# KESTREL GOLD INC.
## (An Exploration Stage Company)

## INTERIM FINANCIAL STATEMENTS

## EXPRESSED IN CANADIAN DOLLARS

**MARCH 31, 2016**

**(Unaudited – Internally Prepared)**

NOTICE OF NO AUDITOR REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these interim financial statements for the period ended March 31, 2016.

Calgary, Alberta
November 30, 2016

**KESTREL GOLD INC.**
**(An Exploration Stage Company)**
**Interim Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**(Unaudited – Internally Prepared)**

| | Mar. 31, 2016 $ | Sept.30, 2015 $ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **7** | 2,392 |
| GST receivable (note 10) | **1,132** | 12,071 |
| Accounts receivable | **5** | 5 |
| | **1,144** | 14,468 |
| Restricted cash (note 4) | **2,540** | 2,540 |
| Exploration and evaluation assets (note 5) | **300,000** | 300,000 |
| | **303,684** | 317,008 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (note 9) | **375,529** | 363,885 |
| Convertible debentures (note 6) | **481,101** | 481,101 |
| | **856,630** | 844,986 |
| **Shareholders' Deficiency** | | |
| Share capital (note 8) | **10,664,445** | 10,664,445 |
| Reserves | **1,480,516** | 1,480,516 |
| Equity portion of convertible debentures (note 6) | **67,963** | 67,963 |
| Deficit | **(12,765,870)** | (12,740,902) |
| | **(552,946)** | (527,978) |
| | **303,684** | 317,008 |

Approved on behalf of the Board:

*Signed "Kevin V. Nephin"*
Kevin V. Nephin, Director

*Signed "Stuart W. Peterson"*
Stuart W. Peterson, Director

See notes to interim financial statements.

**KESTREL GOLD INC.**
**(An Exploration Stage Company)**
**Interim Statements of Loss and Comprehensive Loss**
**Expressed in Canadian Dollars**
**(Unaudited – Internally Prepared)**

| | For the three months ended March 31, 2016 | For the three months ended March 31, 2015 | For the six months ended March 31, 2016 | For the six months ended March 31, 2015 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Listing and filing fees | $ **6,400** | $ 10,286 | $ **6,400** | $ 15,156 |
| Consulting fees (note 9) | **6,100** | 36,000 | **8,100** | 102,669 |
| Travel and promotion | **4,188** | 3,436 | **2,538** | 5,822 |
| Investor relations/website | **4,091** | 4,012 | **6,495** | 6,838 |
| Office, rent and administration (note 9) | **2,080** | 3,101 | **3,707** | 10,913 |
| Salaries | **-** | 315 | **-** | 3,944 |
| Professional fees (note 9) | **675** | (4,412) | **675** | 19,005 |
| Interest expense and bank charges | **144** | 146 | **279** | 389 |
| Accretion of convertible debentures and accrued interest | **-** | (69,956) | **-** | (134,281) |
| Insurance | **-** | - | **(226)** | (3,076) |
| | **23,678** | (17,072) | **27,968** | 27,379 |
| **Net (Loss)/Income and Comprehensive Loss before other item** | **(23,678)** | 17,072 | **(27,968)** | (27,379) |
| **Expense recovery** | **3,000** | 27,888 | **3,000** | 27,888 |
| **Net (Loss)/Income and Comprehensive (Loss)/Income for the Period** | $ **(20,678)** | $ 44,960 | $ **(24,968)** | $ 509 |
| **Basic and Diluted (Loss)/Income per Share** | $ **(0.001)** | $ 0.003 | $ **(0.002)** | $ 0.000 |
| **Weighted Average Number of Common Shares Outstanding** | **14,815,842** | 14,720,842 | **14,815,842** | 14,230,732 |

See notes to interim financial statements.

