



**TAKARA RESOURCES INC.**

**TAKARA RESOURCES INC.  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the six months ended  
June 30, 2016**

**(Expressed in Canadian Dollars)**

**(UNAUDITED)**

**TAKARA RESOURCES INC.**  
**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NOTICE TO READER**

**Responsibility for Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Takara Resources Inc. for the six months ended June 30, 2016 have been prepared by management in accordance with International Financial Reporting Standards applicable to interim financial statements (see note 2) to the unaudited interim condensed consolidated financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the unaudited financial statements, management is satisfied that these unaudited interim condensed consolidated financial statements have been fairly presented.

**Auditors Involvement**

The external auditors of Takara Resources Inc. have not audited or performed a review of the unaudited interim condensed consolidated financial statements for the six months ended June 30, 2016.

**TAKARA RESOURCES INC.**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

	June 30, 2016	December 31, 2015
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 3,848	\$ 139
Receivables (Note 4)	63,317	54,776
<b>Total current assets</b>	<b>67,165</b>	<b>54,915</b>
<b>Total Assets</b>	<b>\$ 67,165</b>	<b>\$ 54,915</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables and provisions	\$ 517,931	\$ 401,951
<b>Total Liabilities</b>	<b>517,931</b>	<b>401,951</b>
<b>Shareholders' Equity</b>		
Share capital (Note 6)	17,131,399	17,087,130
Warrants (Note 7)	77,623	77,623
Units to be issued (Note 5)	103,253	103,253
Contributed surplus	3,710,157	3,710,157
Deficit	(21,473,198)	(21,325,199)
<b>Total Shareholders' Equity (Deficiency)</b>	<b>(450,766)</b>	<b>(347,036)</b>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>	<b>\$ 67,165</b>	<b>\$ 54,915</b>
<b>Nature of operations and going concern (Note 1)</b>		
<b>Commitments and Contingencies (Note 12)</b>		

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa"

Signed "Jacques Monette"

## TAKARA RESOURCES INC.

### Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian Dollars) (unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>Expenses</b>				
Exploration and evaluation				
Acquisitions	15,000	-	15,000	-
Equipment	26	-	610	-
Facility expenses	4,809	-	6,129	-
Project management and engineering	19,033	-	38,968	-
Reports	15	-	770	-
Taxes, permits and licensing	25	-	1,237	-
	<b>38,908</b>	-	<b>62,714</b>	-
Corporate				
Administrative and general expenses	541	14,984	2,510	22,011
Management fees	19,671	-	31,671	-
Professional fees	4,742	41,523	30,377	44,978
Filing costs and shareholders' information	5,321	-	20,476	-
Travel	52	-	2,015	-
	<b>30,327</b>	<b>56,507</b>	<b>87,049</b>	<b>66,989</b>
Other items				
Interest and other income	(1)	-	(22)	-
Exchange (gain) loss	(1,742)	-	(1,742)	-
	<b>(1,743)</b>	-	<b>(1,764)</b>	-
<b>Total Expenses</b>	<b>67,492</b>	<b>56,507</b>	<b>147,999</b>	<b>66,989</b>
<b>Net and comprehensive loss for the year</b>	<b>(67,492)</b>	<b>(56,507)</b>	<b>(147,999)</b>	<b>(66,989)</b>
<b>Net loss per share - basic and fully diluted</b>	<b>(0.003)</b>	<b>(0.003)</b>	<b>(0.006)</b>	<b>(0.004)</b>
<b>Weighted average number of shares outstanding basic and fully diluted</b>	<b>25,814,075</b>	<b>19,095,690</b>	<b>25,550,370</b>	<b>18,717,531</b>

See accompanying notes to the consolidated financial statements.

