GFG Resources Inc.
(formerly Crest Petroleum Corp.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED DECEMBER 31, 2016
EXPRESSED IN U.S. DOLLARS
(Unaudited)

GFG RESOURCES INC.
(formerly Crest Petroleum Corp.)
Condensed Interim Consolidated Statements of Financial Position
(Expressed in U.S. Dollars)
(Unaudited)

	December 31, 2016	June 30, 2016
	$	$
Assets		
Current Assets		
Cash (Note 5)	1,906,971	910,388
Restricted cash	15,000	15,000
Receivables	15,068	-
Prepaid expenses and deposits	25,204	28,614
	1,962,243	954,002
Long-term deposits	16,148	10,000
Exploration and evaluation assets (Note 6)	4,897,275	2,930,933
Reclamation bonds (Note 7)	448,100	286,000
	7,323,766	4,180,935
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	251,993	307,859
Advances (Note 9)	15,000	165,000
Promissory note	-	595,667
	266,993	1,068,526
Shareholders' Equity		
Share capital (Note 11)	9,547,129	3,888,339
Obligation to issue shares (Notes 4 and 6)	513,619	137,500
Reserves (Note 11)	270,137	162,126
Deficit	(3,274,112)	(1,075,556)
	7,056,773	3,112,409
	7,323,766	4,180,935

Commitments (Note 15)
Subsequent events (Notes 6 and 16)

"Patrick Downey"
Patrick Downey, Chair

"Arnold Klassen"
Arnold Klassen, Audit Chair

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

GFG RESOURCES INC.
(formerly Crest Petroleum Corp.)
Condensed Interim Consolidated Statements of Comprehensive Loss
(Expressed in U.S. Dollars)
(Unaudited)

	Three months ended December 31, 2016	Six months ended December 31, 2016
	$	**$**
Expenses		
Bank charges and interest	3,033	8,452
Consulting fees (Note 12)	13,653	48,282
Directors’ fees (Note 12)	16,930	16,930
Foreign exchange loss	11,329	17,274
Insurance	2,960	4,340
Investor relations	98,980	104,980
Listing fee (Note 4)	1,256,566	1,256,566
Management fees (Note 12)	-	7,739
Office	43,733	57,530
Membership and dues	6,072	10,609
Professional fees	5,344	138,845
Rent	29,906	48,800
Salaries and benefits (Note 12)	112,707	125,579
Share-based compensation (Notes 11 and 12)	214,573	295,167
Travel and related	33,203	57,463
Loss and comprehensive loss for the period	(1,848,989)	(2,198,556)
Basic and diluted loss per share	(0.17)	(0.17)
Weighted average number of common shares outstanding	11,172,410	13,071,497

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

GFG RESOURCES INC.
(formerly Crest Petroleum Corp.)
Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. Dollars)
(Unaudited)

	Number of Shares Issued	Share Capital	Obligation to issue shares	Share-Based Compensation Reserves	Deficit	Total
		$	$	$	$	$
Balance at June 30, 2016	**21,383,557**	**3,888,339**	**137,500**	**162,126**	**(1,075,556)**	**3,112,409**
Shares repurchased by GFG Resources (US) Inc. (Note 11)	(97,000)	(24,250)	-	-	-	(24,250)
Share capital of GFG Resources (US) Inc. (Note 4)	(21,286,557)	-	-	-	-	-
Recapitalization of 1070900 BC Ltd (Note 4)	14,740,564	-	-	-	-	-
Shares issued to shareholders of GFG Resources (US) Inc. (Note 4)	19,050,419	3,204,286	376,119	-	-	3,580,405
Recapitalization costs (Note 4)	-	(96,461)	-	-	-	(96,461)
Shares issued for cash (Note 11)	2,350,000	587,500	-	-	-	587,500
Exercise of stock options (Note 11)	2,302,500	775,215	-	(194,415)	-	580,800
Shares issued for exploration and evaluation assets (Notes 6 and 11)	100,000	25,000	-	-	-	25,000
Share capital of 1070900 BC Ltd. (Note 4)	(38,503,483)	-	-	-	-	-
Recapitalization of GFG Resources Inc. (Note 4)	4,750,000	1,187,500	-	7,259	-	1,194,759
Shares issued to shareholders of 1070900 BC Ltd (Note 4)	38,503,483	-	-	-	-	-
Share-based compensation (Note 11)	-	-	-	295,167	-	295,167
Net loss for the period	-	-	-	-	(2,198,556)	(2,198,556)
Balance at December 31, 2016	**43,293,483**	**9,547,129**	**513,619**	**270,137**	**(3,274,112)**	**7,056,773**

