ -	$ (743,616)

Cash flows generated by Kent NZ for the reporting periods under review are as follows:

	2016	2015
Operating activities	$ 537	$ 319
Investing activities	-	-
Financing activities	-	-
Cash flows from discontinued operations	$ 537	$ 319

5. GST RECEIVABLE

	December 31, 2016	December 31, 2015
GST receivable	$ 13,758	$ 8,185

During the year ended December 31, 2016, the Company wrote off the GST receivable of $Nil (2015: $33,007) due to the existence of impairment indicator to the balance.

6. EQUIPMENT

During the year ended December 31, 2016, the Company purchased or made deposits for mining and processing equipment totaling $191,071 (2015 - $nil). $31,080 (2015 - $nil) in equipment has been put into use while others are being assembled and not yet used in operations. As a result, the Company recorded depreciation of $2,590 for the year ended December 31, 2016 (2015 - $nil). The net carrying value of equipment as at December 31, 2016 is $188,481 (2015 - $nil).

7. CONVERTIBLE DEBENTURE

During the year ended December 31, 2016, the Company issued 180 units of US$5,000 convertible debentures (“Debentures”) for gross proceeds of US$900,000 (CAD$1,187,601). During the year ended December 31, 2015, the Company issued 70 units of US$5,000 Debentures for gross proceeds of US$350,000 (CAD$458,945). Key features of these Debentures are as follows:

- Term
    - three years from the date of issuance;

- Interest payments
  - 12% per annum, calculated and compounded monthly and not in advance, and the first six months of interest payable on the first anniversary and bi-annually thereafter. Interest on all overdue amounts of principal or interest, is calculated and compounded daily at the same rate, from the date that the such amount of principal or interest becomes due to the actual date of payment;

- The Company's redemption right
  - The Company may redeem the Debenture at any time after the first anniversary of the date of its issuance upon the following terms and conditions:
    - The Company must advise the holder in writing not less than 30 days prior to the date of redemption of its intention to exercise its redemption rights;
    - Redemption price will be at least the full principal portion plus accrued interest up until the redemption date;
- Conversion right to shares
  - Debenture holders ("Holders") have the option to convert the principal and unpaid accrued interests into shares at any time during the period from four months from the date of issuance and the second anniversary of such date. Redemption price is the CAD$0.125 per share during the first year of the term, and in the second year of the term in the event the common shares of the Corporation trade for a 30 day period at CAD$0.20 per share or higher, the average of thirty days trading less a twenty (20%) percent discount as permitted by the rules of the TSX-V, but in no case less than CAD$0.125 per share;

- Conversion right to silver
  - In the event the Company successfully mines silver from the Bayhorse property prior to the maturity date of the Debenture, Holders have the option to convert the Principal and unpaid accrued interests into one the following options:
    - Physical ounces of silver at a price of US$15.50 per ounce of silver; or
    - Receive the net proceeds from the sale by the Company of silver that would otherwise have been delivered to the Holders.

- Bonus warrants
  - Each US$5,000 Holder receives 20,000 warrants with each warrant exercisable into one common share of the Company for 3 years from date of issuance at an exercise price of CAD$0.25 per common share.

Fair Value Measurement

The Debenture is denominated in US dollars but the conversion price is denominated in Canadian dollars. The number of shares to be converted varies based on the foreign exchange rate at conversion date. The amount of interest payment also varies based on the foreign exchange rate on interest payment dates. The Debenture issued by the Company is a hybrid instrument, containing a loan component and embedded derivatives.

All of these financial instruments are classified as fair value through profit and loss ("FVTPL") and all changes in fair value are recorded in profit and loss. The fair value of the Debenture is measured using the present value of future cash flows with a market discount rate of 17%, which is based on a comparable instrument. On initial recognition, the Debenture is recorded at fair value with any excess from proceeds being credited to contributed surplus.

(Expressed in Canadian dollars, Unless Noted Otherwise)

All Debentures are re-measured at their fair value at each reporting date with all changes in fair value recorded in profit and loss. Accordingly, the Company recorded a total loss of $29,771 (2015: $20,347) for the year ended December 31, 2016. The total amount of interest for the 12-month period subsequent to December 31, 2016 will be approximately $208,603 and therefore is included in current liability.

The continuity of the Debentures and their effect on contributed surplus is provided in the following table.

	Debenture	Contributed Surplus
	$	$
Balance, December 31, 2014	-	-
Fair value of US$350,000 (CAD$458,945), initial measurement	420,327	38,618
Change in fair value at year end	20,347	-
Balance, December 31, 2015	440,674	38,618
Fair value of US$900,000 (CAD$1,187,601), initial measurement	1,075,718	111,883
Converted to shares	(29,560)	(3,118)
Change in fair value	29,771	-
Transaction costs	(5,063)	(525)
Balance, December 31, 2016	1,511,540	146,858
Current portion	208,603	-
Long-term portion	1,302,937	-
	1,511,540	-

During the year ended December 31, 2016, the Company issued 3,600,000 (2015: 1,400,000) warrants to the Debenture holders. Each warrant entitles the holder to purchase one common share at a price of $0.25 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of $519,019 (2015: $69,827), which was expensed during the year ended December 31, 2016 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2016	2015
Risk free rate of return	0.60-0.77%	0.81-0.92%
Expected life	3 years	3 years
Expected volatility	123 – 135%	130-133%
Expected dividend yield	0.00%	0.00%