## TAKARA RESOURCES INC.

### Consolidated Statement of Changes in Equity

(Expressed in Canadian Dollars) (unaudited)

	Share Capital	Shares to be issued	Reserves	Contributed Surplus	Deficit	Total Equity (Deficiency)
Balance December 31, 2014	\$ 16,899,006	\$ -	\$ -	\$ 3,710,157	\$ (20,808,873)	\$ (199,710)
Issued by private placement	35,656	-	121,593	-	-	157,249
Issued for compensatiom	-	-	5,402	-	-	5,402
Net loss for the period	-	-	-	-	(66,989)	(66,989)
<b>Balance June 30, 2015</b>	<b>16,934,662</b>	<b>-</b>	<b>126,995</b>	<b>3,710,157</b>	<b>(20,875,862)</b>	<b>(104,048)</b>
Issued by private placement	95,344	-	(52,593)	-	-	42,751
Share issue costs	(15,376)	-	(7,686)	-	-	(23,062)
Issued for properties	62,500	103,253	14,001	-	-	179,754
Issued for debt	10,000	-	-	-	-	10,000
Issued for compensatiom	-	-	(3,094)	-	-	(3,094)
Net loss for the period	-	-	-	-	(449,337)	(449,337)
<b>Balance December 31, 2015</b>	<b>17,087,130</b>	<b>103,253</b>	<b>77,623</b>	<b>3,710,157</b>	<b>(21,325,199)</b>	<b>(347,036)</b>
Issued for debt	44,269	-	-	-	-	44,269
Net loss for the period	-	-	-	-	(147,999)	(147,999)
<b>Balance June 30, 2016</b>	<b>\$ 17,131,399</b>	<b>\$ 103,253</b>	<b>\$ 77,623</b>	<b>\$ 3,710,157</b>	<b>\$ (21,473,198)</b>	<b>\$ (450,766)</b>

See accompanying notes to the consolidated financial statements.

**TAKARA RESOURCES INC.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian Dollars) (unaudited)  
For the six months ended June 30,

2016 2015

<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net gain (loss) for the period	\$ (147,999)	\$ (66,989)
Changes in non-cash working capital items		
Receivables	(8,541)	(16,204)
Prepaid expenses	-	-
Trade and other payables	115,980	(13,843)
<b>Net cash flows used in operating activities</b>	<b>(40,560)</b>	<b>(97,036)</b>
<b>Financing activities</b>		
Issue of common shares and warrants, net of costs	44,269	162,650
<b>Net cash flows provided from financing activities</b>	<b>44,269</b>	<b>162,650</b>
<b>Decrease in cash and cash equivalents during the period</b>	<b>3,709</b>	<b>65,614</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>139</b>	<b>3,257</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,848</b>	<b>\$ 68,871</b>
<b>Cash and cash equivalents consist of:</b>		
Cash	\$ 3,848	\$ 2,585
Cash equivalents	-	-
	<b>\$ 3,848</b>	<b>\$ 2,585</b>

See accompanying notes to the consolidated financial statements.

## **1. NATURE OF BUSINESS AND GOING CONCERN**

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### **Nature of business**

Takara Resources Inc. ("Takara" or the "Company") was incorporated on April 29, 2005 pursuant to the Canada Business Corporations Act under the name Naples Capital Corp. On November 29, 2007, the Company amended its articles to change its name to Takara Resources Inc. The address of the Company's office is 1500 West Georgia Street, Suite 1300, Vancouver, BC V6G 2Z6. Takara's principal business activities are the acquisition, evaluation, exploration and development of mineral properties. To date, the Company has not realized any revenues from its properties.

These consolidated financial statements were approved by the Board of Directors on August 9, 2016.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and evaluation activities, and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, government licensing requirements or regulations, social licensing requirements, non-compliance with regulatory and environmental requirements or aboriginal land claims.

### **Going concern**

As at June 30, 2016, the Company had not yet achieved profitable operations, had a working capital deficiency of \$450,7662 (December 31, 2015 – \$347,036), had accumulated losses of \$21,405,705 (December 31, 2015 - \$21,473,198) and expected to incur future losses in the development of its business. The Company is in the process of exploring its properties and had not yet determined whether these properties contain economically recoverable reserves. The continued operations of the Company are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the financing to complete the necessary exploration and development of such property and upon attaining future profitable production or proceeds from disposition of the properties, all of which indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management is actively pursuing additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

These consolidated financial statements have been prepared on a going concern basis and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## **2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE**

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### **Statement of Compliance**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, as required by National Instrument 52-107 sec. 3.2(1)(b)(ii).

## **2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)**

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### **Basis of presentation**

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that have been measured at fair value.

### **Functional currency**

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar.

### **Significant accounting estimates and judgments**

The preparation of these consolidated financial statements requires management to make judgments and estimates 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 judgments and estimates. The consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the consolidated 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 also in future periods when the revision affects both current and future periods.

