Excelsior MINING CORP

# CONDENSED CONSOLIDATED INTERIM

# FINANCIAL STATEMENTS

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

**(Unaudited)**

**(Expressed in US Dollars)**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**
(Unaudited)
(Expressed in US Dollars)
As at

| | Note | | March 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | | **$** | **4,664,882** | $ | 6,306,680 |
| Prepaid expenses | | | **298,810** | | 113,355 |
| Receivables | | | **525,116** | | 767,105 |
| | | | **5,488,808** | | 7,187,140 |
| **Property, plant and equipment** | **3** | | **12,265,318** | | 12,256,073 |
| **Long term deposits** | **4** | | **222,790** | | 222,790 |
| | | **$** | **17,976,916** | $ | 19,666,003 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Accounts payable and accrued liabilities | | **$** | **706,889** | $ | 850,196 |
| Amounts due to related parties | **7** | | **141,912** | | 108,795 |
| Deferred consideration | **3** | | **1,000,000** | | 1,000,000 |
| | | | **1,848,801** | | 1,958,991 |
| **Long term deferred consideration** | **3** | | **2,200,000** | | 2,200,000 |
| **Asset retirement obligation** | **5** | | **3,319,759** | | 3,299,052 |
| | | | **7,368,560** | | **7,458,043** |
| **Equity** | | | | | |
| Capital stock | **6** | | **30,924,103** | | 30,924,103 |
| Other equity reserves | **6** | | **5,260,810** | | 5,244,344 |
| Deficit | | | **(24,747,561)** | | (23,131,491) |
| Accumulated other comprehensive loss | | | **(828,996)** | | (828,996) |
| | | | **10,608,356** | | 12,207,960 |
| | | **$** | **17,976,916** | $ | 19,666,003 |

**Approved on May 26, 2016 on behalf of the Board of Directors:**

| | | | |
|---|---|---|---|
| *"Colin Kinley"* | Director | *"Jay Sujir"* | Director |
| Colin Kinley | | Jay Sujir | |

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

**EXCELSIOR MINING CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**FOR THE THREE MONTHS ENDED MARCH 31,**
(Unaudited)
(Expressed in US Dollars)

| | Note | | 2016 | | 2015 |
|---|---|---|---|---|---|
| Plant and equipment holding and maintenance cost | | $ | **793,304** | $ | - |
| Exploration and evaluation | 4 | | **595,711** | | 2,765,685 |
| Office and administration | | | **151,527** | | 117,693 |
| Directors and officers fees | 7 | | **197,616** | | 209,263 |
| Professional fees | | | **76,166** | | 285,640 |
| Investor relations | | | **71,907** | | 180,627 |
| Depreciation | | | **26,553** | | 11,546 |
| Share-based compensation | 6 | | **16,466** | | 60,646 |
| Regulatory fees | | | **9,169** | | 9,201 |
| **Loss before other items** | | | **(1,938,419)** | | (3,640,301) |
| **Other items** | | | | | |
| Financing costs | | | **(44,707)** | | - |
| Foreign exchange (loss)/gain | | | **9,974** | | (194,404) |
| Gain on disposal of assets | | | **305,178** | | - |
| Other income | | | **51,904** | | 10,002 |
| **Loss for the period** | | $ | **(1,616,070)** | $ | (3,824,703) |
| **Loss per common share:** | | | | | |
| Basic and diluted | | $ | **(0.01)** | $ | (0.03) |
| **Weighted average number of common shares outstanding:** | | | | | |
| Basic and diluted | | | **138,403,924** | | 114,801,562 |

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

**EXCELSIOR MINING CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**
**FOR THE THREE MONTH PERIODS ENDED MARCH 31,**
(Unaudited)
(Expressed in US Dollars)

