# Bonterra Resources Inc.

## Condensed Consolidated Interim Financial Statements

### Three Months Ended August 31, 2016

(Expressed in Canadian Dollars)

Bonterra Resources Inc.

Three Months Ended August 31, 2016

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**NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed consolidated interim financial statements they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements by an entity's auditor.

October 31, 2016

# Bonterra Resources Inc.
Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian Dollars)

| | | August 31, 2016 | | May 31, 2016 |
|---|---|---|---|---|
| **Assets** | | | | |
| **Current** | | | | |
| Cash | $ | **4,248,009** | $ | 351,029 |
| Share subscriptions receivable | | **190,750** | | - |
| Receivables | | **127,721** | | 216,183 |
| Prepaid expenses | | **439,480** | | 42,705 |
| | | **5,005,960** | | 609,917 |
| **Prepaid Expenses** | | **16,496** | | 65,985 |
| **Equipment** (note 7) | | **8,282** | | 8,818 |
| **Exploration and Evaluation Assets** (note 8) | | **18,023,947** | | 16,376,551 |
| | $ | **23,054,685** | $ | 17,061,271 |
| **Liabilities** | | | | |
| **Current** | | | | |
| Accounts payable and accrued liabilities (notes 9 and 11) | $ | **914,999** | $ | 749,144 |
| Other liabilities (note 9) | | **181,613** | | 55,572 |
| Due to related parties (note 10) | | **12,458** | | 35,730 |
| | | **1,109,070** | | 840,446 |
| **Shareholders' Equity** | | | | |
| **Share Capital** (note 11) | | **40,070,466** | | 35,314,325 |
| **Share-based Payments Reserve** (note 11) | | **5,946,247** | | 4,421,229 |
| **Deficit** | | **(24,071,098)** | | (23,514,729) |
| | | **21,945,615** | | 16,220,825 |
| | $ | **23,054,685** | $ | 17,061,271 |

**Going Concern** (note 2)
**Commitments** (note 14)
**Subsequent Events** (note 15)

Approved on behalf of the Board:

*"Robert Gagnon"* ……………………………… Director
Robert Gagnon

*"Nav Dhaliwal"* ……………………………… Director
Nav Dhaliwal

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

Bonterra Resources Inc.
Condensed Consolidated Interim Statements of Comprehensive Loss
For the Three Months Ended August 31,
(Expressed in Canadian Dollars)

| | | **2016** | | 2015 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Amortization (note 7) | $ | **536** | $ | 721 |
| Consulting fees | | **284,693** | | 288,175 |
| Management and director fees (note 10) | | **55,500** | | 45,000 |
| Office and general | | **24,659** | | 24,404 |
| Professional fees (note 10) | | **18,592** | | 6,128 |
| Rent (note 10) | | **3,643** | | 7,212 |
| Share-based payments (note 11) | | **51,619** | | 176,451 |
| Shareholder communications and investor relations | | **228,234** | | 98,739 |
| Transfer agent and filings fees | | **1,870** | | 2,404 |
| Travel | | **26,982** | | 5,197 |
| **Net Loss Before Other Items** | | **(696,328)** | | (654,431) |
| **Other Item** | | | | |
| Other income (note 9) | | **139,959** | | 42,731 |
| **Net and Comprehensive Loss for the Period** | $ | **(556,369)** | $ | (611,700) |
| **Basic and Diluted Loss Per Share** | $ | **(0.01)** | $ | (0.02) |
| **Weighted Average Number of Common Shares Outstanding – Basic and Diluted** | | **79,504,400** | | 27,981,507 |

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

Bonterra Resources Inc.
Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in Canadian Dollars)