#### *Income, value added, withholding and other taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

#### *Acquisition of Castle Silver Mines Inc.*

The Company has determined that the transaction between Takara and Gold Bullion Development Corp. ("Gold Bullion") to acquire Castle Silver Mines Inc. ("CSM"), a Gold Bullion's wholly-owned subsidiary, constituted an asset acquisition by Takara, as CSM did not meet the definition of a business as defined in IFRS 3 Business Combinations. Accordingly, effective as at the date of closing, CSM's net assets were consolidated at allocated cost and no goodwill has been recognized.

#### *Going concern*

See Note 1.



## **2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE (continued)**

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### **Future changes in accounting standards**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

#### *IFRS 9 Financial Instruments ("IFRS 9")*

IFRS 9 was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

#### *IAS 1 Presentation of Financial Statements ("IAS 1")*

IAS 1 was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

## **3. SIGNIFICANT ACCOUNTING POLICIES**

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The accounting policies set out in the Company's audited financial statements for the year ended December 31, 2015 have been applied consistently to these interim condensed consolidated financial statements.

## **4. AMOUNTS RECEIVABLE**

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The Company's amounts receivable are comprised of the following;

	June 30, 2016	December 31, 2015
Commodity taxes	\$ 26,732	\$ 22,889
Due from related party	36,585	31,887
	<u>\$ 63,317</u>	<u>\$ 54,776</u>

The amount due from related party is with a company, with which the Company has directors and officers in common. The amount is unsecured and non-interest bearing with no fixed terms of repayment.

**5. EXPLORATION AND EVALUATION PROJECTS**

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**Castle Silver Mine Project, Ontario**

On April 13, 2015, Takara and Gold Bullion entered into a definitive purchase and sale agreement for Takara to acquire certain properties of Gold Bullion situated in Ontario, through the acquisition of Gold Bullion's wholly-owned subsidiary, CSM. Under the terms of the agreement, Takara will acquire all of the issued and outstanding common shares of CSM from Gold Bullion in exchange for 10,000,000 units of Takara issued in equal stages of 2,500,000 units over a 4-year period. Each unit consists of one common share in the capital of Takara and one common share purchase warrant exercisable at \$0.10, expiring one year from the date of issuance of the units. Under the terms of the amended and restated share purchase agreement dated May 4, 2015, Gold Bullion has agreed to distribute pro rata the Takara units received to the Gold Bullion shareholders. In addition, the parties have agreed that Takara will not be obligated to issue any units, if such issuance results in Gold Bullion holding more than 20% of the then issued and outstanding common shares in the capital of the Company.

On September 15, 2015, the Company issued 2,500,000 units of Takara, with the remaining 7,500,000 units to be issued over 3-year period, to acquire all of the issued and outstanding common shares of CSM.

The consideration paid and payable is estimated as follows:

Common shares	\$ 62,500
Warrants	14,001
Units to be issued	<u>103,253</u>
	<u>\$179,754</u>

The warrants were assigned a value of \$14,001 using the Black Scholes option pricing model. The assumptions used were: expected dividend yield of 0%, expected volatility of 145%, a risk free interest rate of 0.48% and expected life of 1 year.

The fair value of the units to be issued was estimated to be \$103,253, of which \$61,250 was assigned to common shares and \$42,003 to warrants. The warrants were valued using the Black Scholes option pricing model, using the same assumption as the \$14,001 valued warrants above. The estimated fair value of common shares was based on the quoted market share price at September 15, 2015, and included a liquidity discount. The value of liquidity discount was estimated using the Black Scholes option pricing model. The assumptions used were: expected dividend yield of 0%, expected volatility of 145%, a risk free interest rate of 0.48% and expected life of 1 – 3 years.

The allocation of the purchase price is as follows:

Cash	\$ 15,860
Net liability assumed	(161,765)
Mineral exploration claims	340,659
Transaction costs	<u>(15,000)</u>
	<u>\$ 179,754</u>

In accordance with the Company's accounting policy, the amount allocated to the mineral exploration claims was expensed during the year ended December 31, 2015.

Subsequent to the completion of the transaction, the Company and Gold Bullion have directors and officers in common.

