Castle Resources

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED MARCH 31, 2016 AND 2015

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the Company's auditor.

Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

As at

	March 31, 2016 $	September 30, 2015 $
ASSETS		
Current		
Cash	14,980	7,214
Amounts receivable	8,601	18,938
Prepaid expenses	1,311	22,575
Investments (Note 6)	9,883	89,613
Total current assets	34,775	138,340
Long-term		
Prepaid expenses	46,000	46,000
Equipment	5,411	6,254
Exploration and evaluation assets (Note 5)	43,922,867	43,820,703
Total assets	44,009,053	44,011,297
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Notes 12 and 15)	831,978	619,278
Long-term		
Convertible debentures (Note 8)	68,409	-
Loans payable (Note 7, 16)	3,321,201	3,188,842
Deferred tax liability	772,700	767,000
Total liabilities	4,994,288	4,575,120
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	52,375,554	52,375,554
Convertible debentures (Note 8)	14,351	-
Share-based payments reserve (Note 10)	24,723	39,860
Warrants reserve (Note 11, 16)	200,882	194,144
Deficit	(13,600,745)	(13,173,381)
Total shareholders' equity	39,014,765	39,436,177
Total liabilities and shareholders' equity	44,009,053	44,011,297

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS AND CONTINGENCIES (Notes 1, 5, and 15)
SUBSEQUENT EVENTS (Note 16)

APPROVED ON BEHALF OF THE BOARD:

Signed "SCOTT RILEY", Director
Signed "ROBERT BRUGGEMAN", Director

See accompanying notes to the condensed interim consolidated financial statements

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Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Expressed in Canadian dollars

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	$	$	$	$
Expenses				
Consulting and management fees (Note 12)	34,149	67,977	102,468	179,986
Professional fees	26,399	22,580	48,336	34,520
Office and general	15,605	87,793	39,227	173,496
Transfer agent and listing fees	9,352	15,885	14,874	29,346
Interest and financing fees (Notes 7 and 8)	120,903	64,405	170,655	131,501
Depreciation	422	691	843	1,382
Total expenses	206,830	259,331	376,403	550,231
Loss before the undernoted	(206,830)	(259,331)	(376,403)	(550,231)
Interest income	-	-	-	3,076
Loss on sale of investments (Note 6)	(4,281,883)	-	(4,294,133)	(45,425)
Unrealized gain on investments (Note 6)	4,285,665	-	4,228,035	32,580
Net loss before income taxes	(203,048)	(259,331)	(442,501)	(560,000)
Provision for income taxes				
Flow-through share premium	-	-	-	28,200
Net loss and comprehensive loss for the period	(203,048)	(259,331)	(442,501)	(531,800)
Loss per share				
Basic and diluted	(0.02)	(0.03)	(0.05)	(0.07)
Weighted average common shares outstanding				
Basic and diluted	8,387,758	8,387,758	8,387,758	7,865,780

See accompanying notes to the condensed interim consolidated financial statements

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Condensed Interim Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	Six months ended March 31, 2016 $	2015 $
CASH (USED IN) PROVIDED BY:		
OPERATING ACTIVITIES		
Net loss for the period	(442,501)	(531,800)
Charges not affecting cash:		
Depreciation	843	1,382
Unrealized gain on investments (Note 6)	(4,228,035)	(32,580)
Loss on sale of investments (Note 6)	4,294,133	45,425
Flow-through share premium	-	(28,200)
Interest and financing fees	137,777	131,501
Net change in non-cash working capital	148,776	70,781
Cash flows used in operating activities	(89,007)	(343,491)
INVESTING ACTIVITIES		
Proceeds on sale of investments	8,261	12,825
Exploration and evaluation assets	(4,968)	(97,800)
Cash flows used in investing activities	3,293	(84,975)
FINANCING ACTIVITIES		
Proceeds from convertible debentures	100,000	-
Debt issue cost	(6,520)	-
Proceeds from private placements	-	500,000
Share issue costs	-	(8,140)
Cash flows from financing activities	93,480	491,860
CHANGE IN CASH:	7,766	63,394
Cash, beginning of period	7,214	48,318
Cash, end of period	14,980	111,712

See accompanying notes to the condensed interim consolidated financial statements