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Loss for the period | $ | (1,616,070) | $ | (3,824,703) |
| Items not affecting cash: | | | | |
| Depreciation | | 26,553 | | 11,546 |
| Financing costs | | 20,707 | | |
| Share-based compensation | | 16,466 | | 60,646 |
| Unrealized (gain)/loss on foreign exchange | | (9,974) | | 194,404 |
| Non-cash working capital item changes: | | | | |
| Receivables | | 241,989 | | (9,923) |
| Amounts due to related parties | | 33,117 | | (132,299) |
| Prepaid expenses | | (185,455) | | (14,434) |
| Accounts payable and accrued liabilities | | (143,308) | | (1,117,571) |
| Net cash used in operating activities | | (1,615,975) | | (4,832,334) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisition of exploration and evaluation assets | | - | | (246,205) |
| Purchase of equipment | | (35,797) | | (23,756) |
| Purchase of reclamation bonds | | - | | (50,000) |
| Net cash used in investing activities | | (35,797) | | (319,961) |
| **Net change in cash and cash equivalents** | | (1,651,772) | | (5,152,295) |
| **Effect of foreign exchange on cash and cash equivalents** | | 9,974 | | (194,404) |
| **Cash and cash equivalents, beginning of the period** | | 6,306,680 | | 10,006,114 |
| **Cash and cash equivalents, end of the period** | $ | 4,664,882 | $ | 4,659,415 |
| **Cash and cash equivalents consist of:** | | | | |
| Cash | $ | 1,164,889 | $ | 334,352 |
| Liquid short term investments | | 3,499,993 | | 4,325,063 |
| | $ | 4,664,882 | $ | 4,659,415 |
| **Cash received for interest** | $ | 246 | $ | 9,217 |

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

**EXCELSIOR MINING CORP.**
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**
**FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2016 AND 2015**
(Unaudited)
(Expressed in US Dollars)

| | Capital Stock | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Common Shares | | | | | | | | | | | |
| | Voting | Non-Voting | | Amount | | Other Equity Reserves (Note 4) | | Deficit | | Accumulated Other Comprehensive Income (Loss) | | Total |
| **Balance, December 31, 2014** (Note 2) | **114,801,562** | **-** | **$** | **26,768,226** | **$** | **5,200,317** | **$** | **(22,507,126)** | **$** | **(828,996)** | **$** | **8,632,421** |
| Share-based compensation | - | - | | - | | 60,646 | | - | | - | | 60,646 |
| Loss for the period | - | - | | - | | - | | (3,824,703) | | - | | (3,824,703) |
| **Balance, March 31, 2015** | **114,801,562** | **-** | **$** | **26,768,226** | **$** | **5,260,963** | **$** | **(26,331,829)** | **$** | **(828,996)** | **$** | **4,868,364** |
| **Balance, December 31, 2015** (Note 2) | **138,403,924** | **-** | **$** | **30,924,103** | **$** | **5,244,344** | **$** | **(23,131,491)** | **$** | **(828,996)** | **$** | **12,207,960** |
| Share-based compensation | - | - | | - | | 16,466 | | - | | - | | 16,466 |
| Loss for the period | - | - | | - | | - | | (1,616,070) | | - | | (1,616,070) |
| **Balance, March 31, 2016** | **138,403,924** | **-** | **$** | **30,924,103** | **$** | **5,260,810** | **$** | **(24,747,561)** | **$** | **(828,996)** | **$** | **10,608,356** |

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

## 1. NATURE OF OPERATIONS AND LIQUIDITY RISK

Excelsior Mining Corp. (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on June 9, 2005 and is classified as a Tier 1 issuer on the TSX Venture Exchange ("TSX-V"), and trades under the symbol "MIN". The address of the Company's registered office is #1240 - 1140 West Pender Street, Vancouver, BC, Canada V6E 4G1.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at March 31, 2016, the Company had working capital of $3,640,007 (December 31, 2015 - $5,228,149). The Company intends to continue financing its future requirements through a combination of equity, debt and/or other arrangements. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms.

Currently, the Company has sufficient funds to meet its estimated annual corporate costs. However, the Company does not currently have sufficient funds to complete all the engineering work associated with the completion of the Gunnison Project feasibility study, all of the permitting work associated with the receipt of all permits, and the funding of the care and maintenance, holding costs and deferred purchase payments relating to the Johnson Camp Mine. As at March 31, 2016, the Company did not have any pre-arranged sources of financing except for certain remaining royalty option payments that may or may not be received (refer to the Callinan Agreement further described in Note 4). The royalty payments are optional and at the sole discretion of the optionee and there is no certainty that they will be received. Should the Company not receive any proceeds from the exercising of the royalty options or be unsuccessful in raising additional funds, then certain discretionary expenditures may be deferred and measures to reduce operating costs will be taken in order to preserve working capital.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including International Accounting Standard 34, *Interim Financial Reporting*. Therefore, these condensed consolidated interim financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

Critical Accounting Estimates and Judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the periods reported.

