DESERT GOLD VENTURES, INC

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in US Dollars)

Year Ended December 31, 2016 and 2015

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Desert Gold Ventures Inc.

We have audited the accompanying consolidated financial statements of Desert Gold Ventures Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Desert Gold Ventures Inc. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Desert Gold Ventures Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
May 1, 2017

DESERT GOLD VENTURES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in US dollars)

	Note	December 31, 2016	December 31, 2015
		$	$
ASSETS			
Current assets			
Cash		151,700	317,634
GST receivables		1,143	4,656
Prepaid		-	446
TOTAL ASSETS		**152,843**	**322,736**
			-
LIABILITIES AND EQUITY (DEFICIENCY)			
Current liabilities			
Accounts payable and accrued liabilities	4	324,359	312,005
EQUITY (DEFICIENCY)			
Share capital	5	16,603,967	16,388,703
Accumulated other comprehensive income		198,493	185,962
Reserves		16,916,508	16,806,863
Deficit		(33,890,484)	(33,370,797)
		(171,516)	10,731
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		**152,843**	**322,736**

SUBSEQUENT EVENT (Note 10)

Approved for issuance by the board of directors on May 1, 2017

"Sonny Janda"	***"Jared Scarf"***
Director - Sonny Janda	**Director - Jared Scarf**

DESERT GOLD VENTURES INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in US dollars)

Year ended December 31,	Note	2016	2015
		$	$
Office and administration		59,277	117,335
Professional and consulting fees	6	240,836	376,623
Prospecting rights and exploration	3	47,742	109,202
Rent		13,590	74,527
Share-based compensation	5	109,645	-
Transfer agent and listing fees		41,601	33,600
Travel		9,166	16,532
Loss before the following:		(521,857)	(727,819)
Finance charges		(2,022)	(624)
Foreign exchange gain (loss)		4,192	(3,411)
Impairment of subsidiaries		-	(3,332)
Net loss		(519,687)	(735,186)
Other comprehensive loss			
Foreign exchange translation gain		12,531	6,590
Comprehensive loss		(507,156)	(728,596)
Weighted average number of outstanding shares, basic and diluted		14,470,091	6,055,003
Loss per share, basic and diluted		(0.03)	(0.12)

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

DESERT GOLD VENTURES INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in US dollars)

	Share capital		Subscription received	Reserves			Accumulated other comprehensive income	Deficit	Total
	Number	Amount		Others	Warrants	Share-based compensation			
		$	$	$	$	$	$	$	$
December 31, 2014	4,406,803	15,645,600	43,100	13,755,601	486,301	2,564,961	179,372	(32,635,611)	39,324
Share issuance - private placement	8,507,142	743,103	(43,100)	-	-	-	-	-	700,003
Translation betw een functional and reporting currency	-	-	-	-	-	-	6,590	-	6,590
Loss for the year	-	-	-	-	-	-	-	(735,186)	(735,186)
December 31, 2015	12,913,945	16,388,703	-	13,755,601	486,301	2,564,961	185,962	(33,370,797)	10,731
Share issuance for cash	4,000,000	215,264	-	-	-	-	-	-	215,264
Share-based compensation	-	-	-	-	-	109,645	-	-	109,645
Translation betw een functional and reporting currency	-	-	-	-	-	-	12,531	-	12,531
Loss for the year	-	-	-	-	-	-	-	(519,687)	(519,687)
December 31, 2016	16,913,945	16,603,967	-	13,755,601	486,301	2,674,606	202,115	(33,890,484)	(171,516)

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

DESERT GOLD VENTURES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in US dollars)

Year ended December 31,	**2016**	**2015**
	$	$
OPERATING ACTIVITIES		
Loss for the period	(519,687)	(735,186)
Adjustments for non-cash items:		
Foreign exchange	9,938	(7,041)
Impairment of subsidiaries	-	3,332
Share-based compensation	109,645	-
Changes in non-cash working capital items:		
GST receivables	3,704	(2,654)
Prepaid	466	6,570
Accounts payable and accrued liabilities	(13,019)	85,292
	(408,953)	(649,687)
FINANCING ACTIVITIES		
Proceeds from share issuance	215,264	700,003
Effect of foreign exchange rate on cash	27,755	(31,399)
Increase (decrease) in cash	(165,934)	18,917
Cash, beginning of year	317,634	298,717
Cash, end of year	151,700	317,634

1. NATURE OF OPERATIONS AND GOING CONCERN

Desert Gold Ventures Inc. (the "Company" or "Desert Gold") is an exploration stage Company with a corporate office at 700 - 595 Burrard Street, Vancouver, British Columbia V7X 1S8. The principal business of the Company is conducting mineral property exploration in Mali. The Company's shares are listed on the TSX Venture Exchange (the "TSX-V") under the symbol DAU.