Castle Resources

Condensed Interim Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Capital Stock $	Convertible debentures $	Share-based payments reserve $	Warrants reserve $	Deficit $	Total shareholders' equity $
Balance, October 1, 2015	52,375,554	-	39,860	194,144	(13,173,381)	39,436,177
Convertible debentures (Note 8)	-	14,351	-	6,738	-	21,089
Stock options expired	-	-	(15,137)	-	15,137	-
Loss for the period	-	-	-	-	(442,501)	(442,501)
Balance, March 31, 2016	52,375,554	14,351	24,723	200,882	(13,600,745)	39,014,765

	Capital Stock $	Shares to be issued $	Share-based payments reserve $	Warrants reserve $	Deficit $	Total shareholders' equity $
Balance, October 1, 2014	52,045,218	-	3,672,946	341,900	(17,313,852)	38,746,212
Private placements, net of shares issue costs	494,533	-	-	-	-	494,533
Shares to be issued as advance royalty	-	25,000	-	-	-	25,000
Stock options expired	-	-	(9,242)	-	9,242	-
Stock options cancelled	-	-	(3,603,158)	-	3,603,158	-
Warrants issued in connection with loan facility's term extension	-	-	-	32,050	-	32,050
Warrants issued as part of private placement	(164,197)		-	161,524	-	(2,673)
Warrants expired	-	-	-	(125,900)	125,900	-
Loss for the period	-	-	-	-	(531,800)	(531,800)
Balance, March 31, 2015	52,375,554	25,000	60,546	409,574	(14,107,352)	38,763,322

See accompanying notes to the condensed interim consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Castle Resources Inc. (the "Company") was incorporated in Ontario, Canada on May 1, 2006. The Company's principal assets are exploration and evaluation assets ("E&E"), made up of acquisition costs and deferred exploration expenditures for mining properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties contain economically recoverable reserves.

The Company's shares are listed on the Canadian Securities Exchange ("CSE"). The head office, principal address and records office of the Company are located at 79 Wellington Street, TD Tower South, Suite 2100, Toronto, Ontario, M5K 1H1.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to complete additional financings, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require a material write-down of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, and political uncertainty.

The Company needs equity capital and financing for its working capital and for the costs of exploration and development of its properties. Because of continuing operating losses and working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. Management feels that there is a material uncertainty, which causes significant doubt about the Company's ability to continue as a going concern.

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying condensed interim consolidated financial statements. Such adjustments could be material.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 24, 2016.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements of the Company and its subsidiary were prepared in accordance with IFRS as issued by the International Accounting Standard Board ("IASB") and in accordance with International Accounting Standards ("IAS") 34, Interim financial reporting. These condensed consolidated interim financial statements do not include all of the information required for the full annual consolidated financial statements and should be read in conjunction with the most recent audited annual consolidated financial statements of the Company as at and for the year ended September 30, 2015. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting except for cash flow information. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

2. BASIS OF PREPARATION (continued)

The condensed interim consolidated financial statements comprise of the financial statements of the Company and its wholly owned subsidiary, Castle Resources Mexico, SA de C.V.

3. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after October 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted though management does not anticipate early adoption of the standard.

IFRS 11 – Joint Arrangements ("IFRS 11") was amended in May 2014 adding new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment becomes effective for annual periods beginning on or after January 1, 2016.

IFRS 16 – Leases ("IFRS 16") was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the condensed interim consolidated financial statements and related notes to the condensed interim condensed interim consolidated financial statements. These condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

- Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of the recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred and capitalized during the period have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, operating management expertise and existing permits. See Note 5 for details of capitalized exploration and evaluation costs.

- Mineral reserve estimates

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

- Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environments in which the Company operates. Such changes are not within the Company's control and could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include, but are not limited to, estimates of the discounted future cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Expressed in Canadian dollars

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

- Estimation of decommissioning and restoration costs and timing of expenditure

The decommissioning and restoration cost estimates are updated annually during the life of a project to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

- Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

- Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are generally determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, forfeiture rate, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Warrants are valued in a similar way. Changes in these assumptions affect the fair value estimates.

- Contingencies

Refer to Notes 1 and 15.