## KESTREL GOLD INC.
**(An Exploration Stage Company)**
**Interim Statements of Cash Flows**
**(Expressed in Canadian Dollars)**
**(Unaudited – Internally Prepared)**

| | **For the six months ended March 31, 2016** | For the six months ended March 31, 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net (loss)/income for the period | $ **(24,968)** | $ 509 |
| Changes in non-cash working capital | | |
| GST receivable | **10,939** | 106,065 |
| Accounts receivable | **-** | 12 |
| Prepaid expenses | **-** | (2,000) |
| Accounts payable and accrued liabilities | **11,644** | (25,670) |
| Accretion of convertible debentures and interest | **-** | (134,281) |
| **Cash Used in Operating Activities** | **(2,385)** | (55,365) |
| **Investing Activities** | | |
| Restricted cash | **-** | (20) |
| **Cash Used for Investing Activities** | **-** | (20) |
| **Financing Activities** | | |
| Proceeds on issuances of common shares | **-** | 28,500 |
| Convertible debentures proceeds | **-** | 55,000 |
| **Cash Provided by Financing Activities** | **-** | 83,500 |
| **Inflow (Outflow) of Cash and Cash Equivalents** | **(2,385)** | 28,115 |
| **Cash and Cash Equivalents, Beginning of Period** | **2,392** | 2,183 |
| **Cash and Cash Equivalents, (Bank overdraft) End of Period** | $ **7** | $ 30,298 |

See notes to interim financial statements.

**KESTREL GOLD INC.**
**(An Exploration Stage Company)**
**Statements of Changes in Shareholders' Equity**
**(Expressed in Canadian Dollars)**
**(Unaudited – Internally Prepared)**

| | Number | Share capital amount | Share subscriptions received | Reserves | Equity portion of convertible debentures | Deficit | Total |
|---|---|---|---|---|---|---|---|
| Balance, September 30, 2014 | 13,595,842 | $10,615,645 | $ 15,000 | $1,471,816 | $65,422 | $(11,617,154) | $550,729 |
| Shares issued for cash | 870,000 | 34,800 | (15,000) | 8,700 | - | - | 28,500 |
| Shares issued for loan conversion | 350,000 | 14,000 | - | - | - | - | 14,000 |
| Equity portion of convertible debentures | - | - | - | - | 2,541 | - | 2,541 |
| Net loss for the year | - | - | - | - | - | (1,123,748) | (1,123,748) |
| Balance, September 30, 2015 | 14,815,842 | 10,664,445 | - | 1,480,516 | 67,963 | (12,740,902) | (527,978) |
| Net loss for the period | - | - | - | - | - | (24,968) | (24,968) |
| **Balance, March 31, 2016** | **14,815,842** | **$10,664,445** | **$ -** | **$1,480,516** | **$67,963** | **$(12,765,870)** | **$(552,946)** |

See notes to interim financial statements.

**(Expressed in Canadian Dollars)**

## 1. Nature of Operations and Going Concern

Kestrel Gold Inc. (the "Company" or "Kestrel") was incorporated under the *Business Corporations Act* (Alberta) on April 12, 2007 under the name of Bling Capital Corp. The Company changed its name to Kestrel Gold Inc. on June 24, 2010 and is trading on the TSX Venture Exchange ("TSX-V") under the symbol "KGC". The Company's head office and records office are located in Calgary, Alberta.

The principal business activities include the acquisition, exploration and evaluation of mineral properties. The Company is exploring and evaluating mineral properties in the Yukon Territory, Canada, with the aim of bringing these properties to production. The ability of the Company to meet its commitments as they become payable, the exploration and evaluation of mineral properties and projects, and the underlying value of the mineral properties are entirely dependent upon, among other things, the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the exploration and development of its properties, the receipt of necessary permits and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable. The Company is considered to be an exploration stage enterprise as it has not yet generated any revenue from operations.

These interim financial statements have been prepared using International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB), applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business for the foreseeable future as they come due. The Company has incurred losses since inception and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There is no assurance at this time that the Company will be able to obtain the necessary financing to continue operations. If the Company is unable to obtain suitable financing in the near future, it will be necessary for the Company to examine other strategic alternatives to continue operations and enhance shareholder value, including, but not limited to, seeking creditor protection, seeking a joint venture partner, relinquishing its rights to properties or projects deemed uneconomical, the possible sale of some or all of the Company's assets or the merger, amalgamation or sale of the Company with or to a larger, better financed entity. These conditions cast significant doubt about the Company's ability to continue as a going concern.

These interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Such adjustments could be material.

The Company's working capital and deficit are as follows:

| | | **March 31, 2016** | September 30, 2015 |
|---|---|---|---|
| **Working capital deficit** | **$** | **(552,946)** | $ (830,518) |
| **Deficit** | **$** | **(12,765,870)** | $ (12,740,902) |

## 2. Basis of Presentation

The interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss ("FVTPL"), which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These interim financial statements have been prepared in accordance with IFRS. Significant accounting policies are described in note 3.

These interim financial statements are presented in Canadian dollars unless otherwise stated, which is the Company's functional and reporting currency.

These interim financial statements were authorized for issue by the Board of Directors on November 30, 2016..

## 3. Significant Accounting Policies

### (a) Critical Accounting Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgments.

*Critical accounting estimates*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Restoration, rehabilitation and environmental provisions (asset retirement obligations ("ARO"))
Decommissioning and restoration obligation provisions represent management's best estimate of the present value of the future costs. Significant estimates and assumptions are made in determining the amount of obligation provisions. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible disturbance; and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditures differing from the amounts currently provided.

3. **Significant Accounting Policies** (continued)

(a) **Critical Accounting Estimates and Judgments** (continued)

Accrued liabilities
Management makes estimates of obligations to the Company as a result of past transactions. The estimates are reviewed on an ongoing basis and revisions to the estimate are recognized in the period in which the estimate is revised.

The assumptions used in the calculation of the fair value assigned to share-based payments
The Company uses the Black-Scholes option pricing model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

Convertible instruments
The Company has used estimates in determining the fair value of the convertible debenture. Inputs used require subjective assumptions including the expected price volatility and credit spread of the Company. Changes in these assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the convertible debenture.

*Critical accounting judgments*

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Economic recoverability and profitability of future economic benefits of mineral property interests
Management has determined that exploration, evaluation and related costs incurred, which were capitalized, have future economic benefits and are economically recoverable. Where future economic benefits and economic recovery are determined to be below the carrying value, management have assessed impairment. Management uses several criteria in its assessment including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

(b) **Exploration and Evaluation Assets**

All costs related to the acquisition of, exploration for and development of mineral properties, net of recoveries, are capitalized on a property-by-property basis. If economically recoverable ore reserves are developed, capitalized costs of the related property will be reclassified as mineral assets and will be amortized using the unit-of-production method. When a property is abandoned, all related costs are written off to profit or loss. If, after management review, it is determined that the carrying amount of an exploration and evaluation asset is impaired, that property is written down to its estimated fair value. An exploration and evaluation asset is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

3. **Significant Accounting Policies** (continued)

(b) **Exploration and Evaluation Assets** (continued)

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition thereof.

From time to time, the Company may acquire or dispose of a mineral property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is recorded in profit or loss.

(c) **Asset Retirement Obligations**

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to profit or loss in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. The Company has no material AROs to record in the financial statements.

(d) **Share-Based Payments**

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options granted to employees is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

3. **Significant Accounting Policies** (continued)

(e) **Loss per Share**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Since the Company has losses, the exercise of outstanding options, warrants and convertible debentures have not been included in this calculation as it would be anti-dilutive.

(f) **Valuation of Equity Units Issued in Private Placements and Non-Monetary Considerations**

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement were determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as share-based payments reserve.

Share issue costs are netted against gross proceeds.

Shares issued for non-monetary consideration are recorded at an amount based on the quoted market value of the Company’s shares on the date of share issuance. Shares to be issued, which are contingent upon future events or actions, are recorded by the Company when it is reasonably determinable that the shares will be issued.

(g) **Income Taxes**

Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable with regard to previous periods.

Deferred tax is recognized in respect of temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. **Significant Accounting Policies** (continued)

(g) Income Taxes (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(h) **Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risk and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(i) **Financial Instruments**

<u>Financial assets</u>
The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*FVTPL* – This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

*Loans and receivables* – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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

3. **Significant Accounting Policies** (continued)

(i) **Financial Instruments** (continued)

Financial assets (continued)

*Available-for-sale* – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through net income (loss).

All financial assets, except for those at FVTPL, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities
All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and convertible debenture are classified as other financial liabilities.