| | Share Capital | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | | Share Capital | | Share-based Payments Reserve | | Deficit | | Total |
| **Balance May 31, 2015** | **21,190,067** | **$** | **23,485,669** | **$** | **2,346,061** | **$** | **(20,175,682)** | **$** | **5,656,048** |
| Private placements | 11,610,624 | | 1,959,876 | | 403,916 | | - | | 2,363,792 |
| Share issue costs | - | | (173,079) | | - | | - | | (173,079) |
| Fair value of finder’s warrants | - | | (81,782) | | 81,782 | | - | | - |
| Shares issued on exercise of options | 1,408,000 | | 253,440 | | - | | - | | 253,440 |
| Stock options granted | - | | - | | 176,451 | | - | | 176,451 |
| Transfer of stock options fair value on exercise | - | | 116,600 | | (116,600) | | - | | - |
| Net loss and comprehensive loss for period | - | | - | | - | | (611,700) | | (611,700) |
| **Balance, August 31, 2015** | **34,208,691** | | **25,560,724** | | **2,891,610** | | **(20,787,382)** | | **7,664,952** |
| Private placements | 16,907,564 | | 3,138,724 | | 96,183 | | - | | 3,234,907 |
| Share issue costs | - | | (229,159) | | - | | - | | (229,159) |
| Fair value of finder's warrants | - | | (100,050) | | 100,050 | | - | | - |
| Shares issued on exercise of options | 822,000 | | 138,960 | | - | | - | | 138,960 |
| Transfer of stock options fair value on exercise | - | | 57,284 | | (57,284) | | - | | - |
| Stock options granted | - | | - | | 1,605,573 | | - | | 1,605,573 |
| Shares issued on exercise of warrants | 4,104,407 | | 868,382 | | - | | - | | 868,382 |
| Transfer of warrant fair value on exercise | - | | 214,903 | | (214,903) | | - | | - |
| Shares issued for exploration and evaluation assets | 14,730,620 | | 5,664,557 | | - | | - | | 5,664,557 |
| Net loss and comprehensive loss for the year | - | | - | | - | | (2,727,347) | | (2,727,347) |
| **Balance, May 31, 2016** | **70,773,282** | | **35,314,325** | | **4,421,229** | | **(23,514,729)** | | **16,220,825** |
| Private placements | 18,314,915 | | 5,283,035 | | 1,278,685 | | - | | 6,561,720 |
| Share issue costs | - | | (332,180) | | - | | - | | (332,180) |
| Fair value of finder's warrants | - | | (194,714) | | 194,714 | | - | | - |
| Stock options vested | - | | - | | 51,619 | | - | | 51,619 |
| Net loss and comprehensive loss for period | - | | - | | - | | (556,369) | | (556,369) |
| **Balance, August 31, 2016** | **89,088,197** | **$** | **40,070,466** | **$** | **5,946,247** | **$** | **(24,071,098)** | **$** | **21,945,615** |

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

Bonterra Resources Inc.
Condensed Consolidated Interim Statements of Cash Flows
For the Three Months Ended August 31,
(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net loss for the period | $ **(556,369)** | $ (611,700) |
| Items not involving cash | | |
| Amortization | **536** | 721 |
| Share-based payments | **51,619** | 176,451 |
| Other income | **(139,959)** | (42,731) |
| Changes in non-cash working capital | | |
| Receivables | **88,462** | (53,344) |
| Prepaid expenses | **(347,286)** | (2,500) |
| Accounts payable and accrued liabilities | **198,564** | (76,862) |
| Due to related parties | **(23,272)** | (3,150) |
| **Cash Used in Operating Activities** | **(727,705)** | (613,115) |
| **Investing Activity** | | |
| Exploration and evaluation assets | **(1,680,105)** | (460,381) |
| **Cash Used in Investing Activity** | **(1,680,105)** | (460,381) |
| **Financing Activity** | | |
| Shares issued for cash, net of issuance costs | **6,304,790** | 2,571,365 |
| **Cash Provided by Financing Activity** | **6,304,790** | 2,571,365 |
| **Inflow of Cash** | **3,896,980** | 1,497,869 |
| **Cash, Beginning of Period** | **351,029** | 98,606 |
| **Cash, End of Period** | $ **4,248,009** | $ 1,596,475 |

**Supplemental Disclosure with Respect to Cash Flows** (note 12)

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

## 1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Bonterra Resources Inc. (the "Company") is an exploration stage company incorporated on May 1, 2007, under the laws of the Province of British Columbia, Canada. Its principal business activity is the acquisition, exploration and evaluation of mineral properties located in the Provinces of Ontario and Quebec, Canada. The Company's common shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "BTR". The Company's head office and principal business address is 510-744 West Hasting Street, Vancouver, British Columbia, Canada, V6C 1A1. The Company's registered and records office is 1000-840 Howe Street, Vancouver, British Columbia, Canada, V6Z 2M1.