### Critical Judgments

The preparation of the condensed consolidated interim financial statements requires management to make judgments regarding the going concern of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (cont'd…)

Critical Accounting Estimates and Judgments (cont'd…)

**Key Sources of Estimation Uncertainty**

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the condensed consolidated interim financial statements include:

*Share-based Payments*

Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based compensation expense for the period along with the assumptions and model used for estimating fair value for share-based compensation transactions are disclosed in Note 4.

*Useful Life of Equipment*

Equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and regulations.

*Recoverability of Exploration & Evaluation Assets and Property, Plant and Equipment*

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and property, plant and equipment are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future production or proceeds from the disposition thereof.

## 3. PROPERTY, PLANT AND EQUIPMENT

Johnson Camp Mine

On October 8, 2015, the Company entered into a definitive Asset Purchase Agreement (the "Purchase Agreement") to acquire all of the assets of Nord Resources Corporation ("Nord"), as they relate to the Johnson Camp Mine (the "Johnson Camp Transaction"). Under the terms of the Purchase Agreement, the Company agreed to acquire, through the court-appointed receiver (the "Receiver"), the Johnson Camp Mine including all fee title property, all patented and unpatented mining claims, all improvements, equipment, certificates of deposit, reports and records. The Company agreed to acquire the assets and certain liabilities of Nord's Johnson Camp for total consideration of $8.4 million under the following terms:

- $5.2 million due on or prior to closing ("Initial Payment");
- $1.0 million due on or before December 31, 2016 ("First Instalment"); and
- $2.2 million due on or before December 31, 2017 ("Final Instalment").

The closing date of the transaction was December 14, 2015.

(Expressed in US Dollars)

## 3. PROPERTY, PLANT AND EQUIPMENT (cont'd…)

As at March 31, 2016, the Company had made the Initial Payment as well as other payments to the Receiver pursuant to the payment terms set forth in the Purchase Agreement. The First Instalment and Final Instalment remained outstanding and are evidenced in the form of a secured interest bearing promissory note (the "JCM Note"). The JCM Note bears interest at 3% per annum, with interest on the unpaid principal balance payable quarterly on January 1, April 1, July 1 and September 1 of each year until the instalments have been paid in full.

The Company determined the fair value of its short term and long term deferred consideration using the effective interest rate method with the following assumptions: discounting factor of 3% per annum, and discounting period of 12.5 months and 24.5 months, respectively. As such, the following liabilities were recorded in the Company's financial statements to account for the outstanding payments:

- Current portion of deferred consideration (First Instalment) - $1,000,000
- Long term portion of deferred consideration (Final Instalment") - $2,200,000

The purchase price has been allocated to the assets acquired and liabilities assumed based on their relative fair values on the closing date. The purchase price allocation is a result of management's best estimates and assumptions after taking into account all relevant information available. The purchase price has been determined and allocated as follows:

| | | |
|---|---|---|
| Purchase price: | | |
| Cash payment | $ | 5,301,920 |
| Short term deferred payment | | 1,000,000 |
| Long term deferred payment | | 2,200,000 |
| Transaction costs | | 791,629 |
| Total purchase price | $ | 9,293,549 |
| Purchase price allocation: | | |
| Accounts receivable | $ | 686,476 |
| Property, plant and equipment | | 12,118,672 |
| Accounts payable | | (212,547) |
| Asset retirement obligation | | (3,299,052) |
| Net assets acquired | $ | 9,293,549 |

## 4. EXPLORATION AND EVALUATION ASSETS AND EXPENSES

Title to mineral property interests involves 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 conveyance history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The Company's mineral property interests are located in the United States of America.