(j) **Convertible Debentures**

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished or upon conversion of the instrument. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured.

3. **Significant Accounting Policies** (continued)

(k) **Future Accounting Changes**

The following new standards have been issued by the IASB, but are not yet effective:

(i) *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11)

Amends IFRS 11 *Joint Arrangements* to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 *Business Combinations*) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11
- disclose the information required by IFRS 3 and other IFRS for business combinations.

The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).

The amendments apply prospectively to acquisitions of interests in joint operations in which the activities of the joint operations constitute businesses, as defined in IFRS 3, for those acquisitions occurring from the beginning of the first period in which the amendments apply. Amounts recognized for acquisitions of interests in joint operations occurring in prior periods are not adjusted.

Effective to the Company's annual period beginning October 1, 2016.

(ii) IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*

3. **Significant Accounting Policies** (continued)

**(k) Future Accounting Changes (continued)**

(ii) IFRS 9 *Financial Instruments* (continued)

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at “amortized cost” or “fair value through other comprehensive income”, lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Effective to the Company’s annual period beginning October 1, 2018.

The Company has assessed the impact of adopting the above future accounting standard changes on its financial statements; the impact on the Company is not significant.

4. **Restricted Cash**

As at March 31, 2016, the restricted cash of $2,540 (Sept. 30, 2015 - $2,540) is a term deposit held as collateral for the Company’s credit card limits. The term deposit bears an interest rate of 0.65% per annum and matures on July 7, 2016.

5. **Exploration and Evaluation Assets**

**Title to Exploration and Evaluation Asset Interests**

Title to exploration and evaluation asset interests involve certain inherent risks due to the difficulties of determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

On October 31, 2010, the Company entered into an option agreement pursuant to which it acquired an option to earn a 100% interest in the three individual properties located in the Yukon Territory’s Klondike Goldfields: King Solomon Mine, Gold Run Creek Property and Dominion Mountain Property, collectively known as “King Solomon Dome Project” (“KSD”)”. Each individual property is subject to a 2.5% net smelter return royalty (“NSR”), one-half of which can be purchased by the Company for $1,000,000.

**(Expressed in Canadian Dollars)**

5. **Exploration and Evaluation Assets** (continued)

**King Solomon Dome Project**

The Company issued 25,000 common shares with a fair value of $79,000 and originally agreed to fund exploration expenses of up to $680,000 on execution of the agreement with option payments due as follows:

| | King Solomon Mine | Gold Run Creek | Dominion Mountain | Total |
|---|---|---|---|---|
| On execution (paid) | $ 5,000 | $ 5,000 | $ 5,000 | **$ 15,000** |
| On or before August 20, 2011 (paid) | 20,000 | 20,000 | 10,000 | **50,000** |
| On or before August 20, 2012 (paid) | 55,000 | 55,000 | 35,000 | **145,000** |
| On or before September 20, 2013 (*) | 60,000 | 60,000 | 50,000 | **170,000** |
| On or before August 20, 2014 (*) | 100,000 | 100,000 | 100,000 | **300,000** |
| | $ 240,000 | $ 240,000 | $ 200,000 | **$ 680,000** |

(*) On August 14, 2013, the Company entered into an amending agreement with respect to the King Solomon Mine, Gold Run Creek Property and Dominion Mountain Property, whereby payments aggregating $170,000 originally due on August 20, 2013 were deferred until September 20, 2013. The Company and the optionor agreed to amend certain terms of the Option Agreement related to the consideration payable under the option agreement to acquire the Gold Run Creek and Dominion Mountain properties. Specifically, the optionor had agreed that in lieu of the Company paying the optionor the remaining sum of $110,000 cash on or before September 20, 2013, as a further instalment to acquire the Gold Run Creek and the Dominion Mountain properties, such instalment payment had been restructured to allow for the payment of $27,500 to the optionor on or before September 20, 2013, the issuance of 275,000 common shares of the Company during the year ended September 30, 2014 and a payment of $27,500 on or before October 20, 2013. During the year ended September 30, 2014, the Company issued 275,000 common shares of the Company at a fair value of $55,000 and made payments totalling $100,000 to the optionor.

