

GAINEY CAPITAL CORP.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 AND 2015

GAINEY CAPITAL CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)
AS AT JUNE 30, 2016 AND MARCH 31, 2016

	JUNE 30, 2016	MARCH 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 588,282	\$ 773,663
Restricted cash (Note 14)	46,000	46,000
Receivables	29,706	15,934
Due from related party (Note 11)	111,235	86,415
Prepaid expenses	7,687	12,087
	<u>782,910</u>	<u>934,099</u>
Exploration advances (Note 7)	107,895	107,895
Plant and equipment (Note 6)	461,804	486,612
Exploration and evaluation assets (Note 7)	<u>7,311,829</u>	<u>7,240,667</u>
	<u>\$ 8,664,438</u>	<u>\$ 8,769,273</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities (Note 8)	\$ 70,314	\$ 66,226
Shareholders' equity		
Share capital (Note 9)	10,285,693	10,285,693
Reserves	855,848	855,848
Deficit	(2,547,417)	(2,438,494)
	<u>8,594,124</u>	<u>8,703,047</u>
	<u>\$ 8,664,438</u>	<u>\$ 8,769,273</u>

Nature and continuance of operations (Note 1)
Events subsequent to the reporting period (Note 16)

On behalf of the Board:

"David Coburn" Director "Brent Omland" Director

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

GAINEY CAPITAL CORP.**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 and 2015

	Three months ended June 30, 2016	Three months ended June 30, 2015
EXPENSES		
Accounting and audit	\$ 7,500	\$ 7,500
Amortization (Note 6)	24,807	31,305
Consulting fees	-	5,324
Legal	1,265	-
Management fees (Note 11)	38,500	37,330
Office	7,908	7,720
Shareholder & investor relations	1,187	18,853
Share-based compensation (Note 11)	-	227,600
Transfer agent and regulatory fees	9,665	4,250
Travel	17,511	21,120
LOSS FROM OPERATIONS	(108,343)	(361,002)
Interest income	-	1,827
Foreign exchange gain (loss)	(580)	(1,600)
	(580)	227
Loss and comprehensive loss for the year	\$ (108,923)	\$ (360,775)
Loss per common share – basic and diluted	\$ (0.00)	\$ (0.01)
Weighted average number of common shares - basic and diluted	43,797,954	43,797,954

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

GAINEY CAPITAL CORP.**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

(Expressed in Canadian Dollars)

FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 and 2015

	Share Capital							
	Number of Shares	Amount						
Balance – March 31, 2015	43,797,954	\$ 10,285,693	\$	507,892	\$	(1,573,172)	\$	9,220,413
Reserves	-	-		315,200		-		315,200
Loss for the year	-	-		-		(360,775)		(360,775)
Balance – June 30, 2015	43,797,954	10,285,693		823,092		(1,933,947)		9,174,838
Balance – March 31, 2016	43,797,954	10,285,693		855,848		(2,438,494)		8,703,047
Share-based compensation	-	-		-		-		-
Loss for the year	-	-		-		(108,923)		(108,923)
Balance – June 30, 2016	43,797,954	\$ 10,285,693	\$	855,848	\$	(2,547,417)	\$	8,594,124

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

GAINEY CAPITAL CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 AND 2015

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015
CASH PROVIDED BY (USED IN):		
Cash flows from operating activities:		
Loss for the year	\$ (108,923)	\$ (360,775)
Non-cash items:		
Amortization	24,808	31,305
Share-based compensation	-	227,600
Changes in non-cash working capital:		
Receivables	(13,772)	7,211
Prepaid expenses	4,400	(11,087)
Due to/from related party	(24,820)	-
Accounts payable and accrued liabilities	4,088	(64,067)
	<u>(114,219)</u>	<u>(169,813)</u>
Cash flows from investing activities:		
Exploration and evaluation assets and advances	(71,162)	(196,349)
Cash flows from financing activities:		
Shares issued for cash (net)	-	-
Proceeds from option exercise	-	-
	<u>-</u>	<u>-</u>
Increase (decrease) in cash	(185,381)	(366,162)
Cash – beginning of period	773,663	1,830,459
Cash – end of period	\$ 588,282	\$ 1,464,297

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

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 AND 2015

1. NATURE AND CONTINUANCE OF OPERATIONS

Gainey Capital Corp. (the “Company”) is in the business of mineral property exploration and development in Mexico. The Company was incorporated under the Business Corporations Act (British Columbia) on February 11, 2011 and is publicly listed on the TSX Venture Exchange (the “Exchange”) under the symbol GNC.