## 2. GOING CONCERN

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

The Company incurred a comprehensive loss of $556,369 for the three months ended August 31, 2016 (2015 - $611,700), and has an accumulated deficit of $24,071,098 at August 31, 2016 (May 31, 2016 - $23,514,729). These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation assets when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These condensed consolidated interim financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

## 3. BASIS OF PREPARATION

a) Statement of compliance

The condensed consolidated interim financial statements ("financial statements") of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed consolidated interim financial statements of the Company should be read in conjunction with the Company's 2016 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 31, 2016.

b) Basis of measurement

These condensed consolidated interim financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale ("AFS"), and fair value through profit or loss ("FVTPL"). These condensed consolidated interim financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

(Expressed in Canadian Dollars)

**3. BASIS OF PRESENTATION** (Continued)

c) Subsidiaries

These condensed consolidated interim financial statements include the accounts of the Company and the following subsidiaries. All intercompany transactions and balances have been eliminated.

| | Country of Incorporation | Percentage of Ownership at August 31, 2016 | Percentage of Ownership at May 31, 2016 |
|---|---|---|---|
| Symphony Resources Ltd. ("Symphony") | USA | 100% | 100% |
| 0819904 B.C. Ltd. | Canada | 100% | 100% |

**4. SIGNIFICANT ACCOUNTING POLICIES**

The condensed consolidated interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in Note 4 to the audited financial statements for the year ended May 31, 2016.

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

*Critical judgments in applying accounting policies*

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed consolidated interim financial statements within the next financial year are discussed below:

a) Impairment of exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation expenditure and impairment of the capitalized expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

b) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

## 5. CRITICAL ACCOUNTING ESTIMATES (Continued)

*Critical judgments in applying accounting policies* (continued)

c) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

d) Going concern risk assessment

The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation assets when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These consolidated financial statements do not give effect to any adjustments required to realize it assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed consolidated interim financial statements.

*Key sources of estimation uncertainty*

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the consolidated financial statements.

**5. CRITICAL ACCOUNTING ESTIMATES** (Continued)

*Key sources of estimation uncertainty* (continued)

a) Decommissioning liabilities

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs which will reflect the market condition at the time the rehabilitation costs are actually incurred.

The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at August 31, 2016, the Company has no known rehabilitation requirements and accordingly, no provision has been made.

b) Share purchase warrant valuation

The Company measures the value of share purchase warrants issued as part of private placement units using a pro rata method. The pro rata method requires each component to be valued at fair value and an allocation of the total proceeds received based on the pro rata relative values of the components. The fair value of the common share purchase warrants is determined at the announcement date using the Black-Scholes pricing model. Estimating fair value for share purchase warrants 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 share purchase warrant, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share purchase warrants are disclosed in note 11.

c) Valuation of flow-through premium

The determination of the valuation of flow-through premium and warrants in equity units is subject to significant judgment and estimates. The flow-through premium is valued as the estimated premium that investors pay for the flow-through feature, being the portion in excess of the market value of shares without the flow-through feature issued in concurrent private placement financing. In the case that the Company did not issue non flow-through shares together with the flow-through shares, the market value of shares without the flow-through feature will be determined using their closing quoted bid price.

**6. FINANCIAL INSTRUMENTS**

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash is classified as financial assets at FVTPL; receivables as loans and receivables; and accounts payable and accrued liabilities and due to related parties as other financial liabilities. The carrying value of these instruments approximates their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by levels within the fair value hierarchy:

| **August 31, 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Cash | $ 4,248,009 | $ - | $ - | $ 4,248,009 |

(Expressed in Canadian Dollars)

**6. FINANCIAL INSTRUMENTS** (Continued)

| May 31, 2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash | $ 351,029 | $ - | $ - | $ 351,029 |

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

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash, by placing it at major Canadian financial institutions. Included in receivables is $122,460 (May 31, 2016 - $214,893) of GST receivable. Accordingly, the Company has minimal credit risk.

b) 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's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2016 equal $1,109,070 (May 31, 2016 - $840,446). All of the liabilities presented as accounts payable are due within 30 days of the reporting date.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

*i)* *Currency risk* - The Company has no funds held in a foreign currency and as a result is not exposed to significant currency risk on its financial instruments at year-end.

*ii)* *Interest rate risk* - Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash is at nominal interest rates and, therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

*iii)* *Other price risk* - Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company does not have significant exposure to this risk.

(Expressed in Canadian Dollars)

**6. FINANCIAL INSTRUMENTS** (Continued)

d) Capital management

The Company considers its capital to be comprised 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. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of capital stock, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the period ended August 31, 2016. The Company is not subject to externally imposed capital requirements.