## **5. EXPLORATION AND EVALUATION PROJECTS (continued)**

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CSM holds a 100% interest in certain claims and parcels located in the Haultain and Nicol townships of Ontario. The property is subject to a sliding scale royalty on silver production which will start from 3% when the price of silver is US\$15 or lower per troy ounce and up to 5% when the price of silver is greater than US\$30 per troy ounce and a 5% gross overriding royalty on the sale of products derived from the property with a minimum annual payment of \$15,000 in the form of royalties on all future production from the property and a 1% NSR.

On June 30, 2016 the Company entered into a Letter of Intent with Gold Bullion Development Corp. to advance the "Castle Golden Corridor Zone" discovered through surface sampling at the Company's 3,300 hectare Castle Silver Mine Property 75 km southwest of Kirkland Lake.

Under the terms of the LOI, Takara will transfer a 50% interest in 5 contiguous mineral claims on the property covering 91 hectares (the "Castle Golden Corridor Zone") in lieu of \$60,000 in property payments owed to Gold Bullion pursuant to an Assignment Agreement between the two companies dated October 8, 2015, concerning the Beaver and Violet cobalt-silver properties. The LOI is subject to the approval of the TSX Venture Exchange.

### **Beaver and Violet Properties, Ontario**

On October 8, 2015, the Company entered into an Assignment Agreement (the "Agreement") with Gold Bullion to acquire a 100% interest in the Beaver and Violet cobalt and silver properties located in the township of Coleman, in northern Ontario. Gold Bullion held a seven year option with Jubilee Gold Exploration Ltd ("Jubilee") to acquire a 100% interest to the properties, which are subject to a 3% NSR royalty. Each 1% can be purchased for \$1.5M.

Pursuant to the Agreement, the Company agreed to pay an aggregate of \$75,000 with \$15,000 payable within 10 days of execution of the agreement (paid) and four equal instalments of \$15,000 on each anniversary date of the agreement, and accept all of Gold Bullion's rights, obligations and liabilities under the option agreement dated May 10, 2011 and amended January 31, 2012 (the "Option Agreement").

Pursuant to the Assignment Agreement, the Company is required to make annual payments to Jubilee for a period of 5 years, or until the properties are put into commercial production, whichever is earlier, in an aggregate amount of \$60,000: \$10,000 in each year on or before July 1, 2012, 2013, 2014, \$15,000 on each of July 1, 2015, and 2016. Prior to signing the Agreement, the Company paid Gold Bullion \$15,000 for the reimbursement of the July 1, 2015 prepayment of the NSR to Jubilee. In addition, the Company is required to make a \$15,000 prepayment of the NSR on July 1, 2016.

**TAKARA RESOURCES INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**  
**For the six months ended June 30, 2016**  
(Expressed in Canadian Dollars)

**6. SHARE CAPITAL**

**Authorized**

Unlimited number of common shares without par value  
Unlimited number of preferred shares issuable in series

**Issued**

Common

	2016		2015	
	Number		Number	
	of Shares	Amount	of Shares	Amount
Balance, beginning of year	<b>25,182,647</b>	<b>\$17,087,130</b>	18,282,647	\$16,899,006
Private placements	-	-	4,000,000	131,000
Share issue costs	-	-	-	(15,376)
Issued for debt	<b>885,413</b>	<b>44,269</b>	400,000	10,000
Issued for property	-	-	2,500,000	62,500
Balance, end of period	<b>26,068,060</b>	<b>\$ 17,131,399</b>	25,182,647	\$17,087,130

**7. WARRANTS**

There were no warrants transactions during the six months ended June 30, 2016.

At June 30, 2016, the issued and outstanding warrants are as follows:

Number of Warrants	Exercise Price (\$)	Estimated Grant Date Fair Value (\$)	Expiry Date
2,500,000	0.10	14,001	September 15, 2016
1,535,000	0.10	30,447	May 20, 2017
2,012,000	0.10	23,846	June 23, 2017
600,000	0.10	9,330	July 31, 2017
<b>6,647,000</b>		<b>77,623</b>	

**8. STOCK OPTIONS**

The Company has in place a stock option plan (the "Plan") under which officers, directors, employees and consultants are eligible to receive incentive stock options. The aggregate number of common shares reserved for issuance under the Plan and common shares reserved for issuance under any other share compensation arrangement granted or made available by the Company from time to time may not exceed in aggregate 10% of the Company's common shares issued and outstanding at the time of grant. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years, but so long as the Company remains a "Tier 2" issuer under the policies of the Toronto Stock Exchange, options may not exceed a term of five years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not lower than the fair market value of the option shares on the date of the grant of the option.

