

**CASTLE SILVER RESOURCES INC.  
(formerly Takara Resources Inc.)**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended**

**March 31, 2017**

**(Expressed in Canadian Dollars)**

**(UNAUDITED)**

**CASTLE SILVER RESOURCES INC.  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NOTICE TO READER**

**Responsibility for Financial Statements**

The accompanying unaudited interim condensed consolidated financial statements of Castle Silver Resources Inc. for the three months ended March 31, 2017 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 Castle Silver Resources Inc. have not audited or performed a review of the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2017.

**CASTLE SILVER RESOURCES INC.**  
**(formerly Takara Resources Inc.)**  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 536,584	\$ 3,170
Amounts receivable (GST)	55,083	52,224
<b>Total Assets</b>	<b>\$ 591,667</b>	<b>\$ 55,394</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 246,155	\$ 800,171
Due from related party	\$ 211,093	-
<b>Total Liabilities</b>	<b>457,248</b>	<b>800,171</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (Note 5)	18,042,580	17,160,803
Warrants (Note 6)	237,803	77,623
Options (Note 7)	485,538	117,303
Units to be issued (Note 4)	60,002	60,002
Contributed surplus	3,729,150	3,724,150
Deficit	(22,420,654)	(21,884,658)
<b>Total Shareholders' Equity (Deficiency)</b>	<b>134,419</b>	<b>(744,777)</b>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>	<b>\$ 591,667</b>	<b>\$ 55,394</b>

**Nature of operations and going concern (Note 1)**  
**Commitments and Contingencies (Note 11)**  
**Subsequent events (Note 12)**

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa"

Signed "Jacques Monette"

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

**CASTLE SILVER RESOURCES INC.**  
**(formerly Takara Resources Inc.)**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

For the three months ended March 31,	2017	2016
<b>Expenses</b>		
Exploration and evaluation		
Equipment	\$ 1,400	\$ 584
Facility expenses	6,339	1,320
Geology and geophysics	29,044	-
Project management and engineering	12,219	19,935
Reports	2,135	755
Taxes, permits and licensing	1,297	1,212
	<b>52,434</b>	<b>23,806</b>
Corporate		
Advertising and promotion	9,846	-
Administrative and general expenses	748	1,969
Management fees	11,055	12,000
Professional fees	250,751	25,635
Filing costs and shareholders' information	42,343	15,155
Travel	15,819	1,963
	<b>330,562</b>	<b>56,722</b>
Other items		
Interest and other income	-	(21)
Stock option compensation	153,000	-
	<b>153,000</b>	<b>(21)</b>
<b>Total Expenses</b>	<b>535,996</b>	<b>80,507</b>
<b>Net and comprehensive loss for the year</b>	<b>535,996</b>	<b>80,507</b>
<b>Net loss per share - basic and fully diluted</b>	<b>\$ 0.02</b>	<b>\$ 0.00</b>
<b>Weighted average number of shares outstanding basic and fully diluted</b>	<b>29,904,951</b>	<b>22,546,777</b>

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

**CASTLE SILVER RESOURCES INC.**  
**(formerly Takara Resources Inc.)**

Consolidated Statements of Changes in Equity  
(Expressed in Canadian Dollars)

	Share Capital	Units to be issued	Warrants and Options	Contributed Surplus	Deficit	Total Equity (Deficiency)
<b>Balance December 31, 2015</b>	17,087,130	103,253	77,623	3,710,157	(21,325,198)	(347,035)
Net loss for the period					(80,507)	(80,507)
<b>Balance March 31, 2016</b>	17,087,130	103,253	77,623	3,710,157	(21,405,705)	(427,542)
Issued	-	(43,251)	-	-	-	(43,251)
Exercise of warrants - Cash	146	-	-	-	-	146
Exercise of warrants - BV	8	-	(8)	-	-	-
Warrants expired	-	-	(13,993)	13,993	-	-
Issued for debt	44,269	-	-	-	-	44,269
Issued for property	29,250	-	14,001	-	-	43,251
Options granted	-	-	117,303	-	-	117,303
Net loss for the period	-	-	-	-	(478,953)	(478,953)
Balance December 31, 2016	17,160,803	60,002	194,926	3,724,150	(21,884,658)	(744,777)
Private placements	539,855	-	422,427	-	-	962,282
Options granted	-	-	153,000	-	-	153,000
Exercise of warrants - Cash	1,943	-	-	-	-	1,943
Exercise of warrants - BV	576	-	(576)	-	-	-
Exercise of options - Cash	40,000	-	-	-	-	40,000
Exercise of options - BV	27,500	-	(27,500)	-	-	-
Options expired	-	-	(5,000)	5,000	-	-
Share issue costs	(18,223)	-	(13,936)	-	-	(32,159)
Issued for debt	290,126	-	-	-	-	290,126
Net loss for the period	-	-	-	-	(535,996)	(535,996)
<b>Balance, March 31, 2017</b>	<b>18,042,580</b>	<b>60,002</b>	<b>723,341</b>	<b>3,729,150</b>	<b>(22,420,654)</b>	<b>134,419</b>