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

GFG RESOURCES INC.
(formerly Crest Petroleum Corp.)
Condensed Interim Consolidated Statement of Cash Flows
(Expressed in U.S. Dollars)

	Six months ended December 31, 2016
	$
Cash flows used in operating activities	
Net loss for the period	(2,198,556)
Items not affecting cash:	
Share-based compensation	295,167
Accretion interest	4,333
Listing fee	1,256,566
Changes in non-cash working capital items	
Receivables	(12,854)
Prepaid expenses and deposits	(2,738)
Accounts payable and accrued liabilities	(325,389)
	(983,471)
Cash flows used in investing activities	
Reclamation bonds	(162,100)
Exploration and evaluation assets expenditures	(1,828,425)
	(1,990,525)
Cash flows from financing activities	
Share repurchased	(24,250)
Exercise of options	580,800
Proceeds from share issuances	587,500
Repayment of promissory note	(600,000)
Cash acquired on recapitalization	2,963,793
Loan from 1070900 BC Ltd. prior to recapitalization	818,221
Repayment of advance	(150,000)
Recapitalization costs	(205,485)
	3,970,579
Increase in cash	996,583
Cash, beginning of period	910,388
Cash, end of period	1,906,971
Non-cash transactions:	
Shares issued for exploration and evaluation assets	25,000
Exploration and evaluation assets expenditures in accounts payable at period end	112,917
Prepaid expenses and deposits in account payable at period end	7,268

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

NOTE 1 - Nature and Continuance of Operations

GFG Resources Inc., formerly known as Crest Petroleum Corp., (the "Company" or "GFG") was incorporated on January 24, 2012, under the laws of the Province of British Columbia, Canada. The principal business of the Company is to acquire, explore and develop interests in exploration and evaluation assets. The Company's head office address is Suite 202 – 640 Broadway Avenue, Saskatoon, Saskatchewan, S7N 1A9. The Company's common shares are listed under the symbol "GFG" on the TSX Venture Exchange.

On October 21, 2016, the Company completed its acquisition of 1070900 BC Ltd. ("1070900") which was accounted for as a reverse acquisition. Prior to the reverse acquisition with 1070900, on August 24, 2016, 1070900 completed its acquisition of GFG Resources (US) Inc. ("GFG-US") which was accounted for as a reverse acquisition. Refer to Note 4 for details of these transactions.

NOTE 2 - Significant Accounting Policies and Basis of Preparation

The following is a summary of significant accounting policies used in the preparation of these condensed interim consolidated financial statements.

Statement of compliance
These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB").

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company.

As 1070900 and GFG-US were non-reporting issuers during the six months ended December 31, 2015, no comparatives reported for the periods are presented.

The financial statements were authorized for issue by the Board of Directors on February 16, 2017.

Basis of presentation
These financial statements have been prepared on the historical cost basis except if otherwise noted.

Basis of consolidation
These consolidated financial statements incorporate the financial statements of the Company and its wholly owned subsidiaries 1070900, GFG-US and JMO Exploration (US) Inc. All intercompany transactions have been eliminated upon consolidation.