During the year ended December 31, 2016, the Company issued 145,600 (2015: Nil) warrants to Agents in connection with the convertible debenture issuance. Each warrant entitles the holder to purchase one common share at a price of $0.125 for three years after the issuance date. Using the Black-Scholes option pricing model, the warrants had a fair value of $25,485 (2015: $Nil), which was expensed during the year ended December 31, 2016 as financing fee. Assumptions used for the Black Scholes option pricing model are as follows:

	2016	2015
Risk free rate of return	0.73-0.77%	-
Expected life	2.09 years	-
Expected volatility	132 – 135%	-
Expected dividend yield	0.00%	-

(Expressed in Canadian dollars, Unless Noted Otherwise)

8. LOAN PAYABLE

On July 29, 2014, the Company received a loan of $8,450 from a related party. The loan is interest free and has no fixed term of payment.

9. PROMISSORY NOTES PAYABLE

Balance at December 31, 2014 (a)	$	229,350
Repayment (b)		(18,061)
Interest accrued		34,711
Conversion from interest free loan (c)		50,000
Balance at December 31, 2015		296,000
Repayment of principal and interest (d)		(160,778)
Interest accrued		25,857
Transfer to convertible debenture (e)		(111,079)
Balance at December 31, 2016	$	50,000

a) During the year ended December 31, 2014, the Company received a loan for the sum of $210,000 from three lenders. The loan is for a term of 12 months, is unsecured and bears interest at the rate of 12% per annum, compounded quarterly and payable quarterly in arrears. The Company issued a promissory note ("PN") for the loan and, as additional consideration for the loan, the Company has issued 420,000 bonus shares that are equal to 20% of the principal amount of the Loan issued at a deemed price of $0.10 per share or CAD$29,400.
b) In October, 2015, the Company paid total principal and accrued interest to one of the PN holders that amounted to $15,000 and $3,061, respectively.
c) During the year ended December 31, 2015, the Company issued an additional promissory note to an existing loan provider and an arms' length party. This promissory note is to replace the existing interest free loan of $50,000. This promissory note carries the same interest payment terms as the PN concluded on December 30, 2015.
d) In September, 2016, the Company paid total principal and total accrued interest to the PN holders that amounted to $131,000 and $29,778, respectively.
e) During the year ended December 31, 2016, a related party (the Company's CEO) used the promissory notes outstanding to him to purchase Debentures described in Note 7 and reducing his PN principal including interest to $Nil.

On December 30, 2015, the Company concluded a new promissory note ("New Agreement") with the PN holders to replace all of the above PN. Pursuant to the New Agreement, the PN holders extended the expiry date to December 30, 2016, with the rate of interest on the outstanding loan principal of $296,000 remaining the same. In the event that any payment under this PN is not paid when due on December 30, 2016, the Company agrees to pay, in addition to the principal and interest, attorneys' fees not exceeding a sum equal to 15% of the then outstanding balance owing on the New Agreement, plus all other reasonable expenses incurred by the PN holders in exercising any of its right and remedies upon default. The Company is currently negotiating with the one remaining PN holder to extend the repayment date of the $50,000 promissory note.

(Expressed in Canadian dollars, Unless Noted Otherwise)

10. CAPITAL STOCK

a) Authorized
Unlimited number of common shares without par value

b) Issued and fully paid

During the year ended December 31, 2016 and 2015, the Company issued the following securities:

	Note	Number
Balance, December 31, 2014		**21,203,517**
Private Placement	10(b) (vi)	2,200,000
Flow-Through PP	10(b) (v)	1,100,000
Flow-Through PP	10(b) (iv)	600,000
Flow-Through PP	10(b) (iii)	600,000
Shares Issued for Options	10(c)	200,000
Private Placement	10(b) (ii)	1,000,000
Private Placement	10(b) (i)	1,000,000
Balance, December 31, 2015		**27,903,517**
Shares Issued for Warrants	10(c)	5,500,100
Shares Issued for Options	10(c)	1,328,100
Shares issued for debt settlement	10(b) (vii)	2,232,143
Shares issued on conversion of Debentures	10(b) (viii)	276,961
Shares issued for mineral property	10(b) (ix)	500,000
Balance, December 31, 2016		**37,740,821**

(i) On September 21, 2015 the Company completed a non-brokered private placement of 1,000,000 units at $0.06 per unit for gross proceeds of $60,000. Each unit consisted of one common share and one transferable common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.10 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $44,042. The Company incurred $1,348 share issuance cost in connection to this private placement.

(ii) On July 5, 2015 the Company completed a private placement of 1,000,000 units at $0.06 per unit for gross proceeds of $60,000. Each unit consisted of one common share and one transferable common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.10 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $33,389.

(iii) On April 17, 2015 the Company completed a flow-through private placement of 600,000 units at $0.10 per unit for gross proceeds of $60,000. Each unit consisted of one common share and one transferable non flow-through common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.15 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $27,254. There was no flow-through share premium in connection with this private placement.