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

**CASTLE SILVER RESOURCES INC.**  
**(formerly Takara Resources Inc.)**  
**Consolidated Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

For the three months ended March 31, 2017 2016

<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net gain (loss) for the year	\$ (535,996)	\$ (80,507)
Items not involving cash		
Stock-based compensation	153,000	-
Changes in non-cash working capital items		
Receivables	(2,859)	10,745
Due to related company	211,093	-
Trade and other payables	(554,016)	73,483
<b>Net cash flows used in operating activities</b>	<u>(728,778)</u>	<u>3,721</u>
<b>Financing activities</b>		
Issuance of common shares and warrants	1,220,249	-
Exercise of warrants	1,943	-
Exercise of options	40,000	-
<b>Net cash flows generated from financing activities</b>	<u>1,262,192</u>	<u>-</u>
<b>Increase in cash during the period</b>	<b>533,414</b>	<b>3,721</b>
<b>Cash , beginning of year</b>	<u>3,170</u>	<u>139</u>
<b>Cash , end of period</b>	<u><u>\$ 536,584</u></u>	<u><u>\$ 3,860</u></u>

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

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)**

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

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**Nature of business**

Castle Silver Resources Inc. ("Castle" or the "Company") was incorporated on April 29, 2005 pursuant to the Canada Business Corporations Act under the name Naples Capital Corp. On November 19, 2007, the Company amended its articles to change its name to Takara Resources Inc. and on November 28, 2016 the Company amended its name to Castle Silver Resources Inc. The address of the Company's head office is 3028 Quadra Court, Coquitlam, BC V3B 5X6. Castle'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 Condensed Interim consolidated financial statements were approved by the Board of Directors on May 23, 2017.

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 March 31, 2017, the Company had not yet achieved profitable operations, had working capital of \$134,419 (December 31, 2016 – (\$744,777)), had accumulated losses of \$22,420,659 (December 31, 2016 - \$21,884,658) and expected to incur future losses in the development of its business. These items represent material uncertainties which cast significant doubt about the ability of the Company to continue as a going concern. 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. 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. See Note 12.

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)**

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**1. NATURE OF BUSINESS AND GOING CONCERN (continued)**

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These interim condensed 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).

**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.



**CASTLE SILVER RESOURCES INC.**

**(formerly Takara Resources Inc.)**

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three months ended March 31, 2017**

**(Expressed in Canadian Dollars)**

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

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*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 the Company and Granada Gold Mine Inc. ("Granada") (formerly Gold Bullion Development Corp.) to acquire Castle Silver Mines Inc. ("CSM"), a Granada wholly-owned subsidiary, constituted an asset acquisition by the Company, 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.

**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, 2017 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.

## **CASTLE SILVER RESOURCES INC.**

**(formerly Takara Resources Inc.)**

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three months ended March 31, 2017**

**(Expressed in Canadian Dollars)**

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

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#### *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.

### **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, 2016 have been applied consistently to these interim condensed consolidated financial statements.

### **4. EXPLORATION AND EVALUATION PROJECTS**

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#### **Castle Silver Mine Project, Ontario**

On April 13, 2015, the Company and Granada entered into a definitive purchase and sale agreement for the Company to acquire certain properties of Granada situated in Ontario, through the acquisition of Granada's wholly-owned subsidiary, CSM. Under the terms of the agreement, the Company acquired all the issued and outstanding common shares of CSM from Granada in exchange for 10,000,000 units of the Company. 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 the Company 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, Granada has agreed to distribute pro rata the Company units received to the Gold Bullion shareholders. In addition, the parties have agreed that the Company will not be obligated to issue any units, if such issuance results in Granada holding more than 20% of the then issued and outstanding common shares in the capital of the Company.