Cash and Restricted cash
Cash comprises deposits in banks that are readily convertible into a known amount of cash, or with an initial maturity of less than 90 days. Restricted cash consists of cash deposited with a third party and held in trust.

Foreign currency translation
Amounts included in the consolidated financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and presentation currency of the Company and its subsidiaries is the U.S. dollar. Monetary assets and liabilities of the Company denominated in currencies other than the U.S. dollar are translated to U.S. dollars at the rate of exchange in effect at the statement of financial position date. Non-monetary assets and liabilities are translated to U.S. dollars at historical rates of exchange on the date of the transaction.

NOTE 2 - Significant Accounting Policies and Basis of Preparation (Continued)

Transactions in foreign currencies are translated at the actual rates of exchange on the transaction dates. Gains and losses on foreign currency translation are recorded in the consolidated statement of net loss and comprehensive loss.

Exploration and evaluation expenditures
Costs directly related to the acquisition and exploration of exploration and evaluation assets are capitalized. If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Share-based compensation
The Company may grant stock options 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 are measured on the date of grant, using the Black-Scholes option pricing model with an expense recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to deficit.

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.

The fair value of stock options granted to employees who work directly on a mineral property are capitalized to exploration and evaluation expenditures.

The Company may grant Restricted Share Units (RSUs) to directors, officers, and employees. The fair value of the RSUs are estimated using the value on the grant date and are recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in reserves. As the RSUs are redeemed and common shares are issued, the amount previously recognized in reserves is recorded as an increase to share capital.

Financial Instruments
The Company's financial instruments primarily consist of cash and cash equivalents (classified as loans and receivables), receivables (classified as loans and receivables), reclamation bonds (classified as loans and receivables) and accounts payable and accrued liabilities (classified as other financial liabilities), and advances (classified as other financial liabilities). The fair values of these financial instruments approximate their carrying values. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Loans and receivables recorded at amortized cost using the effective interest rate method. In addition, any impairment of loans and receivable is deducted from the amortized costs.
- Other financial liabilities are recorded at amortized cost using the effective interest rate method.

NOTE 3 - Accounting Standards

These are the changes the Company reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards, if applicable, when they become effective.

a) IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not expect any effect on its financial statements.

(Expressed in U.S. Dollars)

NOTE 3 - Accounting Standards (Continued)

b) IFRS 16 – Leases: On January 13, 2016, the IASB issued the final version of IFRS 16 Leases. The new standard will replace IAS 17 Leases and is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee, instead all leases are treated in a similar way to finance leases applying IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low-value assets. The Company is currently assessing the impact of this new standard on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or not expected to have a significant impact on the Company's financial statements.

NOTE 4 - Reverse Acquisitions

GFG Resources Inc. and 1070900 BC Ltd.

On September 2, 2016, the Company entered in to an arrangement agreement to acquire 100% of the issued and outstanding shares of 1070900, in exchange for shares of the Company which would result in a reverse take-over of the Company by the shareholders of 1070900 (the "Transaction"). At the time of this Transaction the Company did not constitute a business as defined under IFRS 3 Business Combination, therefore the Transaction is accounted for under IFRS 2 Share-Based Payment, where the difference between the consideration given to acquire the Company and the net asset value of the Company is recorded as a listing expense to net loss. As 1070900 is deemed to be the accounting acquirer for accounting purposes, its assets, liabilities and operations are included in the financial statements at their historical carrying values.

On October 21, 2016, the Transaction closed and the Company acquired, on a one for one basis, all issued and outstanding shares of 1070900 in exchange for 38,503,483 common shares of the Company.

The following table provides details of the fair value of the consideration given and the fair value of the assets and liabilities acquired:

	$
Consideration	1,187,500
Fair value of stock options assumed	7,259
Professional fees attributable to the transaction	109,024
	1,303,783
Assets acquired	
Cash	59,485
Prepaid expenses	793
Liabilities assumed	
Due to 1070900	(1,231)
Accounts payable and accrued liabilities	(11,830)
Net assets acquired	47,217
Listing fee	1,256,566

The fair value of the issued common shares of the Company was estimated to be $0.25 per share using the price of a financing that was completed concurrently.