**Option Agreements**

The Company, through Excelsior Arizona, entered into a series of option agreements to purchase the Gunnison Project, located in Cochise County, Arizona. Under the amended and restated option agreement, Excelsior Arizona had the exclusive right to acquire 100% of the Gunnison Project for $350,000 to be paid as follows:

- $150,000 to be paid on the execution of the amended option agreement (paid in December 2012);

- $150,000 to be paid on the earlier of;

## 4. EXPLORATION AND EVALUATION ASSETS AND EXPENSES (cont'd…)

  - thirty days of the closing of an equity financing greater than $2,000,000; and
  - on or before January 1, 2014 (paid in August 2013); and

- $50,000 payable on or before January 1, 2015 (paid in December 2014).

A further payment of $246,205 to certain land holders of the Gunnison Project became payable on the exercise of the option on the Gunnison Property. The acquisition costs were accrued as of December 31, 2014 and paid in February 2015.

The Company has fulfilled the above mentioned series of payments which gives it 100% ownership of the Gunnison Project.

**Share Purchase and Royalty Agreement**

On July 19, 2013, the Company entered into a Share Purchase and Royalty Option Agreement (the "Callinan Agreement") with Callinan Royalties Corporation ("Callinan"), now a wholly-owned subsidiary of Altius Minerals Corporation ("Altius"). Under the terms of the Callinan Agreement, Callinan was to invest CAD$1,000,000 in the Company by way of a non-brokered private placement and up to a further CAD$21,000,000 through the purchase of a staged gross revenue royalty ("GRR") on the Gunnison Project (the "Transaction").

Under the terms of the Callinan Agreement, Callinan made an initial investment as follows:

- Purchased 6,250,000 common shares of the Company at a price of CAD$0.16 per common share for aggregate consideration of CAD$1,000,000 (cash received and common shares issued on July 31, 2013); and

- Concurrently paid CAD$2,000,000 to the Company in exchange for a 0.5% GRR (the "Initial GRR").

Callinan had the right to require the Company to repurchase all or part of the Initial GRR for CAD$2,000,000 pro-rated for the portion of the Initial GRR purchased by the Company and payable in common shares of the Company priced at CAD$0.25 per common share. This right expired on the exercise of the first royalty option under the Callinan Agreement, discussed further below.

On July 29, 2014, Callinan exercised its first royalty option under the Callinan Agreement. As a result Callinan paid the Company CAD$3,000,000 in return for an additional 0.5% GRR on the Gunnison Project. Combined with the initial GRR that Callinan acquired in July 2013, Callinan holds a 1.0% GRR on the Gunnison Project.

As at March 31, 2016, Callinan had the option to acquire additional GRR on the Gunnison Project based on development milestones and a construction option, as detailed below.

**Development Milestones**

1% of the additional GRR is staged and based upon the Company meeting specific development milestones leading up to the construction of a mining facility, including completion of hydrology and metallurgy models to a feasibility study level, and successful administrative review of the key permits (Aquifer Protection Permit and the Underground Injection Control and Aquifer Exemption Permit). Upon the completion of each milestone, Callinan will have the option to purchase an additional 0.5% GRR for CAD$3,000,000 each, for a total of CAD$6,000,000. As at March 31, 2016, the Company had achieved the milestone related to the completion of hydrology and metallurgy models to a feasibility study level, however, Callinan did not subsequently exercise its option to acquire the additional 0.5% GRR. Subsequent to March 31, 2016, the Company also achieved the milestone related to the successful administrative review of the key permits, however Callinan did not exercise its option to acquire the associated additional 0.5% GRR. As a result, subsequent to March 31, 2016 there are no royalty options associated with the development milestones that are remaining.

(Expressed in US Dollars)

## 4. EXPLORATION AND EVALUATION ASSETS AND EXPENSES (cont'd…)

### Construction Option

The construction option gives Callinan the right to buy up to a 1% GRR for CAD$10,000,000 following completion of the feasibility study, receipt of all required permits and the Company securing a firm commitment for 50% of the required capital required for mine construction. One half (0.5%) of the construction option has vested. One quarter (0.25%) of the construction option can no longer vest as a result of Callinan not exercising its second option to acquire an additional 0.5% GRR. The remaining one quarter (0.25%) of the construction option would have vested if Callinan exercised its remaining royalty option related to the successful administrative review of the key permits. Subsequent to March 31, 2016, as a result of Callinan not exercising its option to acquire the 0.5% GRR related to the successful administrative review of the key permits, the construction option has been reduced to 0.5% GRR for CAD$5,000,000. The exercise price of the construction option may be adjusted if the feasibility study recommends the construction of a plant with capacity lower than 80 million pounds of copper per year based on an agreed upon schedule.