The Company’s head office is located at Suite 501–595 Howe Street, Vancouver, BC, Canada V6C 2T5.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

The Company had a net loss of \$108,923 for the three-month period ended June 30, 2016 and an accumulated deficit of \$2,547,417 which has been funded primarily by the issuance of equity. The Company’s ability to continue as a going concern is uncertain and is dependent upon the generation of profits from exploration and evaluation assets, obtaining additional financing or maintaining continued support from its shareholders and creditors. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company’s assets may be adversely affected. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated interim financial statements do not include all the information and disclosures required in annual financial statements and should be read in conjunction with the Company’s March 31, 2016 Annual Consolidated Financial Statements.

These consolidated interim financial statements were reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on August 26, 2016.

Consolidation

The interim consolidated financial statements at June 30, 2016 include, on a consolidated basis, the assets, liabilities, revenues and expenses of the Company and its wholly-owned subsidiary, Gainey Mexico, S.A. de C.V., which was incorporated in Mexico and will be carrying out the exploration activities and ore processing in Mexico. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany transactions and balances are eliminated on consolidation.

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 AND 2015

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of measurement

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the 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 future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. whether or not an impairment has occurred in its exploration and evaluation assets;
2. the inputs used in the accounting for share-based compensation expense; and
3. the valuation of deferred income tax amounts.

Critical accounting judgments

Examples of significant judgments, apart from those involving estimation, include:

1. the accounting policies for exploration and evaluation assets;
2. classification of financial instruments; and
3. determination of functional currency.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Exploration and evaluation assets

All property payments and all costs related to the exploration permitting process, exploration and development of evaluation and exploration assets are capitalized by property until the commencement of commercial production. Properties that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units ("CGU") for the purpose of determining future mineral reserves and impairments.

Management reviews the capitalized costs on its evaluation and exploration assets at least annually to consider if there is an impairment in value to take into consideration from current exploration results and management's assessment of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. If a property is abandoned, or considered to have no future economic potential, the acquisition and accumulated exploration and evaluation costs are written off to profit or loss. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the exploration and evaluation asset is considered to be a mine under development and is classified as "Mining Assets". Exploration and evaluation expenditures accumulated are also tested for impairment before the property costs are transferred to mining assets.

Plant and Equipment

Plant and equipment are recorded at cost less accumulated amortization and, where applicable, impairment losses. The cost less residual value is amortized over the estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual period of financial reporting and the impact of any change in estimates is recognized prospectively. Depreciation is calculated using the declining balance method at a rate of 20% for processing plant and equipment and mining equipment, and at 30% for transportation equipment.

Revenue recognition

Tolling fees charged to other entities for processing mineral ore on their behalves are recognized as revenue upon completion of services.

Impairment of long-lived assets

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there are any indicators of impairment. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Where the asset does not generate cash inflows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit ("CGU") to which the asset belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset or CGU's value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to the estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Determining the discount rate includes appropriate adjustments for the risk profile of the country in which the individual asset or CGU operates.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of long-lived assets (cont'd)

If the carrying amount of an asset or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized in the statement of loss and comprehensive loss.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. Where an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depletion) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of loss and comprehensive loss.

Provision for environmental rehabilitation

The Company recognizes the liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets in the period when the liability arises. The net present value of future rehabilitation costs is capitalized to the long-lived asset to which it relates with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the rehabilitation provision.

The increase in the provision due to the passage of time is recognized as interest expense.

The Company has no known restoration, rehabilitation or environmental costs related to its exploration and evaluation assets.

Share-based payments

The Company grants stock options to certain directors and employees of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing reserves based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. 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 the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of the goods or services received.

The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes

Income tax expense 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 year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years. 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.

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 date of the statement of financial position. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it does not recognize the asset. 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.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets

Financial assets are classified into one of four categories:

1. Fair value through profit or loss ("FVTPL");
2. Held-to-Maturity ("HTM");
3. Loans and receivables; and
4. Available for sale ("AFS").

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

A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in the statements of loss and comprehensive loss when incurred. FVTPL are measured at fair value, and changes are recognized in the statements of loss and comprehensive loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Held to maturity (“HTM”)

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Available-for-sale (“AFS”)

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 in the statements of loss and comprehensive loss.

The Company classified its cash and cash equivalents and restricted cash as FVTPL and its loan receivable and due from related party as loans and receivables.

Financial liabilities

Financial liabilities are classified into one of two categories:

1. Fair value through profit or loss; and
2. Other financial liabilities.

Financial liabilities at fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried on the statement of financial position at fair value with the changes in fair value recognized in the statements of loss and comprehensive loss.