(iv) On February 23, 2015 the Company completed a flow-through private placement of 600,000 units at $0.10 per unit for gross proceeds of $60,000. Each unit consisted of one common share and one transferable non flow-through common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.15 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $39,861. In addition, the Company paid an aggregate of $3,360 and issued 42,000 share purchase warrants to finders in connection with the private placement. Each such finder warrant entitles the holders to purchase one additional common share at a price of $0.15 per common share for a period of 24 months from the date of issuance. The fair value of these warrants was $4,524. There was no flow through share premium in connection with the private placement.

(v) On February 9, 2015 the Company completed a flow-through private placement of 1,100,000 units at $0.10 per unit for gross proceeds of $110,000. Each unit consisted of one common share and one transferable non flow-through common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.15 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $102,300. In addition, the Company paid an aggregate of $3,500 and issued 35,000 share purchase warrants to finders in connection with the private placement. Each such finder warrant entitles the holders to purchase one additional common share at a price of $0.15 per common share for a period of 24 months from the date of issuance. The fair value of these warrants was $3,566. There was no flow-through share premium in connection with the private placement.

As at December 31, 2015, the total gross funding raised from the flow through private placements amounted to $230,000. During the year ended December 31, 2015, the Company incurred $230,000 of qualified flow-through funded exploration expenditure, which fulfilled its commitment to the flow-through share financing from January to April 2015. Accordingly, the Company has no liability or commitment in relation to these flow-through private placements as at December 31, 2015.

(vi) On January 17, 2015 the Company completed a private placement of 2,200,000 units at $0.05 per unit for gross proceeds of $110,000. Each unit consisted of one common share and one transferable common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.10 per share, exercisable for a period of 24 months from the date of issuance. The fair value of these warrants was $113,432. In addition, the Company paid an aggregate of $3,799 and issued 49,000 share purchase warrants to finders in connection with the private placement. Each such finder warrant entitles the holders to purchase one additional common share at a price of $0.15 per common share for a period of 24 months from the date of issuance. The fair value of these warrants was $3,485.

(vii) On July 14, 2016 the Company issued a total of 2,232,143 common shares with a fair value of $312,500. The common shares (2,000,000) were issued to settle $224,000 of debt outstanding to Highcard Exploration Inc. The Company's Chief Executive Officer and director (Graeme O'Neill) is the sole shareholder of Highcard Exploration Inc. The remaining 232,143 common shares were issued to settle $26,000 of debt outstanding to Graeme O'Neill. A loss on settlement of debt was recorded in the amount of $62,500 (2015: $Nil) for this transaction.

(Expressed in Canadian dollars, Unless Noted Otherwise)

(viii) During 2016, US$25,000 of Debentures plus US$1,077 in accrued interest were converted into common shares. The value of the shares issued was $34,620 at a conversion price was $0.125 per share. A loss on conversion of $12,463 (2015: $Nil) resulted from this transaction.

(ix) Pursuant to the Option and Joint Venture Agreement dated December 4, 2013 with American Cordillera Mining Corporation and its wholly-owned subsidiary Amcor Exploration Inc. (collectively, “AMCOR”), the Company issued 500,000 common shares with fair value of $70,000.

c) Contributed Surplus

Stock Options

Pursuant to the Company’s stock option plan (the “Plan”), the Company’s board of directors may from time to time authorize the issue of options to eligible persons. The option price for the options shall be not less than the discounted market price on the grant date. The expiry date for each option shall be set by the board at the time of issue of the option and shall not be more than five years after the grant date. Options shall not be assignable (or transferable) by the Optionee.

The number of shares which may be issuable under the Plan and all of the Company’s other previously established or proposed share compensation arrangements, within a one-year period:

- to any one Optionee, shall not exceed 5% of the total number of issued and outstanding shares on the grant date on a non-diluted basis;
- to insiders as a group shall not exceed 10% of the total number of issued and outstanding shares on the grant date on a non-diluted basis;
- to any one consultant shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on the grant date on a non-diluted basis; and
- all eligible persons who undertake investor relations activities shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on the grant date on a fully-diluted basis.

During the year ended December 31, 2016 and 2015, the Company granted, exercised and cancelled the following incentive stock options to officers, directors, and consultants:

	Number of Options	Weight Average Exercise Price	Weighted Average Life (years)
Balance, December 31, 2014	**1,585,000**	**$0.12**	**3.98**
Options granted	1,675,000	$0.10	4,37
Options cancelled	(445,000)	$0.13	-
Options exercised	(200,000)	$0.10	-
Balance, December 31, 2015	**2,615,000**	**$0.11**	**3.79**
Options granted	2,245,000	$0.14	4.77
Options exercised	(1,328,100)	$0.10	-
Options cancelled	(75,000)	$0.10	-
Balance, December 31, 2016	**3,456,900**	**$0.13**	**3.95**

For the year ended December 31, 2016, the fair value of the share based compensation recognized was $288,561 (2015: $106,104) as determined using the Black-Scholes Option Pricing Model. The details of the share based compensation granted are as follows:

On December 20, 2016, the Company granted incentive stock options to directors, to purchase up to an aggregate of 120,000 common shares at an exercise price of $0.125 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $13,590 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 120,000 were granted to related parties.