### Greenstone Financing

On October 21, 2015, the Company entered into a subscription agreement for a concurrent financing of $12 million with Greenstone Excelsior Holdings L.P. ("Greenstone"). The financing consisted of a private placement of common shares (the "2015 Private Placement") for gross proceeds of $4 million and the sale of a 2% gross revenue royalty on the Gunnison Project and the Johnson Camp Mine (the "2015 Royalty Financing") for gross proceeds of $8 million.

Because the proceeds from the sale of the royalty exceeded the carrying value of the Gunnison project, a gain on sale of royalty of $7,703,201 was recorded in the statement of loss and comprehensive loss.

| **Exploration and Evaluation Assets** | | **Gunnison Property** |
|---|---|---|
| **Balance at December 31, 2014** | **$** | **296,799** |
| Adjustment due to sale of royalty | | (296,799) |
| **Balance at December 31, 2015** | **$** | **-** |

| **Exploration and Evaluation Expenses** | | **For the Three Month Period Ended March 31, 2016** | | **2015** |
|---|---|---|---|---|
| Feasibility study | $ | 125,471 | $ | 1,534,709 |
| Pre-feasibility study | | 279,189 | | - |
| Sustainability | | 191,051 | | 1,230,976 |
| **Total** | **$** | **595,711** | **$** | **2,765,685** |

### LONG TERM DEPOSITS

During the year ended December 31, 2015 and as part of the completion of the Johnson Camp Transaction, the Company obtained $556,976 in surety bonds which were required by an Arizona State government agency and an Arizona based electric cooperative. The Company was required to fund $222,790 of the total surety bond amount with cash.

(Expressed in US Dollars)

## 5. ASSET RETIREMENT OBLIGATION

As part of its acquisition of the Johnson Camp assets, the Company also obtained all of the associated environmental permits. Such permits require the completion of certain reclamation and closure obligations, which are expected to occur in two phases.

Phase one involves reclamation activities only on or about the year 2028. The estimated undiscounted phase one reclamation obligation is $2,352,000. A risk-free discount rate of 2.28% and an inflation rate of 0.70% are used to discount the estimated obligation.

Phase two involves reclamation and closure activities to occur over a five year period commencing on or about the year 2045. The estimated undiscounted phase two reclamation obligation is $2,731,848. A risk-free discount rate of 3.00% and an inflation rate of 0.70% are used to discount the estimated obligation.

| | | As at March 31, 2016 | | As at March 31, 2015 |
|---|---|---|---|---|
| Opening balance | $ | 3,299,052 | $ | - |
| Estimated liabilities incurred | | - | | - |
| Accretion expense | | 20,707 | | - |
| | $ | 3,319,759 | $ | - |

## 6. CAPITAL STOCK AND OTHER EQUITY RESERVES

Common Shares

The authorized share capital of the Company is comprised of an unlimited number of common shares with no par value.

There were no common shares issued during the three month period ended March 31, 2016.

Warrants

The following is a summary of warrant activity for the three month period ended March 31, 2016 and the year ended December 31, 2015:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| **Outstanding, December 31, 2014** | **1,844,166** | **CAD$0.50** |
| Expired | (1,844,166) | CAD$0.50 |
| Issued | 8,960,000 | CAD$0.45 |
| **Outstanding, December 31, 2015 and March 31, 2016** | **8,960,000** | **CAD$0.45** |

During the three month period ended March 31, 2016, the Company did not issue any warrants.