Other financial liabilities

This category includes trade and other payables, which are recognized at amortized cost.

The Company classifies its accounts payable and accrued liabilities as other financial liabilities.

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2016 AND 2015

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For all financial assets objective evidence of impairment could include:

1. significant financial difficulty of the issuer or counterparty;
2. default or delinquency in interest or principal payments; or
3. it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of loss and comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of loss and comprehensive loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Foreign Exchange

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiary is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. NEW ACCOUNTING STANDARDS AND AMENDMENTS

During the three months ended June 30, 2016, there were no new IFRS or International Accounting Standards (“IAS”) or amendments that became effective that had a material impact on the Company’s consolidated financial statements.

5. ACCOUNTING STANDARDS NOT YET EFFECTIVE

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2017.

In May 2015, IASB proposed to defer the effective date to January 1, 2018.

IFRS 9, *Financial Instruments – Classification and Measurement*

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

GAINEY CAPITAL CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. PLANT AND EQUIPMENT

	Processing plant and equipment	Mining equipment	Transportation equipment	Total
Cost				
Balance, March 31, 2016	\$ 588,902	\$ 25,100	\$ 31,269	\$ 645,271
Additions and Reclassifications	-	-	-	-
Balance, June 30, 2016	<u>\$ 588,902</u>	<u>\$ 25,100</u>	<u>\$ 31,269</u>	<u>\$ 645,271</u>
Accumulated amortization				
Balance, March 31, 2016	\$ (141,143)	\$ (5,312)	\$ (12,204)	\$ (158,659)
Amortization	(22,388)	(989)	(1,430)	(24,807)
Balance, June 30, 2016	<u>(163,531)</u>	<u>(6,301)</u>	<u>(13,634)</u>	<u>(183,466)</u>
Net book value, June 30, 2015	<u>\$ 531,714</u>	<u>\$ 23,499</u>	<u>\$ 25,690</u>	<u>\$ 580,903</u>
Net book value, June 30, 2016	<u>\$ 425,371</u>	<u>\$ 18,799</u>	<u>\$ 17,634</u>	<u>\$ 461,804</u>

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7. EXPLORATION AND EVALUATION ASSETS

Title to exploration and evaluation assets 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 conveyancing history characteristic of many exploration and evaluation assets. 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 properties, except as described below, are properly registered and in good standing.

However, there can be no guarantee of title and the exploration and evaluation assets may otherwise be subject to prior claims, agreements, or transfers and rights of ownership may be affected by undetected defects.

		El Colomo Property
Acquisition costs:		
Beginning balance:		5,743,598
Acquisition costs - June 30, 2016	\$	5,743,598
Exploration costs - Beginning balance:		1,497,069
Deferred exploration costs:		
Assaying		-
Consulting		7,729
Drilling		12,935
Field expenses		14,239
Geological consulting		-
Legal costs		-
Operations management		15,681
Site personnel		10,500
Travel		5,909
Warehouse		4,169
Total deferred exploration costs:		71,162
Cumulative exploration costs, June 30, 2016	\$	1,568,231
Balance, June 30, 2016	\$	7,311,829

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7. EXPLORATION AND EVALUATION ASSETS (cont'd)

On October 2, 2013, the Company completed the acquisition from Golden Anvil S.A. de C.V. ("Golden Anvil") of certain assets comprising of the El Colomo concessions, a concentration plant, and other associated assets and equipment (the "Assets"). Golden Anvil is related by way of a common director. The Company's consideration for acquiring the Assets was as follows:

- Issued 12,000,000 common shares in the capital of the Company to Golden Anvil nominees (the "Consideration Shares"). The Consideration Shares were valued at \$0.50 per common share for an aggregate value of \$6,000,000, which was capitalized as exploration and evaluation assets; and
- Issued a special warrant of the Company to Golden Anvil. The special warrant is convertible, for no additional consideration, from time to time, into that number of common shares of the Company equal to the number of ounces of gold or gold-equivalent, categorized as measured and indicated mineral resources (as such terms are defined by the Canadian Institute of Mining, Metallurgy and Petroleum), upon receipt by the Company and/or Golden Anvil of a technical report prepared in accordance with National Instrument 43-101 by an independent qualified person (as defined in NI 43-101) in relation to the El Colomo concessions on or before September 27, 2019, subject to an aggregate maximum of 3,000,000 common shares. No value has been attributed to the special warrant on these consolidated financial statements.