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)**

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**4. EXPLORATION AND EVALUATION PROJECTS (continued)**

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**Castle Silver Mine Project, Ontario (continued)**

On each of September 15, 2015, and 2016, the Company issued 2,500,000 units of Castle, with the remaining 5,000,000 units to be issued over a 2-year period.

The consideration paid and payable is estimated as follows:

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Common shares	\$ 91,750
Warrants	28,002
Units to be issued	60,002
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	\$ 179,754

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Each block of warrants was 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 is estimated to be \$60,002, of which \$32,000 was assigned to common shares and \$28,002 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	(15,000)
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	\$ 179,754

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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.

**CASTLE SILVER RESOURCES INC.**

**(formerly Takara Resources Inc.)**

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three months ended March 31, 2017**

**(Expressed in Canadian Dollars)**

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**4. EXPLORATION AND EVALUATION PROJECTS (continued)**

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**Castle Silver Mine Project, Ontario (continued)**

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 September 30, 2016, the Company entered into a Letter of Intent with Granada 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 Letter of Intent, the Company transferred a 50% interest in certain contiguous mineral claims on the property (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.

**Beaver and Violet Properties, Ontario**

On October 8, 2015, the Company entered into an Assignment Agreement (the "Agreement") with Granada to acquire a 100% interest in the Beaver and Violet cobalt and silver properties located in the township of Coleman, in northern Ontario. Granada held a seven-year option with Jubilee Gold Exploration Ltd ("Jubilee") to acquire a 100% interest in 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"). In lieu of making these four instalment payments of \$15,000 the Company transferred a 50% interest in certain the CSM claims to Granada.

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)****4. EXPLORATION AND EVALUATION PROJECTS (continued)****Beaver and Violet Properties, Ontario (continued)**

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 made a \$15,000 prepayment of the NSR on July 1, 2016.

**5. SHARE CAPITAL****Authorized**

Unlimited number of common shares without par value

Unlimited number of preferred shares

issuable in series

**Issued**

Common

	2017		2016	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	<b>28,569,481</b>	<b>\$17,160,803</b>	25,182,647	\$17,087,130
Private placements	<b>6,351,233</b>	<b>539,855</b>	-	-
Exercise of warrants - Cash	<b>19,433</b>	<b>1,943</b>	1,421	146
Exercise of warrants - BV	-	<b>576</b>	-	8
Exercise of options - Cash	<b>550,000</b>	<b>40,000</b>	-	-
Exercise of options - BV	-	<b>27,500</b>	-	-
Share issue costs	-	<b>(18,223)</b>	-	-
Issued for debt	<b>1,934,163</b>	<b>290,126</b>	885,413	44,269
Issued for property	-	-	2,500,000	29,250
Balance, end of period	<b>37,424,310</b>	<b>\$18,042,580</b>	28,569,481	\$17,160,803

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)**

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**5. SHARE CAPITAL(continued)**

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- (i) On June 26, 2016, the Company issued 885,413 common shares to settle a debt of \$44,269
- (ii) March 16, 2017, the Company closed a private placement offering, raising gross proceeds of \$952,685. The Company issued 6,351,233 units at a price of \$0.15 per unit. Each unit comprises one common share and one share purchase warrant. Each warrant will entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.20 per share for a period of two years from closing, subject to TSX Venture Exchange ("Exchange") approval. The expiry of the warrants may be accelerated if the closing price of the Company's shares on the TSX Venture Exchange is at least \$0.30 per share for a period of 10 consecutive trading days during the term of the warrant. The Company may accelerate the expiry of the warrants to 20 calendar days from the date express written notice is given by the Company to the holder.

Finder's fees were paid in connection with the private placement in the amount of \$22,447 cash and 147,646 broker warrants on the same terms as the purchaser warrants.

- (iii) On March 23, 2017, the Company settled its debt obligations with certain creditors of the Company in the amount of \$290,136 through the issuance of 1,934,163 common shares of the Company at a deemed price of \$0.15 per common share.