The Company is an exploration stage Company primarily involved in mining and exploration activities which has incurred recurring losses from inception. These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at December 31, 2016, the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds from equity and/or debt financing that is sufficient to meet current and future obligations. 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. Management intends to finance the Company's operations over the next twelve months through private placement of common shares.

On July 24, 2015, the Company consolidated its common shares on a 10 old to 1 new basis. All shares and per share amounts have been shown on a post consolidated basis.

These consolidated financial statements do not include adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue operations.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation and presentation

These consolidated financial statements have been prepared on an historical cost basis, modified where applicable. These consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in US dollars, unless otherwise specified.

These consolidated financial statements include the accounts of Desert Gold Ventures Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries of the Company are as follows:

Name	Country of incorporation	Ownership percentage	
		December 31, 2016	December 31, 2015
TransAfrika Rwanda Gold S.A.R.L.	Rwanda	100%	100%
TransAfrika Mali S.A.	Mali	74%	74%
GoldBanks Nevada Ventures Inc.	USA	100%	100%

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

c) Change in accounting policies

New accounting standard not yet effective is as follows:

IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". 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. 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.

At the date of the approval of the financial statements, a number of other standards and interpretations were issued but not effective. The Company considers that these new standards and interpretations are either not applicable or are not expected to have a significant impact on the Company's financial statements.

d) Functional and reporting currency

These consolidated financial statements are prepared in US dollars which is the Company's reporting currency. The functional currency of the Company is the Canadian dollar. All the Company's subsidiaries use the US dollar as the functional currency except for TransAfrika Mali which uses the CFA franc. The exchange differences resulting from the translation of Desert Gold's financial statements from its functional currency to its reporting currency are included in other comprehensive loss.

e) Use of judgments and estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income, and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance.

Critical Judgments

The preparation of these consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1, the functional currency of its subsidiaries and the classification of the Company's financial instruments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Use of judgments and estimates (continued)

Key Sources of Estimation Uncertainty

Share-based compensation
Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options 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 option, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Deferred tax assets and liabilities
The measurement of deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and deferred tax provisions or recoveries could be affected.

The assets' useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

f) Mining exploration

Exploration and evaluation rights to explore

All direct costs related to the acquisition of rights to explore mineral property interests are expensed in the Statement of Comprehensive Loss in the period acquired until such time as it has been determined that a property has economically recoverable resources, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves as a depletion base.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are charged to operations in the year incurred until such time as it has been determined that a property has economically recoverable resources, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Impairment

Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have occurred that have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups of financial assets that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in profit or loss. Impairment is not reversed in profit or loss if the financial asset is classified as available-for-sale.

Non-financial assets
The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset is the greater of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Impairment losses recognized in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Foreign currency

Transactions and balances:

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.
-

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's accumulated other comprehensive income in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

j) Income taxation

The Company is subject to income taxes in the various jurisdictions in which it operates. Judgment is required in determining the provision for income taxation due to the complexity of legislation. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact the deferred tax and income tax provisions for the period in which such determination is made.

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates the ability of the Company to realize the net deferred tax assets recorded on the reporting date could be impacted.

The income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income taxation (continued)

Deferred tax is recognized using the liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized to the extent that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that is no longer probable that the related tax benefit will be realized.

k) Share-based payments

The Company grants stock options to directors, officers, employees and consultants. The fair value of stock options is measured on the grant date, using the Black-Scholes option pricing model. The fair value of each tranche of the options granted is recognized over the vesting period using the graded vesting method. Consideration paid for the shares on the exercise of stock options is credited to share capital.

Options granted to non-employees are valued at the fair value of goods or services received. If the fair value of the goods or services received cannot be specifically identified, the equity instruments are valued using the Black-Scholes option pricing model.

l) Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. Basic loss per common share is calculated by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the year. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive

3. EXPLORATION AND EVALUATION ASSETS

Mali Projects

The Company has the Farabantourou exploration, Djimbala, and Segala Quest Project permits through its subsidiary TransAfrika Mali S.A., located in Mali. The expiry date of the Farabantourou exploration permit is October 21, 2017, the expiry date of the Segala West permit is September 4, 2017, and the expiry date of the Djimbala permit is December 30, 2018. Upon the expiry of permits, the Company intends to apply for further permit renewals.

During the year ended December 31, 2015, the Company abandoned two of its subsidiaries, Transafrika Belgique S.A. and Transafrika Senegal S.A. As a result of the abandonments, the Company recorded an impairment of $3,332 on the statement of comprehensive loss.