(Expressed in U.S. Dollars)

NOTE 4 - Reverse Acquisitions (continued)

The Company assumed 40,000 stock options exercisable at $0.38 (CAD $0.50) expiring on June 26, 2022. The fair value of the issued stock options of the Company was $7,259, determined using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected life (years)	5.68
Interest rate	1.26%
Volatility	100%
Dividend yield	0%

1070900 BC Ltd. and GFG Resources (US) Ltd.

On July 5, 2016, 1070900 entered in to an agreement and plan of share exchange with GFG-US to acquire all the issued and outstanding shares of GFG-US in exchange for common shares of 1070900, on a one share for one share equivalent basis. This would result in a reverse take-over of 1070900 by the shareholders of GFG-US (the "Arrangement").

On August, 24, 2016, the Arrangement closed and the shareholders of 1070900 reserved 21,194,612 common shares of 1070900 for all the issued and outstanding shares of GFG-US. Out of 21,194,612 commons shares of 1070900, 19,050,419 common shares were issued in exchange for all of GFG-US's issued and outstanding common shares. In addition to the common shares exchanged, 2,144,193 additional shares were withheld, pending the receipt of clearance certificates from the U.S. Internal Revenue Service. In January 2017, the Company received the clearance to issue 2,144,193 common shares.

The shareholders of 1070900 also issued 875,000 stock options in exchange for all the issued and outstanding stock options of GFG-US.

Pursuant to the Arrangement, the assets and liabilities of GFG-US as at August 24, 2016 assumed on the recapitalization are as follows:

	$
Assets acquired by 1070900	
Cash	2,904,308
Receivables	1,421
Due from GFG-US	819,452
Liabilities assumed by 1070900	
Accounts payable and accrued liabilities	(144,776)
Net assets acquired	3,580,405

The net assets of GFG-US of $3,580,405 assumed on the recapitalization are added to share capital. The net costs for the recapitalization in the amount of $96,461 were charged to equity.

The consolidated statements of comprehensive loss and cash flows include GFG-US's results of operations and cash flows for the six months ended December 31, 2016, 1070900's results of operation and cash flows from the period of August 24, 2016 (the closing date of the Arrangement) to December 31, 2016, and the Company's results of operations and cash flows from October 21, 2016 (the closing date of the Transaction) to December 31, 2016.

(Expressed in U.S. Dollars)

NOTE 5 - Cash

	December 31, 2016	June 30, 2016
	$	$
Cash	1,883,792	900,531
Cash held in trust accounts	23,179	9,857
	1,906,971	**910,388**

NOTE 6 - Exploration and Evaluation Assets

Expenditures for the fiscal period related to an exploration and evaluation asset located in Wyoming, USA and are as follows:

	Rattlesnake
	$
Balance as at June 30, 2016	**2,930,933**
Additions:	
Acquisition and staking costs	284,305
Exploration expenses	
Claim maintenance fees	201,366
Consulting	120,001
Drilling	533,981
Geological	538,658
Geophysics	42,694
Geochem	122,699
Supplies	122,638
	1,966,342
Balance as at December 31, 2016	**4,897,275**

In July 2015, the Company entered into an asset purchase agreement with Evolving Gold Corp. (“Evolving Gold”) to acquire a 100% interest in certain claims and Wyoming State leases comprising the Rattlesnake Property in Wyoming (“Rattlesnake Acquisition”).