5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation assets consisted of the following:

Granduc Claims, British Columbia, Canada	
Balance at September 30, 2014	$ 43,948,849
Write-down of Silver Leduc claim blocks	(197,500)
Capitalized costs	69,354
Balance at September 30, 2015	$ 43,820,703
Capitalized costs	102,164
Balance at March 31, 2016	$ 43,922,867

Expressed in Canadian dollars

5. EXPLORATION AND EVALUATION ASSETS (continued)

The Granduc Project, British Columbia, Canada

On October 15, 2010, the Company acquired a 100% interest in the Granduc Claims ("the Granduc Project"). The acquisition supersedes the option agreement dated July 16, 2010. Pursuant to the agreement, in addition to amounts previously paid in accordance with the superseded option agreement related to the Granduc Project, the Company paid Bell Copper Corporation an additional $2,000,000 and issued an additional 2,750,000 common shares of the Company (issued in October 2010 with a value of $1,375,000 based on the quoted market price of the Company's shares) for an aggregate acquisition price (including amounts paid pursuant to the superseded option agreement) of $4,500,000 and 3,000,000 common shares of the Company.

On August 16, 2011, the Company completed an acquisition of a mining claim located in the Skeena mining division in British Columbia. The claim is related to the Granduc Project. In connection with this acquisition, the Company paid cash consideration in the amount of $20,000, issued an aggregate of 94,118 common shares of the Company (valued at $80,000 based on the quoted market price of the Company's shares), and granted a 2% NSR over the acquired claim.

The Granduc Project is subject to a 2% Net Smelter Royalty ("NSR") in respect of certain mineral claims. The NSR can be purchased for $500,000 for the first one percent (1%) and $1 million for the remaining one percent (1%).

The Granduc Project is also subject to a 1.5% NSR in respect of certain mineral claims (the "Silver Leduc claim block"). The Company is committed to make annual payments of $25,000 and issue $25,000 worth of common shares (based on the average price of the shares over the previous 10 trading days prior to issuance) until the related mineral claims lapse or are put into commercial production. The Company has paid $100,000 cash and issued 24,002 common shares for a total value of $197,500. During the year ended September 30, 2015, the Company terminated the Silver Leduc claim block, deeming them to be not material to the Company's primary focus of redeveloping the past producing Granduc Copper Project.

6. INVESTMENTS

The Company's investments consist of the following:

	March 31, 2016		September 30, 2015	
	Number of Shares	Value of investments $	Number of shares	Value of investments $
Winston Resources Inc. (i)	-	-	860,000	68,800
Zara Resources Inc. (ii)	130,294	651	720,000	3,600
Hadley Mining Inc. (iii)	971,966	4,860	720,000	14,400
CNRP Mining Inc. (iii)	874,384	4,372	562,500	2,813
Total investments		9,883		89,613

(i) In January 2016, Winston Resources Inc. declared and distributed special dividends of all its shareholding in four CSE listed affiliated companies. As a result, the Company received 58,294 shares in Zara Resources Inc., 661,966 shares in Hadley Mining Inc., 57,202 shares in Leo Resources Inc., and 776,884 shares in CNRP Mining Inc.

(ii) Zara Resources Inc. completed a share consolidation of its common shares on the basis of one (1) new common share for ten (10) old common shares effective October 15, 2015.

(iii) Subsequent to period end, the Company disposed of all shareholdings in Hadley Mining Inc. and CNRP Mining Inc.

7. LOANS PAYABLE

On July 14, 2010, the Company entered into a 5-year, non-revolving term loan facility in the principal amount of $2,200,000 with interest payable at the rate of 5% in the first 12 months and 9% in the following 48 months. The facility was repayable on July 14, 2015. The facility is secured against all of the Company's assets. The facility was subject to a 10% discount amounting to $220,000. As a result, total proceeds to the Company amounted to $1,980,000.

In connection with the financing, the Company issued 120,000 drawdown warrants and 10,000 standby warrants. The estimated fair value of the drawdown warrants of $216,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 168%, a risk-free interest rate of 2.56% and an expected life of 5 years. Each drawdown warrant is exercisable into one common share and one-half warrant at a price of $7.50 for a period of 5 years. The estimated fair value of the standby warrants of $15,000 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 185%, a risk-free interest rate of 1.56% and an expected life of 2 years. Each standby warrant was exercisable into one common share at a price of $6.00 for a period of 2 years. The 10,000 standby warrants were exercised during the year ended September 30, 2011.