**7. EQUIPMENT**

| | Furniture and Equipment | Computer Equipment | Total |
|---|---|---|---|
| Cost | | | |
| Balance, May 31, 2015, May 31, 2016 and August 31, 2016 | $ 18,130 | $ 21,576 | $ 39,706 |
| Amortization | | | |
| Balance, May 31, 2015 | $ 11,867 | $ 16,137 | $ 28,004 |
| Amortization | 1,252 | 1,632 | 2,884 |
| Balance, May 31, 2016 | 13,119 | 17,769 | 30,888 |
| Amortization | 251 | 285 | 536 |
| Balance, August 31, 2016 | $ 13,370 | $ 18,054 | $ 31,424 |
| Net Book Value, May 31, 2016 | $ 5,011 | $ 3,807 | $ 8,818 |
| Net Book Value, August 31, 2016 | $ 4,760 | $ 3,522 | $ 8,282 |

## 8. EXPLORATION AND EVALUATION ASSETS

a) Gladiator Project

(i) Coliseum Property

During the year ended May 31, 2010, the Company acquired a 100% interest in 95 claim blocks in Quebec near Windfall Lake at a cost of $20,000 (paid), the issuance of 50,000 common shares to the vendors and 5,440 common shares to a finder (issued) and incurring $140,000 of exploration expenditures (incurred). The shares were valued at $155,232 based on the market value of the shares on share issue date. The property is subject to a 2% net smelter returns royalty of which 0.5% can be purchased by the Company for $1,000,000.

(ii) West Arena Property

The Company entered into an option agreement on September 15, 2010, as amended on February 8, 2011 and March 19, 2012 to acquire a 100% interest in 23 additional mineral claims adjacent to the Coliseum claims in Quebec for aggregate consideration of $10,000 cash (paid), 87,500 common shares (issued) and $750,000 in exploration expenditures (incurred). The Company has completed the acquisition and owns 100% subject to the NSR below.

The agreement is subject to a 2% NSR of which 1% can be purchased for $500,000. A finder's fee of 2,845 shares was paid in connection with this acquisition.

On November 7, 2013, the Company sold an additional 1% NSR to GRO in exchange for 1,000,000 common shares of GRO, valued at $325,000.

(iii) East Arena Property

On December 30, 2010, the Company closed and received approval from the TSX Venture Exchange for a property purchase agreement entered into on December 10, 2010 to acquire a 100% interest in 57 mineral claims east of the Urban-Barry Township in Quebec. Consideration paid was 100,000 common shares valued at $860,000 based on the market price of the shares on the share issue date, and cash payments of $35,000. The agreement is subject to a 2% NSR of which 1% may be purchased for $1,000,000.

(iv) St-Cyr Property

On February 23, 2016, the Company entered into an agreement to acquire a 100% interest in the St-Cyr Property, located in Quebec. In consideration, the Company issued 700,000 common shares of the Company (issued on March 2, 2016 and valued at $224,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for $1,000,000.

(v) West Lacroix Lake Property

On February 23, 2016, the Company entered into an agreement with to acquire a 100% interest in the St-Cyr Property, located in Quebec. In consideration, the Company issued 500,000 common shares of the Company (issued on March 2, 2016 and valued at $160,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for $1,000,000.

**8. EXPLORATION AND EVALUATION ASSETS** (Continued)

a) Gladiator Project (continued)

(vi) Lac Barry Property

On March 10, 2016, the Company entered into an option agreement with Golden Valley Mines Ltd. ("Golden Valley") to acquire an 85% interest in Golden Valley's Lac Barry Property, located in Quebec.

In consideration, the Company issued 519,480 common shares of the Company (issued on March 16, 2016 and valued at $225,973). In order to maintain the option, the Company must incur expenditures of $2,000,000 as follows:

- $250,000 before March 10, 2017;
- an additional $750,000 on or before March 10, 2018; and
- an additional $1,000,000 on or before March 10, 2019.

Golden Valley retains a 15% interest in the property and a 3% NSR, of which 1% can be purchased by the Company for $1,000,000.

(vii) Macho South Property

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Macho South Property, located in Quebec. In consideration, the Company issued 1,200,000 common shares of the Company (issued on March 21, 2016 and valued at $510,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for $1,000,000.

(viii) Barry Property

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Barry Property, located in Quebec. In consideration, the Company issued 800,000 common shares of the Company (issued on March 21, 2016 and valued at $340,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for $1,000,000.

(ix) Bailly Property

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Bailly Property, located in Quebec. In consideration, the Company issued 250,000 common shares of the Company (issued on March 21, 2016 and valued at $106,250). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for $1,000,000.

On March 21, 2016, the Company issued 202,232 common shares of the Company (valued at $85,949) as finder's fees on the acquisitions of the Macho South, Barry and Bailly properties.

b) Larder Lake Project

On March 16, 2016, the Company entered into an option agreement to acquire a 100% interest in the Larder Lake Property from Kerr Mines and its wholly-owned subsidiary, Bear Lake Gold Ltd., located in Ontario. The terms of the agreement were amended on April 14, 2016 and TSX-V approval for the transaction was received on April 26, 2016.