Total consideration consisted of:

(1) Initial deposit of $150,000 (paid);

(2) Cash payment of $564,000 payable upon closing (paid);

(3) Share payment of 2,000,000 common shares of the Company payable upon closing a value of $0.25 per share (“Consideration shares”) (issued);

(4) Issuance of promissory note of $600,000 (repaid in full) (Note 10);

(5) Share payment of 1,500,000 common shares of the Company provided that the Rattlesnake Property contains an aggregate mineral resource over 1,000,000 ounces of gold (not recorded as the probability is not yet determinable); and,

(6) Share payment of 200,000 common shares of the Company provided that insignificant progress towards completion of the Company going public was made by February 15, 2016 (“Penalty Shares”) (issued with an estimated fair value of $50,000 and recorded as an expense).

NOTE 6 - Exploration and Evaluation Assets (Continued)

In conjunction with the Rattlesnake Acquisition, the Company acquired the reclamation bond of $286,000 with the Wyoming Department of Environmental Equality from Evolving Gold. The Company paid $271,000 to Evolving Gold and holds the remaining of $15,000 in trust to cover 50% of the reclamation cost, up to a maximum of $15,000, for restoring the Rattlesnake Property.

The Rattlesnake Property is subject to a 2% Net Smelter Return ("NSR"), which becomes payable after commencement of commercial production. The Company has the right to purchase one-half of the royalty for a price of $1,000,000.

In October 2015, the Company entered into an asset purchase agreement with Endurance Gold Corporation ("Endurance") to acquire a 100% interest in certain mining claims and leases adjacent to the Rattlesnake Property in Wyoming ("Rattlesnake Claims").

Total consideration consisted of:

(1) Initial deposit of $25,000 (paid);
(2) Cash payment of $125,000 payable upon closing (paid);
(3) Share payment of 850,000 common shares of the Company payable upon closing at a value of $0.25 per share (issued);
(4) Share payment of 550,000 common shares of the Company payable on or before February 6, 2017 (issued subsequent to December 31, 2016);
(5) Share payment of 375,000 common shares of the Company upon drilling of a discovery hole on the Endurance Claims prior to October 8, 2022; and
(6) Share payment of 375,000 common shares of the Company provided that upon delivering a NI 43-101 compliant resource exceeding 500,000 ounces of gold at the Endurance Claims prior to October 8, 2022.

The additional common shares issuable upon drilling a discovery hole and delivering the NI 43-101 compliant resource of at least 500,000 ounces of gold prior to October 8, 2022 have not been recorded as the probability of achieving these objectives is not yet determinable.

The acquisition of the Rattlesnake Claims is subject to an underlying option agreement to acquire a 100% interest in certain lode mining claims and Wyoming state leases. The remaining terms of the option agreement assumed by the Company are as follows:

- Cash payment of $35,000 on or before October 8, 2015 (paid);
- Cash payment of $35,000 on or before December 31, 2015 (paid);
- Share payment of 97,000 common shares of the Company on closing (issued); and
- Exploration expenditures of $260,000 incurred on or before December 31, 2015 (incurred).

The Rattlesnake Claims are subject to:

- 2% NSR on production arising from mining claims; and
- 1% NSR on production arising from mining leases.

In July 2016, the Company exercised its option to buy-down a certain NSR for $50,000 pursuant to the underlying option agreement.

Pursuant to the exercise of its option to buy-down certain NSR royalty, the Company fulfilled its obligations under the terms of the agreements. The Company has been assigned all rights, title and interest in and to the Claims, which are situated in Natrona County, Wyoming.

The Company has the right to purchase one-half of the royalties for a price of $750,000 before December 31, 2017 and $1,500,000 after December 31, 2017.

(Expressed in U.S. Dollars)

NOTE 6 - Exploration and Evaluation Assets (Continued)

In October 2016, the Company entered into an asset purchase agreement to acquire a 100% interest in additional mining claims and leases adjacent to the Rattlesnake Property in Wyoming ("IEV Property"). Total consideration consisted of a cash payment of $39,423 and 100,000 common shares having a fair value of $25,000. The IEV Property is subject to an NSR of 1% on production arising from mining claims and 0.5% on productions arising from mining leases. The Company can repurchase one-half of the NSR for $250,000.