On November 7, 2014, the Company completed a renegotiation of the option agreement to acquire the KSD property. Specifically, all payments and share issuances to November 7, 2014 were deemed full satisfaction of the acquisition of 100% interest in the King Solomon Mine property, concurrent with the Company surrendering all interest in the Gold Run Creek and Dominion Mountain Properties in exchange for ownership. All future exploration activities will be focused on the King Solomon Mine property. Accordingly, the Company has recognized an impairment of $414,529 related to the Gold Run Creek and Dominion Mountain properties for the fiscal year ended September 30, 2014.

**(Expressed in Canadian Dollars)**

5. **Exploration and Evaluation Assets** (continued)

In early September 2013, a diamond drill program commenced at the KSD property following Kestrel entering into an agreement dated August 30, 2013, to option up to 50% of the Company's interest in the KSD property to Rackla Metals Inc. ("Rackla") (TSX-V: RAK). Rackla incurred exploration expenditures of approximately $300,000, however, on November 28, 2013 terminated the option agreement and relinquished all interest back to the Company in the KSD property.

The investment in and expenditures on the properties are summarized as follows:

| | King Solomon Dome Project, Yukon Territory, Canada |
|---|---|
| Balance, September 30, 2014 | $1,117,738 |
| Impairment during the year | (817,738) |
| **Balance, September 30, 2015 and March 31, 2016** | **$300,000** |

6. **Convertible Debentures**

| | | |
|---|---|---|
| **Balance, September 30, 2014** | **$** | **261,815** |
| Face value of convertible debentures issued | | 155,000 |
| Value assigned to equity | | (2,541) |
| Accretion interest | | 66,827 |
| **Balance, September 30, 2015 and March 31, 2016** | **$** | **481,101** |

On October 22, 2013, the $300,000 loans payable (note 7) was converted into two $150,000 3% convertible secured debentures. The aggregate principal amount of $300,000 bears simple interest at a rate of 3% per annum, mature two years after the date of issue, or October 22, 2015, secured with a floating first charge against all of the assets and undertakings of the Company and is convertible at any time at the option of the holders of the debentures, into units of the Company at a deemed issue price of $0.20 per unit. Each unit shall consist of one common share and one-half of one share purchase warrant. Each full warrant shall entitle the holders thereof to purchase one additional warrant of the Company at an exercise price of $0.40 on or before two years following issuance of the debentures.

6. **Convertible Debentures (continued)**

The debentures were classified into debenture liability and equity components in the Company's financial statements using the fair value method using an effective interest of 16% when valuing the liability first. This resulted in an initial amount of $234,578 being allocated to the liability portion and $65,422 being allocated to the equity portion.

On January 16, 2015, the Company completed a private placement debenture financing for $155,000 of which $100,000 was converted from loan payable (note 7). These unsecured convertible debentures bear simple interest at a rate of 20% per annum, matured January 16, 2016 and are convertible at any time at the option of the holders of the debentures, into units of the Company at a deemed price of $0.05 per common share. The debentures have been classified into debenture liability and equity components in the Company's financial statements using the fair value method using a discount rate of 22% when valuing the liability first. This resulted in an initial amount of $164,952 being allocated to the liability portion and $2,541 being allocated to the equity portion.

For the 6 months ended March 31, 2016, total accretion expense and coupon interest related to the liability component of the debentures was $nil (September 30, 2015 - $66,827). The carrying value of the debentures will be accreted up to its face value over the term to maturity. These debentures were not repaid on their due dates and as of the date of these financial statements, they remain outstanding. The fair value of the convertible debentures approximates to carrying value due to its short-term to maturity.

7. **Loan Payable**

In September 2014, the Company borrowed a sum of $100,000 from an arm's length third party. The loan is non-interest-bearing and had a term of 45 days. The loan was converted into a convertible note in the same amount on January 16, 2015 (note 6). In accordance with the agreement, the Company issued 350,000 common shares of the Company with a fair value of $14,000 as a fee payable to the lender on conversion of the loan.