## **8. STOCK OPTIONS (cont'd)**

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The terms of the plan are as follows:

- (i) the maximum number of shares that can be received by a beneficiary during any 12 month period is limited to 5% of issued and outstanding shares;
- (ii) the maximum number of shares that can be reserved for a consultant during any 12 month period is limited to a 2% of issued and outstanding shares; and
- (iii) the maximum number of shares that can be reserved for a supplier of investor relations services during any 12 month period is limited to 2% of issued and outstanding shares; moreover, the options granted may be exercised on a 12 month period after the grant, at the rate of 25% per quarter.

On April 13, 2016, the Company granted stock options to its directors, officers, employees and consultants to purchase an aggregate of 1,850,000 common shares in the capital of the Company. The stock options are exercisable for a term of five years at an exercise price of \$0.05 per share.

## **9. RELATED PARTY TRANSACTIONS**

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The Company has entered into agreements with officers of the Company and private companies controlled by officers and directors of the Company for management consulting, geological consulting and other services required by the Company.

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The remuneration of officers and directors of the Company operating in a management capacity for the six months ended June 30, 2016 was \$41,000 (Year ended December 31, 2015 - \$71,363) and was composed entirely of short-term benefits.

There were no Directors' fees paid to members of the Board of Directors for the six months ended June 30, 2016.

Included in accounts payable and accrued liabilities was \$189,641 (December 31, 2015 \$188,634) payable to officers and directors of the Company or companies controlled by them. These amounts are unsecured and non-interest bearing with no fixed terms of repayment.

## **10. CAPITAL MANAGEMENT**

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The Company considers its capital structure to consist of shareholders' equity and due to related parties. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its exploration, development and operating activities.

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at June 30, 2016, the Company had no bank debt.

## **10. CAPITAL MANAGEMENT (cont'd)**

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The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. 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 six months ended June 30, 2016,

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of June 30, 2016, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

## **11. FINANCIAL INSTRUMENTS AND RISK FACTORS**

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The Company's risk exposures and the impact on the Company's financial instruments are set out in the Company's audited financial statements for the year ended December 31, 2014.

## **12. COMMITMENTS AND CONTINGENCIES**

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### **(a) Environmental Contingencies**

The Company's exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

### **(b) Flow-Through Shares**

Pursuant to the issuance of 2,560,000 flow-through shares on December 31, 2013, the Company renounced \$128,000 of qualified exploration expenditures with an effective date of December 31, 2013. The Company is required to expend this amount on qualified exploration expenditures by December 31, 2014. As of December 31, 2014, the Company has expended \$64,990 of this amount on qualified exploration expenditures. There was a shortfall of qualified expenditures of approximately \$63,010 as at December 31, 2014. As at June 30, 2016, no amount has been provided for potential claims in accordance with the indemnity provisions as no such amount, if any, is currently determinable.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that may become payable by the subscribers as a result of the Company not meeting this expenditure commitment.

### **(c) Management Contracts**

The Company is party to a management contract. Upon the occurrence of certain events such as a change in control, the contract requires payment of up to \$180,000. As a triggering event has not taken place, the contingent payment has not been reflected in these consolidated financial statements.

**12. COMMITMENTS AND CONTINGENCIES (cont'd)**

(d) Agreements with non-related parties

The Company is committed to pay an annual royalty payment in the amount of \$15,000 to Jubilee Gold Exploration Ltd. See note 6.

(e) The Company has entered into a Memorandum of Understanding (“MOU”) with the Matachewan First Nation community in connection with certain exploration and evaluation programs in their area in return for contributions towards education and environmental activities and the improvement of community facilities. Also, the Company will pay 2% of all costs of the exploration program incurred to date and thereafter to the First Nation community.

The MOU also includes terms outlining environmental protection, employment, training and business opportunities, and mitigation of impacts on the traditional pursuits of the members of the Mattagami First Nation community.