On December 5, 2016, the Company granted incentive stock options to officers and consultants to purchase up to an aggregate of 1,200,000 common shares at an exercise price of $0.15 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $161,739 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 700,000 were granted to related parties.

On June 30, 2016, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 225,000 common shares at an exercise price of $0.12 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $30,092 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 210,000 were granted to related parties.

On June 23, 2016, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 700,000 common shares at an exercise price of $0.125 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $83,140 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 500,000 were granted to related parties.

On November 18, 2015, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 575,000 common shares at an exercise price of $0.10 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $33,908 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 400,000 were granted to related parties.

On March 13, 2015, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 500,000 common shares at an exercise price of $0.10 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $37,870 as determined using the Black-Scholes Option Pricing Model. Of these stock options, 150,000 were granted to related party.

On January 8, 2015, the Company granted incentive stock options to officers, directors, and consultants to purchase up to an aggregate of 600,000 common shares at an exercise price of $0.10 per share, exercisable for a term of five years from the date of grant. The fair value of the share based compensation recognized was $34,326 as determined using the Black-Scholes holes Option Pricing Model. Of these stock options, 400,000 were granted to related parties

During the year ended December 31, 2016, the Company cancelled 75,000 (2015: 445,000) units of stock options due to departure of the officers and consultants.

(Expressed in Canadian dollars, Unless Noted Otherwise)

Assumptions used for the Black Scholes option pricing model are as follow:

	2016	**2015**
Risk free rate of return	0.57 – 1.2%	0.69 - 0.75%
Expected life	3.55 years	5 years
Expected volatility	124 - 135%	127 - 134%
Expected dividend yield	0.00%	0.00%

The following stock options were outstanding and exercisable at December 31, 2016:

Number	**Exercise Price**	**Expiry Date**
420,000	$0.10	August 12, 2018
275,000	$0.20	February 26, 2019
50,000	$0.10	June 23, 2019
50,000	$0.10	September 26, 2019
250,000	$0.10	January 8, 2020
166,900	$0.10	December 1, 2020
700,000	$0.125	June 23, 2021
225,000	$0.12	June 30, 2021
1,200,000	$0.15	December 5, 2021
120,000	$0.125	December 20, 2021
3,456,900		

d) Warrants

During the year ended December 31, 2016 and 2015, the Company issued warrants pursuant to the private placements and Debentures and the following table provides a continuity of warrants outstanding:

	Number of Warrants	**Weighted Average Exercise Price**	**Weighted Average Life Remaining (in years)**
Balance, December 31, 2014	**8,263,200**	**$0.18**	**1.55**
Warrants granted	8,026,000	$0.15	1.34
Warrants expired	(1,758,200)	$0.15	-
Balance, December 31, 2015	**14,531,000**	**$0.16**	**1.13**
Warrants granted	3,745,600	$0.25	2.59
Warrants cancelled	(113,400)	$0.20	-
Warrants exercised	(5,500,100)	$0.12	-
Balance, December 31, 2016	**12,663,100**	**$0.21**	**1.13**

(Expressed in Canadian dollars, Unless Noted Otherwise)

The Black-Scholes option pricing model was used for the valuation of warrants. Assumptions used to value the warrants issued in 2016 pursuant to convertible debentures are disclosed in Note 7. The following assumptions were used for the Black-Scholes option pricing model for warrants issued pursuant to the private placements for the year ended December 31, 2015:

	2015
Risk free rate of return	0.44 – 0.68 %
Expected life	2 years
Expected volatility	132 - 143%
Expected dividend yield	0.00%

The following warrants were outstanding as at December 31, 2016:

Number	**Exercise Price**	**Expiry Date**
320,000	$0.10	January 20, 2017
617,500	$0.15	February 7, 2017
380,000	$0.15	February 24, 2017
500,000	$0.15	April 17, 2017
200,000	$0.10	July 10, 2017
1,900,000	$0.20	July 31, 2017
3,000,000	$0.20	July 31, 2017
600,000	$0.15	July 31, 2017
1,000,000	$0.25	September 15, 2018
400,000	$0.25	November 7, 2018
120,000	$0.25	January 22, 2019
280,000	$0.25	February 22, 2019
214,000	$0.25	May 18, 2019
220,000	$0.25	June 6, 2019
440,000	$0.25	August 3, 2019
340,000	$0.25	August 10, 2019
131,600	$0.125	September 19, 2019
2,000,000	$0.25	September 19, 2019
12,663,100		

11. RELATED PARTY TRANSACTIONS

Key management personnel compensation

The remuneration of the Company's directors and other members of key management, who have the authority and responsibility for planning, directing and controlling the activities of the Company, consists of the following amounts.