(Expressed in US Dollars)

## 6. CAPITAL STOCK AND OTHER EQUITY RESERVES (Cont'd…)

As at March 31, 2016, the Company had the following warrants outstanding:

| Outstanding | Exercise Price | Remaining life (years) | Expiry Date |
|---|---|---|---|
| 8,960,000 | CAD$0.45 | 0.24 | June 27, 2016 |

Stock Options

The Company's stock option plan (the "Plan"), provides for the grant of incentive stock options to employees, consultants, officers, and directors of the Company. Currently, the number of shares authorized for issuance under the

Plan is 16,466,400. Options granted under the Plan have a maximum term of ten years. The exercise price of the options shall be determined by the Board of Directors, but shall not be less than the closing price of the common shares on the last trading day proceeding the date the options are granted. The vesting terms are at the Board of Directors' discretion.

The following is a summary of stock option activity for the three month period ended March 31, 2016 and the year ended December 31, 2015:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| **Outstanding, December 31, 2014** | **11,771,000** | **$0.22** |
| Exercised | (521,000) | $0.18 |
| Forfeited | (514,000) | $0.19 |
| Granted | 4,800,000 | $0.17 |
| **Outstanding, December 31, 2015** | **15,536,000** | **$0.21** |
| Forfeited | (150,000) | **$0.23** |
| **Outstanding, March 31, 2016** | **15,386,000** | **$0.22** |
| **Exercisable, March 31, 2016** | **10,261,000** | **$0.24** |

(Expressed in US Dollars)

## 6. CAPITAL STOCK AND OTHER EQUITY RESERVES (Cont'd…)

Stock Options (cont'd…)

As at March 31, 2016, the following stock options were outstanding and exercisable:

| Outstanding | Exercisable | Exercise Price | Remaining life (years) | Expiry Date |
|---|---|---|---|---|
| 58,667 | 58,667 | CAD $0.30 | 2.75 | December 31, 2018 |
| 2,800,000 | 2,800,000 | $0.25 | 2.75 | December 31, 2018 |
| 2,836,000 | 2,836,000 | CAD $0.30 | 2.75 | December 31, 2018 |
| 200,000 | 200,000 | CAD $0.30 | 2.75 | December 31, 2018 |
| 100,000 | 100,000 | CAD$0.30 | 2.75 | December 31, 2018 |
| 100,000 | 100,000 | CAD$0.30 | 2.75 | December 31, 2018 |
| 1,241,333 | 1,241,333 | CAD $0.30 | 2.75 | December 31, 2018 |
| 2,500,000 | 2,500,000 | CAD $0.30 | 2.75 | December 31, 2018 |
| 500,000 | 250,000 | CAD $0.26 | 3.56 | October 20, 2019 |
| 250,000 | 125,000 | CAD $0.25 | 3.67 | December 01, 2019 |
| 200,000 | 50,000 | CAD$0.30 | 4.39 | August 19, 2020 |
| 4,500,000 | - | CAD$0.23 | 4.72 | December 16, 2020 |
| 100,000 | - | CAD $0.23 | 4.72 | December 16, 2020 |
| 15,386,000 | 10,261,000 | | | |

Share-based Compensation

The Company recognizes share-based compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, forfeiture rate, and expected life of the options. During the three month period ended March 31, 2016, the Company recognized share-based compensation of $16,466 (March 31, 2015 - $60,646).

During the three month period ended March 31, 2015, the Company did not grant, re-price or modify any stock options.

(Expressed in US Dollars)

## 7. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying condensed consolidated interim financial statements are summarized below and include transactions with the following individuals or entities:

Key Management Personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer, Chief Financial Officer, and Executive Vice Presidents.

Remuneration attributed to key management personnel can be summarized as follows:

| | Three Month Periods Ended March 31, 2016 | 2015 |
|---|---|---|
| Share-based compensation | $ 4,932 | $ 19,148 |
| Short-term benefits* | 198,155 | 209,263 |
| | **$ 203,087** | **$ 228,411** |

* includes base salaries, consulting fees, management fees, director fees, and other employment benefits, pursuant to contractual employment, consultancy or management services arrangements

Other Related Parties

King & Bay West Management Corp, ("King & Bay") is an entity owned by Mark Morabito, the Chairman of the Company, which employs or retains certain officers and personnel of the Company. King & Bay provides administrative, management, regulatory, accounting, tax, legal, corporate development and corporate communications services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount set out in the table below represents amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third party costs incurred by King & Bay on behalf of the Company. The fees for such services were made on terms equivalent to those that King & Bay charges to arm's length parties.