The Consideration Shares and special warrant issued are subject to surplus escrow agreements pursuant to Exchange policy, and to an additional 100% lock-up agreement that expires on the first anniversary of completion of the Qualifying Transaction. The Consideration Shares and any shares issued on the conversion of the special warrant will be released from escrow as follows:

- 5% of the Consideration Shares on the date of the final Exchange bulletin (the "Bulletin");
- 5% of the Consideration Shares on the date which is 6 months following the Bulletin;
- 10% of the Consideration Shares on the date which is 12 months following the Bulletin;
- 10% of the Consideration Shares on the date which is 18 months following the Bulletin;
- 15% of the Consideration Shares on the date which is 24 months following the Bulletin;
- 15% of the Consideration Shares on the date which is 30 months following the Bulletin; and
- 40% of the Consideration Shares on the date which is 36 months following the Bulletin.

The Company also issued 665,000 common shares to Avonlea Ventures Inc. ("Avonlea"), an arm's length party, as a finders' fee with respect to the acquisition of the Assets. The common shares were valued at \$0.50 per common share for an aggregate value of \$332,500, which was capitalized as exploration and evaluation assets. Based on the finder's fee agreement with Avonlea, the shares are subject to resale restrictions such that 10% of the shares are free of voluntary resale restrictions on the date of the final exchange bulletin and an additional 15% of the shares are free of voluntary resale restrictions each six-month period thereafter.

During the year ended March 31, 2015, the Company reclassified \$588,902 of the total acquisition costs of \$6,332,500 from exploration and evaluation assets to plant and equipment.

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7. EXPLORATION AND EVALUATION ASSETS (cont'd)

Promissory Note

In connection with the acquisition of the Assets, the Company has received a signed Promissory Note (the "Note") in the amount of \$266,215 from Golden Anvil. The Note reflects certain amounts paid by the Company on the behalf of Golden Anvil for duties and taxes, unpaid consulting fees associated with a 43-101 Technical Report completed, 50% of certain sponsorship fees incurred as well as other expenses. These costs were paid by the Company but were incurred by Golden Anvil prior to the finalizing of the Qualifying Transaction which closed in September 2013.

The Note has an interest rate of 12% per annum compounded monthly and as of June 30, 2016, this debt, including interest, amounts to \$369,690 (March 31, 2016 - \$358,818). The Note is secured by 800,000 Consideration Shares ("Pledged Shares") and personally guaranteed by Marco Antonio Rincon-Valdes (a former director of the Company – Note 11) and Francisco Rolando Rincon-Romo. Pursuant to the Note, Golden Anvil had agreed to repay 50% of the original balance on or before October 2, 2014, and the remaining 50% on or before April 2, 2015. Payment was not made, and the Company has taken action pursuant to the personal guarantees and if necessary, the Company may realize on the Pledged Shares. Any amounts recovered from Golden Anvil will be offset against the carrying value of the Company's exploration and evaluation assets.

During the year ended March 31, 2016, the Company reclassified part of the Note classified as a loan receivable to exploration and evaluation assets, as the Company is not certain as to the collectability of any amounts previously paid on Golden Anvil's behalf pursuant to the Note and accordingly, is treating these costs as part of their costs of exploration.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2016	March 31, 2016
Accounts payable	\$ 50,314	\$ 46,226
Accrued liabilities	20,000	20,000
	\$ 70,314	\$ 66,226

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9. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Share issuances

Year ended March 31, 2016

There were no common shares issued during the year ended March 31, 2016.

Year ended March 31, 2015

- i) During May 2014, the Company completed a private placement for an aggregate of 14,367,500 units at a price of \$0.20 per unit for gross proceeds of \$2,873,500. Each unit consists of one common share and one common share purchase warrant which entitles the holder to purchase an additional common share of the Company at a price of \$0.30 until May 24, 2016 (extended subsequently – Note 16). The Company paid finder's fees in the amount of \$156,195 in cash and 885,400 warrants in connection with the private placement. The weighted average assumptions used for the Black-Scholes valuation of the warrants were the annualized volatility of 98.83%, risk-free interest rate of 1.05% expected life of 2 years, and a dividend rate of Nil.
- ii) During the year ended March 31, 2015, 310,000 options were exercised for total proceeds of \$31,000.

Shares held in escrow

Included in the shares outstanding at June 30, 2016 are 11,808,499 (2015 – 15,703,590) common shares held in escrow, which may not be transferred, assigned or otherwise dealt without the consent of the regulators.

During the year ended March 31, 2016, certain escrow releases were not completed pursuant to escrow agreements because of non-payment issues in regards to the Note with Golden Anvil (Note 7).

A special warrant (as described in Note 7) exercisable for up to 3,000,000 common shares of the Company is also held in escrow.