NOTE 7 - Reclamation Bonds

In relation to the Rattlesnake Property, the Company has posted or acquired reclamation bonds with the Wyoming Department of Environmental Equality in the amount of $448,100 (June 30, 2016 - $286,000).

NOTE 8 - Accounts Payable and Accrued Liabilities

	December 31, 2016	June 30, 2016
	$	$
Accounts payable	225,080	232,999
Accrued liabilities	26,913	74,860
	251,993	**307,859**

NOTE 9 - Advances

As at December 31, 2016, there is a balance of $15,000 (June 30, 2016 - $165,000) payable to Evolving Gold. The advances are unsecured, non-interest bearing and due on demand.

NOTE 10 - Promissory Note

In July 2015, the Company issued a promissory note of $600,000 to Evolving Gold as consideration of acquiring certain claims of the Rattlesnake Property (Note 6). The note did not bear interest and is secured by the Rattlesnake Property. As of December 31, 2016, the note was fully repaid. During the six months ended December 31, 2016, the Company recognized accretion interest expense of $4,333.

NOTE 11 - Share Capital and Reserves

Authorized share capital
Unlimited number of common shares without par value.

Issued share capital
On August 24, 2016, pursuant to the completion of the Transaction (Note 4), 1070900 agreed to exchange all of GFG-US's issued and outstanding common shares on a 1:1 basis. As discussed in Note 4, the Company issued 19,050,419 common shares to GFG-US shareholders. The remaining of 2,144,193 common shares were withheld, pending the receipt of clearance certificates from the U.S. Internal Revenue Service. In January 2017, the Company received the clearance to issue 2,144,193 common shares.

During the six months ended December 31, 2016, GFG-US reacquired 97,000 of its common shares from one shareholder for $24,250 and 1070900 completed various private placements of 2,350,000 shares of the Company at a price of $0.25 per share for proceeds totalling $587,500.

(Expressed in U.S. Dollars)

NOTE 11 - Share Capital and Reserves (continued)

On October 21, 2016, pursuant to the completion of a reverse acquisition (Note 4), GFG Resources Inc. (formerly Crest Petroleum Corp.) issued 38,503,483 common shares in exchange for all of 1070900's issued and outstanding common shares on a 1:1 basis. As discussed in Note 4, since the former shareholders of 1070900 effectively assumed control of the Company, the transaction has been treated for accounting purposes as a reverse acquisition.

On October 20, 2016, 1070900 issued 100,000 common shares with a fair value of $25,000 pursuant to the purchase of an exploration and evaluation asset.

During the six months ended December 31, 2016, the Company issued 2,302,500 common shares for gross proceeds of $580,800 pursuant to exercise of the stock options. Accordingly, the fair value of $194,415 was transferred from reserve to share capital.

Stock options
The Company has established a stock option plan under which common share purchase options may be granted to directors, officers, employees and consultants. The maximum number of shares available for options issuable under the stock option plan is 10% of the Company's common shares outstanding. Options granted have an exercise price of the Company's prior day's closing price quoted on the Exchange for the common shares of the Company.

A summary of stock options activities are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at June 30, 2016	915,000	0.26
Granted	1,687,500	0.25
Exercised	(2,302,500)	0.25
Outstanding at December 31, 2016	300,000	0.25

- In September 2016, the Company granted 1,562,500 stock options exercisable for a period of 2 months, valued at $0.40 per option for a total value of $57,455 calculated using the Black-Scholes option pricing model assuming a life expectancy of two months, a risk-free rate of 0.46%, a forfeiture rate of 0%, and volatility of 100%.

- In September 2016, the Company also granted 125,000 stock options exercisable for a period of 5 years, valued at $0.19 per option for a total value of $23,139 calculated using the Black-Scholes option pricing model assuming a life expectancy of five years, a risk-free rate of 0.59%, a forfeiture rate of 0%, and volatility of 100%.