Other Related Parties (cont'd…)

Transactions entered into with related parties other than key management personnel included the following:

| | Three Month Periods Ended March 31, 2016 | 2015 |
|---|---|---|
| King & Bay | $ 117,409 | $ 189,837 |

As at March 31, 2016, amounts accrued and due to related parties include the following:

- King & Bay - $51,345 (December 31, 2015 - $53,165)
- Roland Goodgame, Executive Vice President - $9,734 (December 31, 2015 - $9,488)
- SCT Holdings Management LLC, a company controlled by the CEO - $80,833 (December 31, 2015 - $46,141)

(Expressed in US Dollars)

## 8. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration and evaluation of mineral properties in North America.

Geographical information is as follows:

| | | As at March 31, 2016 | | As at December 31, 2015 |
|---|---|---|---|---|
| **Equipment** | | | | |
| United States | $ | 12,249,768 | $ | 12,243,830 |
| Canada | | 15,550 | | 12,243 |
| | $ | 12,265,318 | $ | 12,256,073 |
| **Long term deposits** | | | | |
| United States | $ | 222,790 | $ | 222,790 |

## 9. FINANCIAL INSTRUMENTS

As at March 31, 2016, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large North American financial institutions some of which are interest bearing accounts. The Company has no investments in asset-backed commercial paper. The Company's receivables consist mainly of a receivable from an Arizona State government agency, which has an investment grade credit rating and has paid the full amount owing subsequent to March 31, 2016 period end, and input tax credits receivable due from the Government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

As at March 31, 2016, the Company has cash and cash equivalents balance of $4,664,882 to settle current liabilities of $1,848,800. The Company believes it has sufficient cash and cash equivalents to settle current liabilities. In the next twelve months the Company will need additional funding to complete its feasibility study and permitting activities on the Gunnison Project, as well as to meet obligations associated with Johnson Camp and for working capital purposes. See also Note 1.

Market Risk

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

## 9. FINANCIAL INSTRUMENTS (cont'd…)

Market Risk (cont'd…)

(a) Interest Rate Risk

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. The risk that the Company will realize a loss as a result of a decline in the fair value of short-term investments is low.

Interest rate risk on cash and cash equivalents is minimal because these investments generally have a fixed yield rate.

Consideration for the completion of the Johnson Camp Transaction included $3,200,000 in total deferred cash payments. The payments remained outstanding as at March 31, 2016 and are evidenced in the form of a secured interest bearing promissory note (the JCM Note). The JCM Note bears interest at 3% per annum, with interest on the unpaid principal balance payable quarterly on January 1, April 1, July 1 and September 1 of each year until the instalments have been paid in full. The interest is fixed and therefore the Company is not subject to any related interest rate risk.

(b) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(c) Currency risk

Currency exchange risk is the risk that the future cash flows of financial instruments will fluctuate as a result of changes in foreign exchange rates. The majority of the Company's operations are conducted in US dollars; the Company's recent financings were in US dollars but any future equity raised may be in either US dollars or Canadian dollars. As of March 31, 2016, less than 10% of cash and cash equivalents are held in Canadian dollar bank accounts. A 10% change in the Canadian dollar versus the US dollar exchange rate would affect the loss of the Company by approximately $8,500.

## 10. COMMITMENTS

The Company has the following commitments with respect to the lease of its office in Phoenix, Arizona:

| Fiscal Year End | | Office Lease Payments |
|---|---|---|
| 2016 | $ | 65,478 |
| 2017 | | 89,557 |
| 2018 | | 22,530 |
| **Total** | **$** | **177,565** |

## 11. SUBSEQUENT EVENTS

- On April 28, 2016, the Company granted 200,000 stock options at CAD$0.36 per share to its new Chief Financial Officer.

- On April 28, 2016, Callinan declined to exercise its 0.5% GRR development milestone option related to the successful administrative review of the key permits.

- On May 13, 2016, the Company issued 100,000 common shares for proceeds of CAD$30,000 in connection with the exercise of stock options with an exercise price of CAD$0.30.