**6. WARRANTS**

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**Warrant Transactions**

	2017		2016	
	Number of Warrants	Book Value	Number of Warrants	Book Value
Balance, beginning of year	6,647,000	\$77,623	6,647,000	\$77,623
Private placements	6,351,233	412,830	-	-
Warrants exercised	(19,433)	(576)	(1,421)	(8)
Issue costs related to warrants issued for property	-	(13,936)	-	-
Issued as compensation	147,646	9,597	-	-
Balance, end of period	13,126,446	\$485,538	6,647,000	\$77,623

**CASTLE SILVER RESOURCES INC.****(formerly Takara Resources Inc.)****Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017****(Expressed in Canadian Dollars)**

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**6. WARRANTS (continued)**

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**Warrants Outstanding**

At March 31, 2017, the issued and outstanding warrants are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,517,500	0.100	May 20, 2017
2,012,000	0.100	June 23, 2017
600,000	0.100	July 31, 2017
2,498,067	0.100	September 15, 2017
6,351,233	0.200	March 16, 2019
147,646	0.200	March 16, 2019
<u>13,126,446</u>	<u>0.100</u>	

**7. STOCK OPTIONS**

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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.

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;
- (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.

**CASTLE SILVER RESOURCES INC.**

(formerly Takara Resources Inc.)

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)****For the three months ended March 31, 2017**

(Expressed in Canadian Dollars)

**7. STOCK OPTIONS (continued)**

Option transactions	2017			2016		
	Number of Options	Weighted Average Exercise price	Value	Number of Options	Weighted Average Exercise price	Value
Balance, beginning of year	2,450,000	0.06	\$117,303	-	-	-
Exercised	(550,000)	0.05	(27,500)	-	-	-
Expired	(100,000)	0.03	(5,000)	-	-	-
Granted	700,000	0.22	153,000	2,450,000	0.06	117,303
Balance, end of period	2,500,000		\$237,803	2,450,000		117,303

**Options outstanding**

As at March 31, 2017 the options outstanding were as follows:

Number of Options	Options Vested	Exercise Price	Expiry Date
1,550,000	1,550,000	0.05	April 13, 2021
200,000	200,000	0.05	July 5, 2021
50,000	50,000	0.10	July 7, 2021
200,000	200,000	0.19	March 14, 2022
500,000	500,000	0.24	March 19, 2022
<u>2,500,000</u>	<u>2,500,000</u>		

**8. RELATED PARTY TRANSACTIONS**

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 for the three months ended March 31, 2017 was \$39,892 (December 31, 2016 - \$210,945 and share based payments valued at \$67,500).



## **CASTLE SILVER RESOURCES INC.**

**(formerly Takara Resources Inc.)**

**Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the three months ended March 31, 2017**

**(Expressed in Canadian Dollars)**

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### **8. RELATED PARTY TRANSACTIONS (continued)**

Included in accounts payable and accrued liabilities was \$35,850 (December 31, 2016 - \$510,094) 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.

### **9. CAPITAL MANAGEMENT**

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The Company considers its capital structure to consist of shareholders' equity. 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 March 31, 2017 and December 31, 2016, the Company had no bank debt.

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 three months ended March 31, 2017 and year ended December 31, 2016.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX-V 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.

### **10. 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, 2016.

**CASTLE SILVER RESOURCES INC.**

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**For the three months ended March 31, 2017**

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**11. 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. This amount remains unspent as of March 31, 2017. As at March 31, 2017, 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) 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 payment of 2% of all costs of the exploration program incurred to date and thereafter to the First Nation community.

In addition, the Company has entered into a second Memorandum of Understanding ("MOU") with both Temagami First Nation and Teme-Augama Nation to provide a framework process for consultation during the life of the project.

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

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**For the three months ended March 31, 2017**

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**12. SUBSEQUENT EVENTS**

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Subsequent, to March 31, 2017, 1,716,896 warrants were exercised for proceeds of \$171,684.60.

On May 19, 2017 the Company closed the first tranche of a strategic private placement, raising gross proceeds of \$500,000. The Company issued 2,500,000 units at a price of \$0.20 per unit and expects to soon close a second and final tranche of up to an additional \$250,000. Each unit comprises one common share and one share purchase warrant. Each war rant will entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.30 per share for a period of two years from closing. Finder's fees were paid in connection with the initial tranche in the amount of \$30,000 cash and 150,000 broker warrants on the same terms as the purchaser warrants. All securities are subject to a four-month and a day hold period expiring on September 20, 2017.