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Expiry Date
Balance, March 31, 2014	-	\$ -	
Issued on private placement	14,367,500	0.30	May 23, 2018
Balance, June 30, 2016	14,367,500	\$ 0.30	
Balance, March 31, 2016	14,367,500	\$ 0.30	

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10. SHARE-BASED PAYMENTS

Stock options

The Company follows the policies of the Exchange, under which it is authorized to grant options to officers, directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the Exchange. The options can be granted for a maximum term of 10 years and vest at the discretion of the board of directors.

The changes in stock options are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, March 31, 2015	1,316,000	\$ 0.30
Granted	2,070,000	0.25
Balance, June 30, 2016 and March 31, 2016	3,386,000	\$ 0.27

On June 1, 2015, the Company granted 2,070,000 stock options exercisable to purchase common shares at a price of \$0.25 per common share expiring on June 1, 2020 to Directors, Officers, and Consultants of the Company. 1,820,000 of the stock options vested on grant, with the remaining 250,000 vesting at a rate of 25% per quarter from the grant date.

The following stock options were outstanding and exercisable at June 30, 2016:

Number of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price	Expiry Date
658,000	658,000	\$ 0.10	September 2, 2016
658,000	658,000	0.50	October 2, 2018
2,070,000	2,070,000	0.25	June 1, 2020
3,386,000	3,386,000	\$ 0.27	

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10. SHARE-BASED PAYMENTS (cont'd)

Reserves

The stock option reserve records items recognized as share-based compensation expense within reserves until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

The Company uses the Black-Scholes option pricing model for valuing stock options. For the year ended March 31, 2016, the Company recognized share-based compensation of \$248,935 (2015 - \$nil) and capitalized \$99,021 (2015 - \$nil) to exploration and evaluation assets.

The following weighted average assumptions were used for the Black-Scholes option pricing model during the year ended March 31, 2016:

	2016
Risk-free interest rate	0.90
Expected life of options	5 years
Expected volatility	107.81%
Expected dividend yield	0.00%

11. RELATED PARTY TRANSACTIONS

The remuneration of key management personnel, being those persons determined as having authority and responsibility for planning, directing and controlling the activities of the Company during the three months ended June 30, 2016 and 2015 is as follows:

	Three months ended	
	June 30, 2016	June 30, 2015
Compensation paid to the Chief Executive Officer ("CEO")	\$ 38,500	\$ 37,330
Compensation paid to the Chief Financial Officer ("CFO")	7,500	7,500
	\$ 46,000	\$ 44,830

Related party balances

As at June 30, 2016, a total of \$111,235 has been advanced to the CEO of the Company for future exploration and travel expenses. The amount is non-interest bearing and unsecured, and has no stated terms of repayment.

See Note 7 for details in regards to a Promissory Note with Golden Anvil, a company with a former director.

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12. MANAGEMENT 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 evaluation of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or issue debt in the near future to meet its current obligations.

At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends. 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 the three months ended June 30, 2016. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL RISK MANAGEMENT

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making fair value measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - 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); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2016, the carrying values of the Company's accounts payable approximate their fair values due to their short terms to maturity. The Company's other financial instrument, cash, under the fair value hierarchy is based on level one quoted inputs.

Financial Risks

The Company has exposure to the following risks from its use of financial instruments:

Credit risk

The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank accounts and GIC investments held with reputable financial institutions, from which management believes the risk of loss to be remote. Federal deposit insurance covers balances up to \$100,000 in Canada and the Company hold nominal amounts in Mexican accounts as at June 30, 2016 and 2015. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions. Accordingly, as at June 30, 2016, the Company's exposure to credit risk is minimal.

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13. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk

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

At June 30, 2016, the Company had a cash balance of \$588,282 (March 31, 2016 - \$773,663) to settle current liabilities of \$70,314 (March 31, 2016 - \$66,226). The Company has corporate credit cards with various credit limits not exceeding \$35,000. As collateral for the credit cards, the Company has a one-year term deposit of \$46,000 earning annual interest at Canadian prime rate less 1.95%.

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

Market risk

The Company is subject to normal risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, it has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. At June 30, 2016, the Company was not exposed to significant interest rate risk.

The Company is principally engaged in the acquisition and exploration of exploration and evaluation assets in Mexico. To date the operating expenditures have been denominated in Canadian dollars. In the future, due to the location of operations, the Company may experience exposure to foreign exchange rate fluctuations for expenditures in foreign currencies against the Canadian dollar as the functional currency of the business entity.

14. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Mexico. As at June 30, 2016, all of the Company's exploration and evaluation assets and plant and equipment are located in Mexico.

15. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

There are no subsequent events to report.