On November 7, 2014, the Company and the creditor agreed to the extension of the term of the loan facility for an additional two years, from its original 5year term. As consideration of extending the term of the loan, the Company issued to the creditor an aggregate of 383,333 common share purchase warrants. Each warrant is exercisable into one common share at a price of $0.60 for a period of five years. In addition, the Company has agreed to an increase in the interest rate from 9% to 12% per annum for the two-year period between the original maturity date of July 14, 2015 and the new maturity date of July 14, 2017.

The estimated fair value of the 383,333 warrants of $32,050 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 102%, a risk-free interest rate of 1.52% and an expected life of 5 years. The value of the 383,333 warrants was recorded against the carrying value of the loan to be accreted over the remaining term of the loan.

On July 24, 2015, the Company entered into a non-revolving term loan facility in the principal amount of $75,000 with interest payable at 9%. The facility is repayable on July 14, 2017. In connection with this facility, the Company is required to issue to the creditor an aggregate amount of 132,954 common share purchase warrants. Each warrant is exercisable into one common share at a price of $0.60 for a period of two years. The estimated fair value of the 132,954 warrants of $570 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 268%, a risk-free interest rate of 0.43% and an expected life of 2 years.

During the six months ended March 31, 2016, the Company recorded $132,359 (March 31, 2015 - $131,501) interest and financing fees related to these loans in the condensed interim consolidated financial statements of loss and comprehensive loss.

On April 29, 2016, the loan facilities were assigned from existing lender to Drake Private Investments, LLC ("Drake"). Drake agreed to extend the term of the loan facilities from July 14, 2017 to July 14, 2018. In addition, on May 2, 2016, Drake agreed to settle the outstanding interest balance as at March 15, 2016 of $1,333,836 in consideration for the issuance of 74,102,000 special warrants. See Note 16 for details.

Expressed in Canadian dollars

8. CONVERTIBLE DEBENTURES

On November 20, 2015, the Company completed a non-brokered private financing for total gross proceeds of $100,000. The financing consisted of the issuance of 100 units with each unit consisting of (i) one $1,000 unsecured convertible debentures bearing interest at a rate of 10% per annum and (ii) 20,000 detachable common share purchase warrants. Drake acquired ownership of all of the 100 units.

The convertible debentures become due and payable on October 31, 2020. All or any portion of the outstanding principal amount of the convertible debentures will be convertible into common shares of the Company at the option of the holder at a conversion price of $0.025 per common share at any time prior to October 31, 2020 (the "Principal Conversion"), provided that no Principal Conversion may occur prior to the consolidation of the common shares on the basis of at least 2.5 existing common shares for 1 new common share (the "Future Share Consolidation") (or unless otherwise permitted under applicable stock exchange policies). Interest on the principal amount of the convertible debentures shall be due in quarterly instalments on March 31, June 30, September 30 and December 31. All or any portion of the outstanding interest payments will be convertible into common shares at the option of the holder on any interest payment date, and at the option of the Company upon any Principal Conversion, at a conversion price equal to the greater of the closing price of the common shares on the CSE on the last trading day of the applicable interest period or $0.025 (the "Interest Conversion"). No Interest Conversion may occur prior to the Future Share Consolidation.

Each of the detachable common share purchase warrant shall entitle the holder to acquire one common share at a price of $0.025 per common share until October 31, 2020, provided that no warrants may be exercised prior to the Future Share Consolidation. Accordingly, the Company issued an aggregate amount of 2,000,000 common share purchase warrants. The estimated fair value of the 2,000,000 warrants of $7,207 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 132%, a risk-free interest rate of 0.094% and an expected life of 5 years.

In accordance with IFRS, the Company has separated the convertible debentures into debt and equity components on the condensed interim consolidated statements of financial position using the residual method. The equity component represents the value of the conversion feature and is the difference between the estimated fair value of the liability component plus fair value of the 2,000,000 warrants and the proceeds received of $100,000. The net present value of the liability component of the convertible debentures has been estimated using an effective interest rate of 20%. The directly attributable transaction costs were allocated to the liability and equity components proportionately. The convertible debentures, net of the equity component and transaction costs, are accreted such that carrying amount of the convertible debentures will equal the face value of the convertible debentures at maturity. The accretion on the convertible debentures is included in interest and financing fees in the condensed interim consolidated statements of loss and comprehensive loss.