The following table summarizes transactions with related parties during the year ended December 31, 2016 and 2015:

(Expressed in Canadian dollars, Unless Noted Otherwise)

		Year ended	
	Note	December 31 2016	December 31 2015
Management fees	(a)	$ 120,000	$ 120,000
Office	(a)	30,600	28,800
Interest and Financing fee	(b)	67,404	20,825
Geologist fees	(c)	14,876	-
Professional fees - Consulting fee	(d)	4,538	-
Professional fees	(e)	59,000	60,000
Office and other - Corporate services	(f)	25,545	24,000
Share-based compensation	(g)	195,409	63,554
		$ 517,372	$ 317,179

a) Management fees and office rental fees were paid to Highcard Exploration Inc. ("Highcard"), a company controlled by Graeme O'Neill, the CEO, President and director of the Company ("Graeme"). During the year ended December 31, 2015, the Company renewed the 2-year management services agreements with HighCard requiring annual payments of $120,000.

b) Interest charged at 12% per annum, compounded quarterly, and payable quarterly for outstanding related party accounts payable balances.

c) Geologist fees paid to Gaeaorama Inc. ("Gaeaorama"), a company controlled by Clay Conway, a director of the Company for work performed on the Bayhorse Silver Mine and Bridging the Gap property.

d) Consulting fees paid to Gaeaorama Inc. ("Gaeaorama"), a company controlled by Clay Conway, a director of the Company.

e) Fees paid to the Company's former CFO, Anike Li and fees paid to the Company's current CFO, Rick Low.

f) Fees paid to the Company's Corporate Secretary, Donna Moroney.

g) During the year ended December 31, 2016, the Company issued 1,530,000 (2015: 1,050,000) stock options to the above related parties.

The following table summarizes payable balances to related parties as at December 31, 2016 and 2015.

	December 31 2016	December 31 2015
Promissory note payable to Graeme	$ -	$ 155,000
Interest on promissory note payable to Graeme	-	35,000
Trade payable to Graeme**	102,888	17,636
Trade payable to Highcard**	31,950	170,287
Trade payable to Anike Li**	-	28,818
Trade payable to a director of the Company**	19,776	9,244
Trade payable to corporate secretary**	5,187	28,636
	$ 159,801	$ 444,621

(Expressed in Canadian dollars, Unless Noted Otherwise)

**These trade payables bear an interest rate of 12% per annum, compounded quarterly, and payable quarterly.

During the year ended December 31, 2016, Graeme subscribed for 28 units of US$5,000 convertible debenture with total proceeds of US$140,000 (Note 7). Graeme received 560,000 warrants that are exercisable 3 years from the date of issuance at exercise price of $0.25.

During the year ended December 31, 2016, the former CFO of the Company subscribed for 3 units of US$5,000 convertible debenture with total proceeds of US$15,000 (Note 7) and received 60,000 warrants that are exercisable 3 years from the date of issuance at an exercise price of $0.25.

The plan of arrangement that was approved by the Company's shareholders at the annual and special meeting held on December 13, 2013, pursuant to which the Company's shareholders receive one share in a subsidiary company, Silcom Systems Inc., ("Silcom") for every 4 common shares of the Company held, was approved by the court on January 24, 2014. Accordingly, on February 13, 2014, the Company completed the plan of arrangement at a $100,000 adjusted cost base for Silcom as follows:

$100,000	4,797,128 shares	for $0.02 cents

As at December 31, 2016, the Company had $12,487 (2015: $2,732) in advance receivable from Silcom. The loan is unsecured, non-interest bearing with no set terms of repayment.

During the year ended December 31, 2016, the Company completed shares for debt settlements with related parties whereby the Company issued 2,232,143 shares at a fair value of $312,500 to settle outstanding debts of $250,000. As a result, the Company recognized a loss on settlement of $62,500.

12. MINERAL PROPERTY AND EXPLORATION EXPENSES

	Year ended December 31, 2016	Year ended December 31, 2015
Acquisition and holding costs	$ 452,801	$ 35,657
Assays and analysis	19,090	3,411
Depreciation (Note 6)	2,590	-
Drilling	125,772	-
Equipment rental	95,061	66,977
Field costs	147,738	464,640
Geological (Note 11 (c))	100,548	6,888
Project preparation	410,283	20,000
Insurance	-	-
Travel and accommodation	78,717	10,271
Miscellaneous	1,968	-
	1,434,568	607,844
Mineral property expenditures from discontinued operations	-	26,616
	$ 1,434,568	$ 634,460

a) <u>Bayhorse Silver Mine Property, Oregon State</u>

The Company entered into an Option and Joint Venture Agreement dated December 4, 2013 with American Cordillera Mining Corporation and its wholly-owned subsidiary Amcor Exploration Inc. (collectively, "AMCOR") of Spokane Washington, whereby the Company was granted an option (the "Option") to acquire an 80% interest in AMCOR's 100% leasehold interest in certain mineral claims commonly referred to as the Bayhorse Silver Mine located in Baker County, Oregon.

In order to earn its 80% interest in the Bayhorse Silver Mine the Company is required to make a cash payment of $25,000 (paid), and the following additional payments:

Share issuances

- On or before December 17, 2014, issue 500,000 common shares (issued);
- On or before December 17, 2016, issue 500,000 common shares (issued - cumulative 1,000,000); and
- On or before December 17, 2018, issue 500,000 common shares (cumulative 1,500,000 shares).