**8. EXPLORATION AND EVALUATION ASSETS** (Continued)

b) Larder Lake Project (continued)

In consideration for the Larder Lake Property, the Company issued 10,000,000 common shares of the Company (issued on April 26, 2016 and valued at $3,800,000). The Company must also pay $1,150,000 as follows:

- $200,000 upon TSX-V approval (paid);
- $300,000 on or before December 26, 2016;
- $350,000 on or before April 26, 2017; and
- $300,000 on or before October 26, 2017.

In the event the Company completes an equity financing for gross proceeds of $4,000,000 or more in non-flow through financing, then the second cash payment of $300,000 and third cash payment of $350,000 are due within ten days of the closing of the equity financing, and the fourth cash payment of $300,000 is due on or before April 26, 2017.

In relation to the transaction, the Company paid a finder's fee of 558,908 common shares (issued and valued at $212,385).

(Expressed in Canadian Dollars)

## 8. EXPLORATION AND EVALUATION ASSETS (Continued)

| | Gladiator Project | Larder Lake Project | Total |
|---|---|---|---|
| **Balance, May 31, 2015** | **$ 5,969,976** | **$ -** | **$ 5,969,976** |
| **Acquisition Costs** | | | |
| Claim renewals | 12,166 | 81 | 12,247 |
| Acquisition and option payments | 1,566,223 | 4,000,000 | 5,566,223 |
| Finder's fees | 85,949 | 212,385 | 298,334 |
| **Total Acquisition Costs** | **1,664,338** | **4,212,466** | **5,876,804** |
| **Property Exploration Costs** | | | |
| Assays and geochemistry | 108,009 | - | 108,009 |
| Camp and other costs | 930,489 | - | 930,489 |
| Drilling | 2,854,677 | - | 2,854,677 |
| Geological | 383,951 | 39,200 | 423,151 |
| Geophysics | 190,162 | - | 190,162 |
| Travel and transport | 23,283 | - | 23,283 |
| **Total Exploration Costs** | **4,490,571** | **39,200** | **4,529,771** |
| **Balance, May 31, 2016** | **12,124,885** | **4,251,666** | **16,376,551** |
| **Acquisition Costs** | | | |
| Claim renewals | 4,865 | 13,127 | 17,911 |
| **Property Exploration Costs** | | | |
| Assays and geochemistry | 31,094 | - | 31,094 |
| Camp and other costs | 164,962 | 35,000 | 199,962 |
| Drilling | 1,129,539 | - | 1,129,539 |
| Geological | 211,710 | 6,823 | 218,533 |
| Geophysics | 47,494 | - | 47,494 |
| Travel and transport | 2,863 | - | 2,863 |
| **Total Exploration Costs** | **1,587,662** | **41,823** | **1,629,485** |
| **Balance, August 31, 2016** | **$ 13,717,412** | **$ 4,306,535** | **$ 18,023,947** |

(Expressed in Canadian Dollars)

## 9. OTHER LIABILITIES

Other liabilities consist of the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

| | Issued During the Year Ended May 31, 2016 | Issued During the Three Months Ended August 31, 2016 | **Total** |
|---|---|---|---|
| Balance, May 31, 2015 | $ - | $ - | $ **-** |
| Liability incurred on flow-through shares issued July 2015 | 172,212 | - | **172,212** |
| Liability incurred on flow-through shares issued December 2015 | 406,485 | - | **406,485** |
| Settlement of flow-through share liability by incurring expenditures | (523,125) | - | **(523,125)** |
| Balance, May 31, 2016 | 55,572 | - | **55,572** |
| Liability incurred on flow-through shares issued July 2016 | - | 227,250 | **227,250** |
| Liability incurred on flow-through shares issued August 2016 | - | 38,750 | **38,750** |
| Settlement of flow-through share liability by | (55,572) | (84,387) | **(139,959)** |
| Balance, August 31, 2016 | $ - | $ 181,613 | $ **181,613** |

*<u>During the three months ended August 31, 2016</u>*

On July 7, 2016, the Company issued 7,575,000 flow-through shares at a price of $0.40 per share. The premium paid by investors was calculated as $0.03 per share. Accordingly, $227,250 was recorded as other liabilities.

On August 29, 2016, the Company issued 775,000 flow-through shares at a price of $0.40 per share. The premium paid by investors was calculated as $0.05 per share. Accordingly, $38,750 was recorded as other liabilities.