The rate of 20% used in estimating the value of the liability component of the convertible debentures and used to apply the effective interest rate method to the convertible debentures is based on significant management estimation.

	Proceeds $	Liability component $	Equity component $
Convertible debentures upon issuance	100,000	71,343	28,657
Transaction costs	(6,520)	(4,652)	(1,868)
Deferred tax	-	-	(5,700)
Balance as at March 31, 2016	93,480	66,691	21,089[(i)]

[(i)] The balance includes 2,000,000 detachable common share purchase warrants with a net total value of $6,738 (Note 11)

Expressed in Canadian dollars

8. CONVERTIBLE DEBENTURES (continued)

Balance of liability component of the convertible debentures as at March 31, 2016:

	$
Balance, beginning of period	-
Issuance of convertible debentures	66,691
Accretion on convertible debentures	5,418
Cash interest	(3,700)
Balance, end of period	68,409

9. CAPITAL STOCK

Authorized
Unlimited number of common shares, without par value
Unlimited number of preferred shares

Share consolidation
On October 20, 2015, the Company completed a share consolidation on the basis of one (1) post-consolidation common share for every thirty (30) pre-consolidation common shares. All common shares, options, warrant and basic and diluted loss per share amounts have been restated in these condensed interim consolidated financial statements to give retrospective effect to the share consolidation.

Issued Common shares	Number #	Amount $
Balance at September 30, 2014	6,721,091	52,045,218
Private placement (i)	1,666,667	500,000
Warrant valuation	-	(164,197)
Share issue costs	-	(5,467)
Balance at September 30, 2015 and March 31, 2016	8,387,758	52,375,554

(i) On November 26, 2014, the Company raised proceeds of $500,000 by way of a non-brokered private placement of 1,666,667 units with a corporation which owns greater than 35% of the outstanding common shares of the Company, at a price of $0.30 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional common share until November 26, 2019 at an exercise price of $1.50 per common share (Note 11). The Company paid a total amount of $8,140 for legal and filing fees and other cash-related share issue costs.

10. SHARE-BASED PAYMENTS RESERVE

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding capital stock increases. Options granted under the Plan vest immediately pending any regulatory hold period.

Expressed in Canadian dollars

10. SHARE-BASED PAYMENTS RESERVE (continued)

The Plan provides that it is solely within the discretion of the Board to determine who receives stock options and in what amounts. In no case (calculated at the time of grant) shall the Plan result in:

- The number of options granted in a 12-month period to any one consultant exceeding 2% of the issued shares of the Company;
- The aggregate number of options granted in a 12-month period to any one individual exceeding 5% of the outstanding shares of the Company;
- The number of options granted in any 12-month period to employees or consultants undertaking investor relations activities exceeding in aggregate 2% of the issued shares of the Company;
- The aggregate number of common shares reserved for issuance to any one individual upon the exercise of options granted under the Plan or any previously established and outstanding stock option plans or grants exceeding 5% of the issued shares of the Company in any 12-month period.

On December 10, 2014, the Company cancelled a total of 469,350 stock options with an aggregate value of $3,603,158. The Company has no plans to replace the cancelled stock options.

The following table reflects the continuity of stock options at March 31, 2016 and September 30, 2015:

	March 31, 2016		September 30, 2015	
	Number of stock options #	Weighted average exercise price $	Number of stock options #	Weighted average exercise price $
Balance, beginning of period/year	65,833	1.50	575,517	7.50
Expired	(25,000)	(1.50)	(40,334)	(1.82)
Cancelled	-	-	(469,350)	(8.86)
Balance, end of period/year	40,833	1.50	65,833	1.50

As of March 31, 2016, the following stock options were outstanding:

Value $	Outstanding Options #	Options Exercisable #	Exercise Price $	Expiry Date
24,723	40,833	40,833	1.50	June 17, 2019

Expressed in Canadian dollars

11. WARRANTS RESERVE

	Number #	Amount $
Balance as at September 30, 2014	166,633	341,900
Warrants and broker warrants expired	(166,633)	(341,900)
Warrants issued (i)	383,333	32,620
Warrants issued, net of share issue costs (ii)	1,666,667	164,197
Warrants issue cost	-	(2,673)
Balance as at September 30, 2015	2,050,000	194,144
Warrants issued (iii)	2,000,000	7,207
Warrants issue cost	-	(469)
Balance as at March 31, 2016	4,050,000	200,882

(i) These warrants were issued in connection with the extension of the loan facility on November 7, 2014 (Note 7). The value of the warrants of $32,620 includes $570 which is the estimated fair value of the 4,432 warrants not yet issued in connection with the non-revolving term loan facility closed on July 24, 2015.