Property expenditures

- On or before the first anniversary of the Option Date (December 17, 2014), incur a minimum of US$100,000 of Expenditures (completed);
- On or before the second anniversary of the Option Date (December 17, 2015), incur a further US$100,000 of Expenditures (cumulative US$200,000) (completed);
- On or before the third anniversary of the Option Date (December 17, 2016), incur a further US$300,000 of Expenditures; of which the aggregate total of US$500,000 for the first three anniversaries is a firm commitment (cumulative US$500,000) (completed);
- On or before the fourth anniversary of the Option date (December 17, 2017), incur a further US$500,000 of Expenditures (cumulative US$1,000,000) (completed); and
- On or before the fifth anniversary of the Option date (December 17, 2018), incur a further US$500,000 of Expenditures (cumulative US$1,500,000).

Advance royalty payments

- Minimum advance royalty payment of US$20,000 on June 26, 2014 *(complete);*
- Minimum advance royalty payment of US$30,000 on June 26, 2015 *($25,000 paid; not complete)*;
- Minimum advance royalty payment of US$40,000 on June 26, 2016 *(not completed)*; and
- Minimum advance royalty payment of US$60,000 on June 26, 2017 and annually thereafter *(not completed).*

b) <u>Bridging the Gap (Government Gulch) Property, Idaho</u>

On November 20, 2015, the Company entered in an Option Agreement with Blackhawk Mining L.L.C. ("Blackhawk") to acquire a 75% undivided right, title and interest in the Government Gulch Property in the Coeur d Alene Mining District in Idaho.

In order to earn its 75% interest in the Government Gulch Property, the Company is required to make an aggregate payment of US$25,000 to Blackhawk, and incur not less than an aggregate of US$3,000,000 of expenditures on the Property as follows (the Company is in negotiations to defer these expenditures):

- A non-refundable deposit to Blackhawk of US$5,000 on signing the agreement (paid);
- A cash payment of US$20,000 to Blackhawk on the option date (November 20, 2015) (paid);
- On or before the first anniversary of the option date (November 20, 2016), incur a minimum of US$600,000 (completed US$260,000) of Expenditures, of which US$250,000 (outstanding) shall be a property payment to Blackhawk;
- On or before the second anniversary of the Option Date (November 20, 2017), incur a further US$600,000 of Expenditures; which is a firm commitment of which US$250,000 shall be a property payment to Blackhawk (cumulative US$1,200,000);
- On or before the third anniversary of the Option Date (November 20, 2018), incur a further US$600,000 of Expenditures (cumulative US$1,800,000);
- On or before the fourth anniversary of the Option date (November 20, 2019), incur a further US$600,000 of Expenditures (cumulative US$2,400,000); and
- On or before the fifth anniversary of the Option date (November 20, 2020), incur a further US$600,000 of Expenditures (cumulative US$3,000,000).

c) <u>Alexander River Gold Mine, New Zealand</u>

In 2009, the Company applied for and received a Prospecting permit from New Zealand Petroleum and Minerals. Subsequent to exploration programs during 2010, in January of 2011, the Company applied for and received an Exploration Permit over a portion of the Alexander River tenement, including the historic gold mine. At this time the property and permits have been relinquished and the Company no longer holds any permits.

d) <u>Paparoa Gold District, New Zealand</u>

A prospecting permit was granted to the Company on September 1, 2009. Subsequent to exploration programs carried out during 2009 through 2012, in 2013, the Company relinquished approximately 50% of the Paparoa area. As of December 31, 2014, explorations activities continued under a new permit. For strategic reasons the Company relinquished the property in 2015 and the Company no longer holds any permits.

e) <u>Lyell – Red Queen Gold District, New Zealand</u>

In 2009, the Company applied for and received a Prospecting permit from New Zealand Petroleum and Minerals. Subsequent to exploration programs carried out during 2010 through 2012, in January of 2013, the Company applied for and was granted an Exploration Permit for the Lyell gold district encompassing the historic Red Queen mine. For strategic reasons the Company relinquished the property in 2015 and the Company no longer holds any permits.

f) <u>Williston Basin Saskatchewan Oil Property, Saskatchewan</u>

On November 5, 2014, the Company entered into a Farm In Agreement (the “Agreement”) with Saturn Minerals Inc (“Saturn”) whereby it can earn 50% of Saturn’s interest in the 230,000 acre Little Swan (“LS”) oil and gas prospect in Saskatchewan’s “Northern Williston Basin”.

The terms for the Farm In Agreement to acquire 50% of Saturn’s oil and gas rights on the LS property is based on the following terms:

(Expressed in Canadian dollars, Unless Noted Otherwise)

- A $50,000 (paid) non-refundable deposit towards an equalization payment of $600,000, payable as to $150,000 on approval of the TSX Venture Exchange (TSX-V), $200,000 on or before 90 days after Exchange approval and $200,000 on or before 180 days after Exchange approval.
- Assume $230,000 (paid) of Saturn's cost of the planned 2014-2015 seismic program, payable on or before January 30, 2015 and issue 500,000 of the Company's shares to Saturn.
- Other than lands converted by drilling into an oil lease, the Company must participate as to 25% of all ongoing geological or geophysical expenditures on the Farm-in Lands or forfeit its interest.