At August 31, 2016, the Company had a remaining commitment to incur exploration expenditures in relation to its July 2016 and August 2016 flow-through share financings of $2,679,846.

Included in accounts payable and accrued liabilities at August 31, 2016 is a provision for tax liabilities as a result of not meeting flow-through expenditure requirements from flow-through common shares issued in calendar 2012 and 2013 of $243,794, and a provision for Part XII.6 tax and penalties of $23,701.

*<u>During the year ended May 31, 2016</u>*

On July 6, 2015, the Company issued 6,527,274 flow-through shares at a price of $0.22 per share. The premium paid by investors was calculated as $0.02 per share. Accordingly, $130,545 was recorded as other liabilities. Also on July 6, 2015, the Company issued 2,083,350 flow-through units at a price of $0.24 per unit. The premium paid by investors was calculated as $0.02 per share. Accordingly, $41,667 was recorded as other liabilities.

(Expressed in Canadian Dollars)

## 9. OTHER LIABILITIES (Continued)

On December 23, 2015, the Company issued 13,549,509 flow-through shares at a price of $0.22 per share. The premium paid by investors was calculated as $0.03 per share. Accordingly, $406,485 was recorded as other liabilities.

At May 31, 2016, the Company had a remaining commitment to incur exploration expenditures in relation to its December 2015 flow-through share financings of $407,530.

Included in accounts payable and accrued liabilities at May 31, 2016 is a provision for tax liabilities as a result of not meeting flow-through expenditure requirements from flow-through common shares issued in calendar 2012 and 2013 of $243,794, and a provision for Part XII.6 tax and penalties of $23,701. The Company has paid $69,939 towards Part XII.6 tax and penalties during the year ended May 31, 2016.

## 10. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the consolidated statements of comprehensive loss:

| | Three Months Ended August 31, 2016 | Three Months Ended August 31, 2015 |
|---|---|---|
| Short-term compensation | $ 128,500 | $ 71,000 |

During the three months ended August 31, 2016, short-term compensation to related parties consisted of $55,500 in management and director fees (2015 - $45,000), $60,000 in deferred exploration costs (2015 - $20,000) and $13,000 in professional fees (2015 - $6,000).

During the three months ended August 31, 2016, the Company received $5,020 for rent expense to a company related by a common director (2015 - $nil).

During the three months ended August 31, 2016, the Company paid $49,297 (2015 - $nil) to private companies with common directors for exploration and evaluation asset expenditures.

As at August 31, 2016, the Company had outstanding amounts payable to officers and directors of the Company of $12,458 (May 31, 2016 - $35,730) for outstanding fees and expenses. The amounts payable are non-interest-bearing, uncollateralized and are repayable on demand.

## 11. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares without par value

**11. SHARE CAPITAL** (Continued)

b) Issued and outstanding

**During the three months ended August 31, 2016**

On July 7 2016, the Company completed a non-brokered private placement for gross proceeds of $5,056,970 (of which $3,030,000 is for flow-through expenditures). The Company issued 7,575,000 flow-through shares at a price of $0.40 per share, and 5,791,343 non-flow units at a price of $0.35 per unit. Each non-flow-through unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.50 per share for a period of two years. These warrants had a value of $688,640 using the pro rata method.

The premium paid by investors on the flow-through shares was calculated as $0.03 per share. Accordingly, $227,250 was recorded as other liabilities.

The Company paid finder's fees of $228,210 and issued 782,800 finder's warrants with an exercise price of $0.40 for a period of two years. The finder's warrants were valued at $161,281 (note 11(c)). Other share issue costs of $27,467 were incurred.

On August 19, 2016, the Company completed a non-brokered private placement for gross proceeds of $1,770,750 (of which $310,000 is for flow-through expenditures). The Company issued 775,000 flow-through shares at a price of $0.40 per share, and 4,173,572 non-flow-through units at a price of $0.35 per unit. Each non-flow-through unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.50 per share for a period of two years. These warrants had a value of $590,045 using the pro rata method.

The premium paid by investors on the flow-through shares was calculated as $0.05 per share. Accordingly, $38,750 was recorded as other liabilities.

The Company paid finder's fees of $66,900 and issued 126,000 finder's warrants with an exercise price of $0.35 for a period of two years. The finder's warrants were valued at $33,433 (note 11(c)). Other share issue costs of $9,604 were incurred.

At August 31, 2016, 644,047 (May 31, 2016 – 1,288,094) shares were held in escrow. The remaining 644,047 shares will be released in February 2017.