(ii) In connection with November 26, 2014 private placement (Note 9 (i)), the Company issued 1,666,667 warrants which entitle the holder to purchase one common share of the Company at a price of $1.50 expiring November 26, 2019. The estimated fair value of the warrants of $164,197 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 106%, a risk-free interest rate of 1.46% and an expected life of 5 years.

(iii) In connection with November 20, 2015 non-brokered private financing (Note 8), the Company issued 2,000,000 warrants which entitle the holder to purchase one common share of the Company at a price of $0.025 expiring October 31, 2020. The estimated fair value of the warrants of $7,207 was estimated using the Black-Scholes option pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 132%, a risk-free interest rate of 0.94% and an expected life of 5 years.

As of March 31, 2016, the following warrants were outstanding:

Net Value $	Outstanding Warrants #	Warrants Exercisable #	Exercise Price $	Expiry Date
32,050	383,333	383,333	0.60	November 7, 2019
161,524	1,666,667	1,666,667	1.50	November 29, 2019
6,738	2,000,000	2,000,000	0.025	October 31, 2020
200,312	4,050,000	4,050,000	0.69	

Expressed in Canadian dollars

12. RELATED PARTY TRANSACTIONS

These condensed interim consolidated financial statements include balances and transactions with directors and officers of the Company and corporations related to them. The Company paid fees for services to certain officers and directors or companies controlled by certain officers and directors during the period that were recorded in the accounts shown below:

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company:

Key Management Compensation

	March 31, 2016 $	March 31, 2015 $
Exploration and evaluation assets	-	47,250
Consulting and management fees – Salaries, consulting fees and bonus	83,898	127,949
	83,898	195,199

Included in accounts payable and accrued liabilities as at March 31, 2016 is $160,676 (September 30, 2015 - $76,200) payable to current and prior director and officers of the Company. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

See also Notes 7, 8 and 16.

13. CAPITAL MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company includes shareholders' equity, comprised of issued capital stock, convertible debentures, share-based payments reserve, warrants reserve and deficit, in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors do not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest in are in the exploration and evaluation stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

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

There were no changes in the Company's approach to capital management during 2016 and 2015. The Company and its subsidiary are not subject to any externally imposed requirements.

The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

14. FINANCIAL RISK MANAGEMENT

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its risk management objectives. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed to are described below. There have been no significant changes in the risks, objectives, policies and procedures during 2016 and 2015.

Market Risk
Market risk is the risk that the fair value of, or future cash flows from, the Company’s financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. In addition, most of the Company’s investments are in the resource sector.

Liquidity risk
Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company’s loans payable are due on July 14, 2017 (Note 7 and 16) and convertible debentures are due on October 31, 2020.

At March 31, 2016, the Company had cash of $14,980 (September 30, 2015 - $7,214) and current assets of $34,775 (September 30, 2015 - $138,340), to settle current liabilities of $831,978 (September 30, 2015 - $619,278). The Company has a working capital deficiency of $797,203 at March 31, 2016 (September 30, 2015 - $480,938).

Interest Rate Risk
The Company has cash and interest-bearing debts as described in Notes 7 and 8. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Credit Risk
The Company's credit risk is primarily attributable to cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash has been deposited with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable consists of harmonized sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these amounts included in the amounts receivable is remote; however such amounts are subject to government audit.

Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

As at March 31, 2016, a 10% change in the closing prices of its portfolio investments would result in an estimated change in net loss/income of $988 (September 31, 2015 - $8,961) based on the value of the investments at March 31, 2016.

Fair Value
All of the Company’s investments are classified as held-for-trading, which are measured at fair value. Cash and amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, loans payable and convertible debentures are classified as other financial liabilities, which are measured at amortized cost.