8. **Share Capital**

(a) **Authorized**

Unlimited common shares without par value
Unlimited preferred shares, issuable in series

8. **Share Capital (continued)**

(b) **Issued**

Private placements

On October 24, 2013, the Company completed a non-brokered private placement of units (the "Unit Private Placement"). The Company issued 500,000 units ("Units") of the Company at a purchase price of $0.20 per Unit for gross proceeds of $100,000. Each Unit consists of one common share and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a purchase price of $0.40 exercisable on or before two years from the date of issue (the "Closing Date"), subject to earlier expiry in certain circumstances.

If at any time prior to the expiry of the warrants the trading price of the Company's common shares on the TSX-V exceeds $0.80 for a period of 30 consecutive trading days, the Company may, in its sole discretion, within five days after such an event, provide notice to the warrant holders of early expiry of the warrants.

The Unit Private Placement was conducted on a non-brokered basis. However, the Company paid $513 cash and issued 5,250 finder's warrants ("Finder's Warrants") at a fair value of $1,050 to certain arm's length finders in connection with the Unit Private Placement. Each Finder's Warrant entitles the holder to purchase one common share at a purchase price of $0.40 and is exercisable on or before one year from the Closing Date. All of the securities issued pursuant to the Unit Private Placement are subject to a four month hold period from the Closing Date.

On June 6, 2014, the Company issued 2,500,000 Units at a purchase price of $0.05 per Unit for gross proceeds of $125,000. Each Unit consists of one common share and one common share purchase warrant, with each warrant entitling the holder to purchase one common share at a purchase price of $0.10 exercisable on or before two years from June 6, 2014.

The Company issued 30,000 Finder's Warrants to certain arm's length finders in connection with the private placement at the time of closing of the offering. Each Finder's Warrant entitles the holder to purchase one common share at a purchase price of $0.10 and is exercisable on or before two years from the date of issuance.

On December 10, 2014, the Company completed a non-brokered private placement offering of 300,000 units of the Company at a purchase price of $0.05 per unit for total proceeds of $15,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a purchase price of $0.10 for 20 months from the date of issuance.

On December 10, 2014, the Company issued 350,000 Common Shares to a debt holder to the repayment of the loan payable (note 7).

**(Expressed in Canadian Dollars)**

8. **Share Capital** (continued)

(b) **Issued** (continued)

**Private placements** (continued)

On January 16, 2015, the Company completed a non-brokered private placement of 570,000 units of the Company at a price of $0.05 per unit for gross proceeds of $28,500. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a purchase price of $0.10 for 20 months from the date of issuance.

In relation to the December 10, 2014 and January 16, 2015 non-brokered private placements, $8,700 was allocated to reserves based on the residual value method.

(c) **Stock Option Plan**

On July 19, 2007, the Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company, may from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and technical consultants of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director, officer or employee will not exceed 5% of the issued and outstanding common shares and the number of common shares for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, technical consulting arrangement or employment was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option. The stock option plan is accepted annually by the shareholders of the Company at the annual general meeting.

The following table summarizes information about the share options outstanding and exercisable at March 31, 2016 and September 30, 2015:

| | | **Mar. 31, 2016** | Sep. 30, 2015 |
|---|---|---|---|
| Expiry Date | Exercise Price (*) | **Number of Options** | Number of Options |
| January 7, 2016 | $0.05 | **-** | 112,500 |
| May 16, 2016 (**) | $0.05 | **100,000** | 100,000 |
| | | **100,000** | 212,500 |
| Weighted average exercise price | | **$0.05*** | $0.05* |

(*) Repriced to $0.05 on May 14, 2014. The Company recognized share-based payment expense of $10,186, estimated using the Black-Scholes option pricing model.
(**) Expired subsequent to the period ended March 31, 2016.