(Expressed in US dollars)

4. ACCOUNT PAYABLES AND ACCRUED LIABILITIES

	December 31, 2016	December 31, 2015
	$	$
Accounts payable	121,191	33,205
Accrued liabilities	196,027	168,747
Due to related parties	7,141	110,053
	324,359	312,005

5. SHARE CAPITAL

(a) Share capital

Authorized

The authorized share capital of the Company consists of unlimited number of shares without par value, and 1,250,000 preferred shares issuable in series with rights and restrictions to be determined by the directors prior to any issuances.

Issued

Fiscal 2016
On August 11, 2016, the Company issued 4,000,000 units at CAD$0.07 per unit for proceeds of CAD $280,000 (USD $215,264). Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of CAD$0.09 per share for a period of five years from issuance. The Company applied residual method to account for the issuance of warrants and has recorded $Nil to the reserve.

Fiscal 2015
The Company consolidated the number of outstanding shares on a 10 old to 1 new basis on July 24, 2015. As a result, the number of outstanding shares, warrants, options, and per share data presented in these financial statements, including comparative figures have been adjusted retrospectively.

On January 8, 2015, the Company issued 800,000 units at CAD$0.50 per unit for proceeds of CAD $400,000 (USD $338,640). Each unit consist of one common share of the Company and one share purchase warrant. Each warrant can be exercisable into one common share of the Company for a period of five years from closing at CAD$0.50 per share. If at any time following the date of issuance, the closing price of the Company’s common shares (post 10-to-a consolidation) on the TSX-V is greater than CAD$0.50 for 30 consecutive trading days, the Company may give notice to the holders of the warrants that the expiry time of the warrants has been accelerated and the warrants will expire on the 20th business day following the date of such notice. The Company applied residual method to account for the issuance of warrants and has recorded $Nil to the reserve – warrants for this private placement (Note 5 (d)).

(Expressed in US dollars)

5. SHARE CAPITAL (Continued)

(a) Share capital (continued)

Fiscal 2015 (continued)

On November 20, 2015, the Company issued 7,707,142 units at CAD$0.07 per unit for proceeds of CAD $539,500 (USD $404,463). Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of CAD$0.09 per share for a period of five years from issuance. Warrants are subject to a 30 day acceleration in the event the Company's shares trade at a weighted average of CAD$0.50 or more for ten 10 consecutive trading days and the Company announces such accelerated exercise period

(b) Stock options

Stock option continuity is as follows:

	Number	Weighted average exercise price	
Balance, December 31, 2014	402,500	CAD$	8.00
Expired/cancelled	(270,000)		8.00
Balance, December 31, 2015	132,500	CAD$	8.00
Issuance	1,358,880		0.20
Expired	(132,500)		8.00
Balance, December 31, 2016	1,358,880	CAD$	0.20

On October 24, 2016, the Company granted 258,880 options to directors and key management. These options vested immediately and each option is exercisable to one common share at $0.30/share. The Company recognized stock based compensation expense of $50,004 in relation to these options.

On January 29, 2016, the Company granted 1,100,000 options to directors and key management. These options vested immediately and each option is exercisable to one common share at $0.20/share. The Company recognized stock based compensation expense of $59,641 in relation to these options.

The weighted average grant date fair value of stock options granted during the year ended December 31, 2016 was $0.08 per stock option. The Company used the Black-Scholes option pricing model and the following assumptions to determine the fair values of the stock options granted:

Risk-free interest rate	0.64%
Expected life of options	4 years
Annualized volatility	212%
Dividend rate	0.00%

(Expressed in US dollars)

5. SHARE CAPITAL (Continued)

(b) Option (continued)

Stock options outstanding and exercisable as at December 31, 2016 are summarized as follows:

Exercise price	Number of options outstanding	Remaining contractual life	Expiry date	Number of options exercisable
CAD$		Years		
0.20	1,100,000	4.08	January 29, 2021	1,100,000
0.30	258,880	1.81	October 24, 2018	258,880

(c) Warrants

Warrants continuity is as follows:

	Number	Weighted average exercise price	
Balance, December 31, 2014	-		-
Issuance	8,507,142	CAD$	0.13
Balance, December 31, 2015	8,507,142	CAD$	0.13
Issuance	4,000,000	CAD$	0.09
Balance, December 31, 2016	12,507,142	CAD$	0.11

As at December 31, 2016, the weighted average remaining life and exercise price of the Company's outstanding warrants was 4.07 years and CAD$0.12, respectively.

6. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere are as follows:

a) Transactions with key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing, and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Board of Directors and corporate officers. The aggregate values of transactions relating to key management are as follows:

	Service	**December 31, 2016**	**December 31, 2015**
		$	**$**
Chief executive officer	Consulting	-	14,167
Former chief executive officer [1]	Consulting	-	98,819
Former chief financial officer	Consulting	63,098	60,170
Former chief financial officer	Professional fees	1,132	-
Former VP exploration and a related company	Consulting	-	23,475
A director and a related company	Prospecting rights and exploration expense	34,077	5,000
		98,307	201,631

(Expressed in US dollars)

6. RELATED PARTY TRANSACTIONS (Continued)

b) Transactions with other related parties

During the year ended December 31, 2016, the Company paid rent and consulting fees of $2,265 (2015 - $46,886) for office space owned by a company with a common director, paid rent and consulting fees of $15,855 (2015 - $49,844) to a company owned by a common director, and paid consulting fees of $30,200 (2015 - $Nil) to a company owned by a common director.

c) Balances due to related parties:

Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. The Company's accounts payable and accrued liabilities included the following balances owing to related parties.

Due to Related parties	**Nature**	**December 31, 2016**	**December 31, 2015**
		$	**$**
Former chief executive officer	Consulting fees	73,680	71,459
Company related to the former CEO	Consulting fees	22,826	36,083
Chief executive officer	Consulting fees	2,088	-
Former chief financial officer	Consulting fees	5,586	-
Directors	Consulting fees	-	2,511
		104,180	110,053

7. FINANCIAL INSTRUMENTS

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2016	**December 31, 2015**
	$	$
FVTPL:		
Cash	151,700	317,634

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2016	**December 31, 2015**
	$	**$**
Non-derivative financial liabilities:		
Trade payables	121,191	33,205
Due to related parties	7,141	110,053
	128,332	143,258

7. FINANCIAL INSTRUMENTS (Continued)

Fair value

At the respective reporting dates, all of the Company's financial instruments had maturities less than one year. As a result, the carrying amount of cash, other receivables, accounts payable and accrued liabilities approximated their fair values due to their short-term maturities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

Cash and investment in guaranteed investment certificate are classified as Level 1.

Risk management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has exposure to the following risks from its use of financial instruments:

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 risk is to ensure as far as possible that it will always have sufficient cash on demand to meet its liabilities when they fall due under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Company's reputation.

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

Interest rate risk

As at December 31, 2016, the Company did not have any significant exposure to the risk of changes in market interest rates as the Company did not have any financial instruments that are exposed to changes in interest rates.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers and investment securities

The potential concentration of credit risk consists mainly of cash and other receivables. The Company limits its counterparty exposures from its cash by only dealing with well-established financial institutions of a high quality credit standing. The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the statement of financial position.

At the reporting date the majority of the Company's cash resources were deposited with reputable established financial institutions. As a result, management believes the Company is not exposed to significant credit risk due to the credit worthiness of these counterparties.

(Expressed in US dollars)

7. FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk

Foreign currency risk arises from holdings of financial assets and liabilities in currencies other than the function currency to which they relate. The Company and its subsidiaries have minimal such holdings, consequently foreign currency risk is considered low.

8. CAPITAL DISCLOSURE

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash and cash equivalents.

There were no changes in the Company's approach to capital management during the year.

The Company is not exposed to any external capital requirements.

9. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported dates is as follows:

	2018	**2015**
	$	**$**
Loss for the year	(519,687)	(735,186)
	26%	26%
Expected income taxes recovery at statutory	(135,000)	(191,000)
Non-deductible items	29,000	-
Impact of different foreign statutory tax rates on earnings of subsidiaries	(9,000)	(15,000)
Adjustments to prior year versus statutory returns	(42,000)	43,000
Foreign exchange, expired losses, and other	165,000	570,000
Change in unrecognized deductible temporary differences	(8,000)	(407,000)
	-	-

The significant components of the Company's deferred tax assets that have not been set up are as follows:

	2016	**2015**
	$	$
Evaluation and exploration assets	667,000	642,000
Non-capital losses	2,011,000	2,044,000
	2,678,000	2,686,000
Unrecognized deferred tax assets	(2,678,000)	(2,686,000)
Net deferred tax assets	-	-

The Company has approximately $4,296,000 in Canadian non-capital losses which expire between 2026 and 2036.

Tax attributes are subject to revision and potential adjustment by tax authorities

10. SUBSEQUENT EVENT

The Company initiated a non-brokered private placement on March 31, 2017 for the issuance of up to 2,760,800 units at CAD$0.25 per unit for gross proceeds of $690,200. Each Unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of CAD$0.30 per share for a period of five years from issuance.

In January, 2017, the Company terminated the Company's 2012 fixed option plan and the implementation of a 10% rolling option plan that is subject to the approval by applicable regulatory entity. The Company also granted 260,508 options to its officers and consultants exercisable at $0.30 per share. These option will expire 5 years after issuance if not exercised.