14. FINANCIAL RISK MANAGEMENT (continued)

As at March 31, 2016, the carrying values of cash, amounts receivable, accounts payable and accrued liabilities and loans payable approximate their fair values due to the relatively short periods to maturity of the financial instruments. The carrying values of loans payable and convertible debentures approximate fair values as a result of recording the loans payable and convertible debentures at their estimated fair value when the proceeds were received.

Fair Value hierarchy and liquidity risk disclosure
The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at March 31, 2016 and September 30, 2015, the Company's financial instruments that are carried at fair value are investments, which have been classified Level 1, within the fair value hierarchy.

15. COMMITMENTS AND CONTINGENCIES

Management Contracts
The Company is party to certain management and employee contracts. These contracts contain clauses requiring additional payments of up to $342,000 be made upon the occurrence of certain events such as a change of control. As the triggering events have not taken place, the contingent payments have not been reflected in these condensed interim consolidated financial statements. Minimum management contract commitments remaining under these contracts are approximately $180,000, due within one year.

Environmental
The Company's exploration and evaluation activities are subject to laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

Flow-through expenditure commitment
The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder should the Company not meet its expenditure commitments. Include in accounts payable and accrued liabilities as at March 31, 2016 is a provision for $67,000 which is the estimated commitment under the indemnity provided to the flow-through subscribers.

Legal proceeding
The Company is party to legal proceedings in the ordinary course of its operations. The Company believes this claim to be without merit. Management does not expect the outcome of this proceeding to have a materially adverse effect on the results of the Company's financial position or results of operations and therefore this amount has not been reflected in these financial statements. Should any losses result from the resolution of this dispute, that amount will be charged to operations in the year that it is determined.

16. SUBSEQUENT EVENTS

Debt Restructuring

On April 29, 2016, the Company announced that it has closed the comprehensive debt restructuring proposal regarding outstanding indebtedness with Drake. Pursuant to the debt restructuring, the following loan facilities (Note 7) were assigned from the existing lender to Drake:

- Loan agreement between the Company and the lender and promissory note to the lender dated July 14, 2010 in the amount of $2,200,000 (Note 7).
- General security agreement dated July 14, 2010 between the Company and the lender regarding the Loan.
- Loan amending agreement dated November 7, 2014 between the Company and the lender in respect of an extension to the maturity date of the Loan to July 14, 2017.
- Loan amending agreement dated July 24, 2015 between the Company and the lender in respect of an increase of the Loan by $75,000 to an aggregate amount of $2,275,000.

In consideration for the Company's consent of the loan assignment, Drake agreed to the following terms and conditions:

- Extension of the term of the loan facility from July 14, 2017 to July 14, 2018;
- Agreement to provide the necessary funding to the Company to maintain the listing of its shares on the Canadian Securities Exchange until at the least the extended maturity date of the loan facility (unless in the event of a transaction where the Company would cease being a reporting issuer under applicable Canadian securities law, or upon the conclusion of arm's length mergers and financings by which the Company's share ownership is below 25%); and
- Propose a debt settlement to the existing unsecured creditors.

Change in Management

Concurrent with the closing of the debt restructuring agreement, the existing Company's board of directors resigned, comprised of Anthony M. Croll, Lester J. Fernandes, Timothy Mann and Tyler Mitchelson. Mr. Timothy Mann has also resigned as the President and Chief Executive Officer of the Company.

The following three directors have been nominated and appointed as the Company's board of directors: Scott Riley, Robert Bruggeman and Vikram Rao. A replacement for the President and Chief Executive Officer will be recruited.

Debt Conversion

On May 2, 2016, the Company entered into a debt conversion agreement with Drake. Pursuant to the loan facility assigned to Drake on April 29, 2015, the Company owes Drake an aggregate principal amount of $2,275,000. As at March 15, 2016, a total of $1,333,836 in interest was outstanding under the loan facility.

Drake has agreed to settle the outstanding interest balance as at March 15, 2016 in consideration for the issuance of 74,102,000 special warrants at a price of $0.018 per special warrant. The special warrants will be exercised automatically at any time after the Company completes a consolidation of its common shares of least one (1) new common share for every four (4) (maximum) existing common shares.