**(Expressed in Canadian Dollars)**

8. **Share Capital** (continued)

(c) **Stock Option Plan** (continued)

(c) Stock Option Plan

Continuity of stock options is as follows:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance at September 30, 2014 | 406,250 | $0.05 |
| Expired | (193,750) | $0.05 |
| Balance at September 30, 2015 | 212,500 | $0.05 |
| Expired | (112,500) | $0.05 |
| Balance at March 31, 2016 | **100,000** | **$0.05** |

(d) **Share Purchase Warrants**

| | Number of Warrants Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Balance, at September 30, 2014 | 2,785,250 | $0.14 |
| Issued – private placements | 870,000 | $0.10 |
| Balance, at September 30, 2015 | 3,655,250 | $0.13 |
| Expired | (825,250) | $(0.11) |
| **Balance at March 31, 2016** | **2,830,000** | **$0.10** |

Common share purchase warrants were outstanding as follows:

| | | Number of Warrants | |
|---|---|---|---|
| Expiry Date | Exercise Price | **Mar. 31, 2016** | Sept. 30, 2015 |
| October 24, 2015 | $0.40 | **-** | 255,250 |
| January 16, 2016 | $0.10 | **-** | 570,000 |
| June 6, 2016 (*) | $0.10 | **2,530,000** | 2,530,000 |
| August 10, 2016 (*) | $0.10 | **300,000** | 300,000 |
| | | **2,830,000** | 3,655,250 |

(*) Expired subsequent to the period ended March 31, 2016.

(i) During the year ended September 30, 2015:

- 300,000 warrants with an expiry date of August 10, 2016, were granted in connection with the private placement on December 10, 2014.
- 570,000 warrants with an expiry date of January 16, 2016 were granted in connection with the private placement on January 16, 2015.

**(Expressed in Canadian Dollars)**

8. **Share Capital** (continued)

(e) **Agent Options**

Agent options are the right to purchase units, with each unit comprising one share and one share purchase warrant. Nil agent options were outstanding at March 31, 2016 and September 30, 2015.

9. **Related Party Transactions**

The Company entered into the following transactions with related parties during the periods ended March 31, 2016 and 2015:

| | **2016** | 2015 |
|---|---|---|
| Legal fees paid or accrued relating to general matters for legal services provided by a law firm in which a director of the Company is a partner | - | $17,368 |
| Rent and administration costs paid or accrued to a company that is controlled by a director of the Company | - | $3,000 |

**Key Management Compensation**

Key management personnel are individuals responsible for planning, directing and controlling the activities of the Company, and include certain directors and officers. Key management compensation comprises:

| | **March 31, 2016** | March 31, 2015 |
|---|---|---|
| Short-term benefits | $ - | $ 39,000 |

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the period ended March 31, 2016 - $nil (March 31, 2015 - $nil).

Short-term benefits comprise consulting, professional and directors' fees.

As at March 31, 2016, $326,176 (Sept. 30, 2015 - $326,176) is included in accounts payable and accrued liabilities payable to related parties.

All advances and amounts due to related parties have repayment terms similar to the Company's other accounts receivable and payable, and are unsecured and without interest.

All of the above transactions and balances are in the normal course of operations.

## 10. Capital Management

The Company considers its capital under management to be comprised of shareholders' equity. The primary objective of the Company's capital management is to ensure that it maintains a conservative capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, based on available funds to the Company and changes in economic conditions. To maintain or adjust the capital structure, the Company may issue new shares or debt securities. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There has been no change to the Company's approach to capital management during the period ended March 31, 2016.

## 11. Financial Instruments and Risk

The Company's financial instruments consists of cash, accounts receivable, restricted cash, accounts payable and accrued liabilities, liability portion of convertible debentures and loan payable. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. Cash is measured based on Level 1 inputs of the fair value hierarchy. Convertible debenture is measured based on Level 2 inputs of the fair value hierarchy.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and receivables. The Company limits its exposure to credit loss by placing its cash with major financial institutions.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2016, the Company had cash of $7 (Sept. 30, 2015 - $2,392) and current liabilities of $856,630 (Sept. 30, 2015 - $844,986). All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company will be required to raise additional equity or debt to settle the Company's financial liabilities.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity prices.

*Foreign currency risk*
The Company is not subject to significant foreign currency risk.

Interest rate risk
The Company is not subject to significant interest rate risk.

Other price risk
The Company is not subject to significant other price risk.

12. **Legal Claims**

On November 13, 2015, a law firm in which a director of the Company is a partner filed claims totaling $140,010 for unpaid legal services. As the outcome of these claims cannot be determined, the Company has not accrued any further amounts in these financial statements.