On February 20, 2015, the Company and Saturn Minerals have, subject to TSX-V approval, amended the Farm-In Agreement dated November 3, 2014. The terms for the Farm-In Agreement to acquire 50% of Saturn's oil and gas rights on the Little Swan property with respect to the Equalization Payment to Saturn is amended as follows:

a. On or before 45 days after Exchange approval, pay to Saturn $200,000, or, at the sole discretion of the Company, 2,000,000 common shares of the Company,
b. On or before 90 days after Exchange approval, pay to Saturn $200,000, or, at the sole discretion of the Company, 2,000,000 common shares of the Company.

The execution timeline of the agreement is fully dependent on the date of Exchange approval. In 2014, the Company paid a $50,000 non-refundable deposit to Saturn.

As at December 31, 2016, the Company paid $230,000 to Saturn under the agreement to assume Saturn's cost of the planned 2014-2015 seismic program under the Farm-In Agreement dated November 3, 2014. All funds were raised through the Company's flow-through private placements. As the permits of the LS claim has expired and not renewed, the Company has not made any further payments or issued any shares and does not intend to pursue this acquisition.

13. SUPPLEMENTAL DISCLOSURE FOR SIGNIFICANT NON-CASH TRANSACTIONS

During the year ended December 31, 2016, the Company had the following non-cash transactions:

	Year Ended December 31 2016	Year Ended December 31 2015
Financing Activities		
Fair value of options transferred to share capital from contributed surplus on exercise of options	$ 89,332	$ 12,353
Fair value of warrants transferred to share capital from contributed surplus on exercise of warrants	302,783	-
Shares issued to settle accounts payable and accrued liabilities	250,000	-
Warrants exercised and offset against related party accounts payable	168,810	-
Shares issued on conversion of Debentures	37,737	-
	$ 848,662	$ 12,353

(Expressed in Canadian dollars, Unless Noted Otherwise)

14. FINANCIAL INSTRUMENTS, MANAGEMENT OF CAPITAL AND FINANCIAL RISK

Capital Requirements

The Company is not subject to externally imposed capital requirements but must maintain the minimum listing requirements in order to maintain its TSX-V listing. The Company manages its capital structure based on the funds available to the Company, in order to fund its general and administration expenses, support acquisition, maintenance, exploration, and development of mineral properties.

The Board of Directors has not established any quantitative return on capital criteria for management, instead relying on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration stage so the Company is dependent on external financing to fund its activities. In order to carry out activities and administration, the Company will spend its existing working capital and raise additional amounts as needed.

Financial Instruments

Fair Value of financial instrument

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value, by reference to the reliability of the inputs used to estimate the fair values.

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

	Level 1	Level 2	Level 3	Total
December 31, 2016				
Cash	**$ 9,699**	**$ -**	**$ -**	**$ 9,699**
Convertible debenture	**-**	**-**	**(1,511,540)**	**(1,511,540)**
	$ 9,699	**$ -**	**$ (1,511,540)**	**$ (1,501,841)**
December 31, 2015				
Cash	$ 922	$ -	$ -	$ 922
Convertible debenture	-	-	(440,674)	(440,674)
	$ 922	$ -	$ (440,674)	$ (439,752)

As at December 31, 2016 and 2015, the Company believes that the carrying value of cash, receivables, loan payable, promissory note payable, account payables, and accrued liabilities approximate their fair value because of their nature and relatively short maturity dates or duration.

As at December 31, 2016, the carrying value of convertible debenture (Note 6) has been assessed based on the fair value hierarchy described above and are classified as Level 3.

There were no transfers between Level 1, 2 and 3 for the year ended December 31, 2016 and 2015.

The fair values of the Company's financial instruments classified as FVTPL are determined as follows:

- The fair value of the loan component of the Debenture is based on the present value of expected future cash flows at the discount rate that would have applied to the financial instrument without conversion or other embedded derivative features. None of the fair value change in the Debenture for the year ended December 30, 2016 and 2015 is related to a change in the credit risk of the Debenture. All of the change in fair value is associated with changes in market condition.

Financial Risk

A discussion of the Company's use of financial instruments and their associated risk is provided below:

Industry Risk

The Company is engaged primarily in the mineral exploration field and manages related industry risk issues directly. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements.

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash accounts and its receivables. This risk is managed through the use of a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's receivables relate to GST recoverable from the Government of Canada and its related party "Silcom". The risk associated with its receivables is minimal.

Currency Risk

The Company's functional currency is the Canadian dollar. There is moderate foreign exchange risk to the Company as it incurs significant mineral property-related expenditures in the USA and its Debentures are denominated in US dollars. The Company is also exposed to foreign exchange risk arising from:

- Cash balances held in US dollars,
- Accounts payable denominated in US dollars, and
- Debentures and interest payments denominated in US dollars.

These are all shown on the statement of loss and comprehensive loss. The Company does not engage in any hedging activities to reduce its foreign currency risk. A 10% variance in the foreign exchange rates would expose the Company to a positive or negative impact on its comprehensive loss of approximately $218,000 per year.

(Expressed in Canadian dollars, Unless Noted Otherwise)

Interest Rate Risk

The Company has interest rate risk with respect to interest that can be charged on the balances in accounts payable and accrued liabilities, and advances from related parties (Note 10). Related party payables bear interest at 12% per annum in 2016 and 2015.