A summary of the stock options outstanding and exercisable at December 31, 2016 is as follows:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$			
0.25	100,000	100,000	August 1, 2020
0.25	75,000	75,000	January 4, 2021
0.25	125,000	125,000	September 1, 2021
	300,000	300,000	

Restricted share units
On October 21, 2016, the Board granted the Chief Executive Officer (the "CEO") 600,000 Restricted Share Units ("RSUs"). The RSUs were granted as notional units that are economically equivalent to owning common shares of the Company. The RSUs vest over a period of three years as follows: 25% on the grant date and 25% on each anniversary date following the grant date. The redemption of the RSUs is deferred until the Company is listed on Tier 1 of the TSX-Venture Exchange or on the Toronto Stock

(Expressed in U.S. Dollars)

NOTE 11 - Share Capital and Reserves (continued)

Restricted share units (continued)
Exchange and will be paid in the common shares of the Company.

The RSUs were accounted for as equity-settled awards and the Company recorded share-based compensation expenses of $214,573 with a corresponding amount recorded to the reserves. The fair value of the share-based compensation was measured using the value on the grant date.

A summary of RSUs outstanding is as follows:

	Number of Units
Outstanding at September 30, 2016	-
Granted	600,000
Outstanding at December 31, 2016	600,000
Vested at December 31, 2016	150,000

Share-based compensation expense
The Company has recognized the following expense under both of its equity-settled plans:

	Three months ended December 31, 2016	Six months ended December 31, 2016
	$	$
Stock options	-	80,594
RSUs	214,573	214,573
Total share-based compensation	**214,573**	**295,167**

NOTE 12 - Related Party Transactions

Summary of key management personnel compensation:

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 and corporate officers, including the CEO.

	Three months ended December 31, 2016	Six months ended December 31, 2016
	$	$
Consulting fees	7,000	21,000
Management fees	-	7,739
Exploration and evaluation assets expenditures	78,035	117,985
Salaries and benefits	112,707	125,579
Directors’ fees	16,930	16,930
Share-based compensation	214,573	269,047
	429,245	558,280

NOTE 12 - Related Party Transactions (Continued)

Compensation of the Company's key management personnel includes salaries, non-cash benefits and board retainers. Executive officers and members of the board of directors may also participate in the stock option and RSU programs.

As at December 31, 2016, included in accounts payable are $16,596 owed to the directors of the Company; $4,502 owed to the VP Exploration of the Company; and, $255 owed to the CEO of the Company.

NOTE 13 - Capital Disclosure and Management

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholders' equity. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment. To maintain or adjust the capital structure, the Company may issue new shares through private placement, incur debt or return capital to shareholders.

NOTE 14 - Financial Instruments and Risk Management

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

a. Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its obligations. The Company's exposure to credit risk is on its cash held with Bank of Montreal. The carrying amounts represents the maximum credit exposure.

b. Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has working capital of $1,695,250 at December 31, 2016.

c. Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company has determined there is no material exposure related to interest rate risk.

d. Foreign Exchange Risk

Foreign exchange risk is the risk that fair value of future cash flows will fluctuate due to changes in foreign exchange rates.

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The carrying value of cash, restricted cash, receivables, accounts payable and accrued liabilities and advances are approximate to their fair values due to their short-term nature.

(Expressed in U.S. Dollars)

NOTE 15 - Commitments

a. The Company has entered in to three separate commercial lease agreements which have the following expected payments:

	$
2017	57,610
2018	55,650
2019	51,000
2020	17,000
Total	181,260

NOTE 16 - Subsequent Event

On January 31, 2017, the Company entered into a bought deal agreement to issue 4,350,000 common shares at a price of CAD $1.15 per common share for aggregate gross proceeds of approximately CAD $5.0 million. The Company has also granted the underwriters an option to purchase up to 15% of the number of common shares sold pursuant to the offering, exercisable at any time prior to close.