**During the year ended May 31, 2016**

On July 6, 2015, the Company completed a non-brokered private placement for gross proceeds of $2,536,004 (of which $1,936,004 is for flow-through expenditures). The Company issued 6,527,274 flow-through shares at a price of $0.22 per share, 2,083,350 flow-through units at a price of $0.24 per unit and 3,000,000 non-flow-through units at a price of $0.20 per unit. Each flow-through unit consisted of one flow-through common share of the Company and one non-flow-through share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.35 per share for a period of two years. These warrants had a value of $162,282 using the pro rata method. Each non-flow-through unit consisted of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of three years. These warrants had a value of $241,634 using the pro rata method.

**11. SHARE CAPITAL** (Continued)

b) Issued and outstanding (continued)

The premium paid by investors on the flow-through shares was calculated as $0.02 per share. Accordingly, $130,545 was recorded as other liabilities. The premium paid by investors on the flow-through units was calculated as $0.02 per share. Accordingly, $41,667 was recorded as other liabilities.

The Company paid finder's fees of $158,020 and issued 25,000 finder's warrants valued at $3,371 (note 11(c)) with the same terms as the warrants in the non-flow-through units and 690,242 finder's warrants valued at $78,411 (note 11(c)) with an exercise price of $0.20 for a period of two years. Other share issue costs of $15,059 were incurred.

On December 23, 2015, the Company completed a non-brokered private placement for gross proceeds of $3,387,392 (of which $2,980,892 is for flow-through expenditures). The Company issued 13,549,509 flow-through shares at a price of $0.22 per share, 1,532,500 non-flow-through units at a price of $0.20 per unit and 555,555 non-flow-through shares at a price of $0.18 per share. Each non-flow-through unit consisted of one common share of the Company and one-half of one share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at an exercise price of $0.30 per share for a period of two years. These warrants had a value of $96,183 using the pro rata method.

The premium paid by investors on the flow-through shares was calculated as $0.03 per share. Accordingly, $406,485 was recorded as other liabilities.

The Company paid finder's fees of $210,912 and issued 977,127 finder's warrants valued at $100,050 (note 11(c)). Each finder's warrant entitles the holder to acquire one common share of the Company at an exercise price of $0.20 per share for a period of two years. Other share issue costs of $18,247 were incurred.

On January 20, 2016, the Company completed a non-brokered private placement for gross proceeds of $254,000. The Company issued 1,270,000 common shares at a price of $0.20 per share.

During the year ended May 31, 2016, the Company issued 2,230,000 common shares for proceeds of $392,400 on the exercise of 2,230,000 stock options. The fair-value of the stock options of $173,884 was transferred to share capital from share-based payments reserve upon exercise.

During the year ended May 31, 2016, the Company issued 4,104,407 common shares for proceeds of $868,382 on the exercise of 4,104,407 share purchase warrants. The value of the warrants of $214,903 was transferred to share capital from share-based payments reserve upon exercise.

During the year ended May 31, 2016, the Company issued 14,730,620 common shares valued at $5,664,557 for the acquisition of exploration and evaluation assets (note 8).

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL** (Continued)

c) Warrants

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

| | **Three Months Ended August 31, 2016** | | **Year Ended May 31, 2016** | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| Outstanding, beginning of year | 9,637,562 | $ 0.27 | 6,200,000 | $ 0.20 |
| Issued | 10,873,715 | 0.49 | 7,541,969 | 0.29 |
| Exercised | - | - | (4,104,407) | 0.21 |
| Outstanding, end of year | 20,511,277 | $ 0.39 | 9,637,562 | $ 0.27 |

The following warrants were outstanding and exercisable:

| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price | **August 31, 2016** |
|---|---|---|---|
| December 22, 2016 | 0.31 | $ 0.20 | 3,115,000 |
| July 6, 2017 | 0.85 | $ 0.20 | 145,835 |
| July 6, 2017 | 0.85 | $ 0.35 | 2,083,350 |
| December 23, 2017 | 1.31 | $ 0.20 | 977,127 |
| December 23, 2017 | 1.31 | $ 0.30 | 766,250 |
| July 6, 2018 | 1.83 | $ 0.30 | 2,550,000 |
| July 7, 2018 | 1.85 | $ 0.40 | 782,800 |
| July 7, 2018 | 1.85 | $ 0.50 | 5,791,343 |
| August 19, 2018 | 1.97 | $ 0.35 | 126,000 |
| August 19, 2018 | 1.97 | $ 0.50 | 4,173,572 |
| | 1.49 | | 20,511,277 |