The Company's promissory notes payable (Note 8) and convertible debentures (Note 6) accrue interest at fixed rate; therefore, the Company is not exposed to interest rate risk on these instruments.

Liquidity and Funding Risk

Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as high.

The Company is not subject to externally imposed capital requirements but must maintain the minimum listing requirements in order to maintain its TSX-V listing. The Company manages its capital structure based on the funds available to the Company, in order to fund its general and administration expenses, support acquisition, maintenance, exploration and development of mineral properties.

The board of directors has not established any quantitative return on capital criteria for management, instead relying on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration stage so the Company is dependent on external financing to fund its activities. In order to carry out activities and administration, the Company will spend its existing working capital and raise additional amounts as needed.

15. COMMITMENTS

The following table summarizes the contractual maturities of the Company's significant financial liabilities and capital commitments, including contractual obligations for the years indicated:

	2017	2018	2019	2020	2021	Total
Accounts payable and accrued liabilities	$ 965,511	$ -	$ -	$ -	$ -	$ 965,511
Agreement obligations [1]	926,463	1,476,970	805,620	805,620	-	4,014,673
Advance royalty payment obligations	105,000	60,000	60,000	60,000	60,000	345,000
Loan Payable	8,450	-	-	-	-	8,450
Promissory Notes	50,000	-	-	-	-	50,000
Convertible Debentures [2]	335,819	469,945	1,174,863	-	-	1,980,627
	$ 2,391,243	$ 2,006,915	$ 2,040,483	$ 865,620	$ 60,000	$ 7,364,261

[1] Agreement obligations include all option payments and expenditure obligations for the Company's mineral properties.
[2] The convertible debentures may be converted to common shares and may not result in a cash outflow. The amount represents the actual debt obligation and not its fair value at the December 31, 2016.

(Expressed in Canadian dollars, Unless Noted Otherwise)

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial condition or future results of operations of the Company.

16. INCOME TAXES

	2016	2015
	$	$
Net income (loss)	(2,339,255)	(1,462,550)
Expected income tax recovery at 25.37% (2015 – 26.0%)	(593,000)	(372,000)
Non-deductible items	(83,000)	34,000
Change in unrecognized deferred income tax assets	510,000	338,000
Deferred income tax recovery	-	-

The significant components of the Company's unrecognized net deferred income tax assets and liabilities are as follows:

	2016	2015
	$	$
Mineral property resource tax pools	1,418,000	992,000
Equipment	1,000	-
Non-capital losses	1,587,000	1,419,000
Debt and share issuance costs	121,000	5,000
Total unrecognized deferred income tax assets	3,127,000	2,416,000

The Company has non-capital losses of approximately $6,105,207 (2015: $5,237,532) available to offset future income for income tax purposes which commence expiring in 2036. Due to the uncertainty of realization of these loss carry-forwards, the benefit is not reflected in the financial statements.

Years	$
2026	524,674
2027	412,464
2028	426,503
2029	587,274
2030	561,069
2031	529,588
2032	414,390
2033	668,487
2034	629,343
2035	555,260
2036	796,155
Total	6,105,207

17. SUBSEQUENT EVENTS

The following are transactions that occurred subsequent to December 31, 2016:

(a) The Company received proceeds of $230,350 from the exercise of 1,653,300 warrants and issued 1,653,300 common shares. There were 230,000 warrants that expired and were not exercised.

(b) The Company received proceeds of $31,000 from the exercise of 273,380 options and issued 273,380 common shares.

(c) There were 76 units of Debentures plus accrued interest that were converted into shares of the Company and the Company issued 4,293,552 common shares with a value of $536,694.

(d) On April 25, 2017, the Company approved the extension of 5,500,000 share purchase warrants expiring on July 31, 2017 for an additional 12 month period to July 31, 2018. The exercise price of these warrants ranges from $0.15 to $0.20. The extension is subject to TSX-V approval.

(e) On April 25, 2017, the Company closed the first tranche of a private placement of 2,166,667 units at $0.15 per unit for gross proceeds of $325,000. Each unit consists of one common share and one transferable common share purchase warrant, with each warrant exercisable into one common share of the Company at an exercise price of $0.25 per share, exercisable for a period of 24 months from the date of issuance.

(f) On April 28, 2017, the Company entered into an Interim Financing Loan agreement for US$803,988 with NFS Leasing, Inc. to acquire ore sorting equipment for its Bayhorse mine. In accordance with the terms of payment to the manufacturer of the equipment, the loan funds will be advanced as follows: (a) US$241,196 as non-refundable deposit within 30 days of April 28, 2017; (b) US$401,994 as non-refundable deposit within 10 days of written notice from the equipment manufacturer that the equipment is ready for shipment; and (c) US$160,798 within 30 days of delivery of the equipment to the Bayhorse mine site. The loan carries an interest rate of 14.98% per annum and is intended to be converted into a 48 month lease with NFS Leasing, Inc. at the time when the equipment is delivered, but no later than September 1, 2017. Interest accrued on the loan is due and payable upon commencement of the lease. The lease payments will be US$6,750, US$13,500 and US$26,713.71 for months one to three, months four to twelve and months thirteen to forty-eight, respectively, from the commencement date of the lease.