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its finder's warrants granted. The fair value of each finder's warrant grant was calculated using the following weighted average assumptions:

| | **Three Months Ended August 31, 2016** | **Year Ended May 31, 2016** |
|---|---|---|
| Expected life (years) | 2.00 | 2.01 |
| Risk-free interest rate | 0.48% | 0.57% |
| Volatility | 122% | 123% |
| Dividend yield | N/A | N/A |
| Stock price at grant date | $ 0.36 | $0.19 |
| Exercise price | $ 0.39 | $0.20 |
| Weighted average grant date fair value | $ 0.21 | $0.11 |

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL** (Continued)

c) Warrants (continued)

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

d) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date, including options granted prior to the adoption of the plan. Options granted may not exceed a term of 10 years, and the term will be reduced to one year following the date of death of the optionee. All options vest when granted unless they are otherwise specified by the Board of Directors or if they are granted for investor relations activities. Options granted for investor relations activities vest over a 12-month period with no more than 25% of the options vesting in any three-month period.

The following is a summary of option transactions under the Company's stock option plan for the three months ended August 31, 2016 and year ended May 31, 2016:

| | **Three Months Ended August 31, 2016** | | **Year Ended May 31, 2016** | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of period | 5,800,000 | $ 0.37 | 556,000 | $ 0.23 |
| Granted | - | - | 8,061,000 | 0.32 |
| Exercised | - | - | (2,230,000) | 0.18 |
| Expired | - | - | (587,000) | 0.23 |
| Outstanding, end of period | 5,800,000 | $ 0.37 | 5,800,000 | $ 0.37 |

The weighted average trading price on date of exercise for the stock options granted during the year ended May 31, 2016 was $0.23.

The following options were outstanding and exercisable:

| | | | **2016** | |
|---|---|---|---|---|
| Expiry Date | Weighted Average Remaining Contractual Life in Years | Exercise Price | Outstanding | Exercisable |
| October 14, 2020 | 4.12 | $ 0.22 | 1,800,000 | 1,800,000 |
| December 8, 2020 | 4.27 | $ 0.22 | 800,000 | 600,000 |
| March 30, 2021 | 4.58 | $ 0.50 | 3,200,000 | 2,975,000 |
| | 4.40 | | 5,800,000 | 5,375,000 |

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL** (Continued)

d) Stock options (continued)

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. The fair value of each option grant was calculated using the following weighted average assumptions:

| | **Three Months Ended August 31, 2016** | **Year Ended May 31, 2016** |
|---|---|---|
| Expected life (years) | N/A | 3.88 |
| Risk-free interest rate | N/A | 0.65% |
| Volatility | N/A | 146% |
| Dividend yield | N/A | N/A |
| Stock price at grant date | N/A | $0.29 |
| Exercise price | N/A | $0.32 |
| Weighted average grant date fair value | N/A | $0.23 |

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

During the three months ended August 31, 2016, the Company recorded $51,619 (2015 - $nil) on the vesting of 175,000 stock options (2015 - nil) previously granted.

**12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

| | **2016** | **2015** |
|---|---|---|
| Income tax paid | $ - | $ - |
| Interest paid (received) | $ - | $ - |
| | | |
| Non-cash investing and financing activities: | | |
| Fair value of agent's warrants issued | $ 194,714 | $ 81,782 |
| Fair value of warrants issued as units | $ 1,278,685 | $ 403,916 |
| Fair value of options exercised | $ - | $ 116,600 |
| Exploration and evaluation expenditures in accounts payable and due to related parties | $ 344,893 | $ 35,859 |

**13. SEGMENTED DISCLOSURE**

The Company has one operating segment, being mineral exploration and development. All of the Company's assets are located in Canada.

**14. COMMITMENTS**

On August 10, 2016, the Company entered into a consulting agreement with the VP Exploration and director whereby the Company will pay a base fee of $192,000 per year and minimum incentive fee of $20,000 per year. If the agreement is terminated without cause, the Company is required to pay an amount equal to two times the base fee. If the agreement is terminated on change of control, the Company is required to pay an amount equal to two times the base fee, and two times the average incentive fee of the preceding two years.

## 14. COMMITMENTS (Continued)

On August 10, 2016, the Company entered into a consulting agreement with the CEO, President and director whereby the Company will pay a base fee of $192,000 per year and minimum incentive fee of $20,000 per year. If the agreement is terminated without cause, the Company is required to pay an amount equal to two times the base fee. If the agreement is terminated on change of control, the Company is required to pay an amount equal to two times the base fee, and two times the average incentive fee of the preceding two years.

## 15. SUBSEQUENT EVENT

Subsequent to August 31, 2016, the Company received $104,196 on the exercise of 470,982 share purchase warrants.