



MARGAUX RESOURCES LTD.
CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015
EXPRESSED IN CANADIAN DOLLARS
(UNAUDITED)

Under National Instrument 51-102, Part 4, subsection 4.3(3)9(a), if an auditor has not performed a review of the interim condensed financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Margaux Resources Ltd. as of December 31, 2016, have been compiled by management and approved by the Audit Committee and the Board of Directors of the Corporation.

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

MARGAUX RESOURCES LTD.
Statements of Financial Position

As at	December 31, 2016 \$	September 30, 2016 \$
ASSETS		
CURRENT		
Cash	1,090,384	710,271
Other receivables	63,077	26,147
Prepays	18,159	12,334
Deposit	27,000	27,000
TOTAL CURRENT ASSETS	1,198,620	775,752
NON-CURRENT		
PROPERTY AND EQUIPMENT (Note 5)	123,872	41,948
EXPLORATION AND EVALUATION ASSETS (Note 6)	2,747,537	2,004,835
LONG-TERM PREPAIDS (Note 6)	150,000	100,000
TOTAL NON-CURRENT ASSETS	3,021,409	2,146,783
TOTAL ASSETS	4,220,029	2,922,535
LIABILITIES		
CURRENT		
Trade and other payables	122,882	295,230
Flow-through share liability (Note 9)	-	15,426
Note payable (Note 8)	90,465	44,300
TOTAL CURRENT LIABILITIES	213,347	354,956
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 9)	9,216,023	7,291,304
CONTRIBUTED SURPLUS (Note 9)	4,575,307	4,464,557
DEFICIT	(9,784,649)	(9,188,282)
TOTAL SHAREHOLDERS' EQUITY	4,006,682	2,567,579
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,220,029	2,922,535
GOING CONCERN (Note 2)		
COMMITMENTS (Note 12)		
SUBSEQUENT EVENTS (Note 15)		

Approved by the Board of Directors:

“H. Tyler Rice”

H. Tyler Rice, Director

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

“James Letwin”

James Letwin, Director

MARGAUX RESOURCES LTD.
Statements of Net Loss and Comprehensive Loss

For the three months ended December 31,	2016	2015
	\$	\$
Expenses		
Operating and production	27,430	2,329
General and administrative	466,431	172,003
Share-based payments (Note 9)	110,750	3,135
Depreciation and depletion (Note 5)	5,339	1,148
Foreign exchange loss	1,842	-
Total expenses	611,792	178,615
Loss before other items	(611,792)	(178,615)
Flow-through share premium	15,426	-
Net loss before tax	(596,367)	(178,615)
Net loss and comprehensive loss	(596,367)	(178,615)
Basic and diluted loss per share (Note 13)	(0.02)	(0.01)

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

MARGAUX RESOURCES LTD.
Statements Changes in Shareholders' Equity

	Note	Share Capital \$	Contributed Surplus \$	Deficit \$	Total \$
Balance as at, September 30, 2015		5,648,978	4,407,378	(8,638,777)	1,417,579
Net loss and comprehensive loss		-	-	(549,505)	(549,505)
Common shares issued, net costs	9	1,000,967	-	-	1,000,967
Warrants	9	638,613	-	-	638,613
Equity component of note payable	8,9	2,746	-	-	2,746
Share-based payments	9	-	57,179	-	57,179
Balance as at, September 30, 2016		7,291,304	4,464,557	(9,188,282)	2,567,579
Net loss and comprehensive loss		-	-	(596,367)	(596,367)
Common shares issued, net costs	9	1,477,366	-	-	1,477,366
Warrants	9	444,607	-	-	444,607
Equity component of note payable	8,9	2,746	-	-	2,746
Share-based payments	9	-	110,750	-	110,750
Balance as at, December 31, 2016		9,216,023	4,575,307	(9,787,649)	4,006,681

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

MARGAUX RESOURCES LTD.
Statements of Cash Flows

For the three months ended December 31,	2016 \$	2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss and comprehensive loss	(596,367)	(178,615)
Items not affecting cash:		
Share-based payments (Note 9)	110,750	3,135
Depreciation and depletion (Note 5)	5,339	1,148
Interest on note payable (Note 9)	1,165	-
Prepaid royalty (Note 6)	(50,000)	-
Change in non-cash working capital:		
Trade receivables	(36,932)	1,764
Prepays	(5,824)	(5,982)
Trade and other payables	(172,349)	(14,431)
Net cash used in operating activities	(744,216)	(192,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share and warrant issuance, net of costs (Note 9)	1,924,720	250,000
Proceeds from note payable (Note 8)	45,000	-
Flow-through share premium (Note 9)	(15,426)	-
Repayment of loan (Note 7)	-	(50,000)
Net cash generated from financing activities	1,954,295	200,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment (Note 5)	(87,263)	-
Exploration and evaluation (Note 6)	(742,702)	-
Net cash used in investing activities	(829,965)	-
INCREASE IN CASH FOR THE YEAR	380,113	7,019
CASH – BEGINNING OF PERIOD	710,271	3,157
CASH – END OF PERIOD	1,090,384	10,176

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

1. CORPORATE INFORMATION

Margaux Resources Ltd. (the “Corporation”) was incorporated under the Alberta Business Corporations Act on August 5, 2009 and was a Capital Pool Company under Policy 2.4 of the TSX Venture Exchange (the “Exchange”). In January 2011, the Corporation completed an initial public offering (“IPO”) and currently trades on the TSX Venture Exchange and the OTCQB Venture Market under the trading symbols “MRL” and “MARFF” respectively. The registered address of the Corporation is 1600, 5th Street SW, Calgary, Alberta, T2P 3S2.

The Corporation is a polymetallic exploration company and regional consolidator focused on the exploration and development of previously producing properties in the Kootenay Arc, located in southern British Columbia, including the Jackpot/Oxide, Jersey-Emerald, Sheep Creek and Bayonne properties, on which Margaux has options.

2. GOING CONCERN

These condensed interim financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due.

The Corporation is in the process of acquiring and exploring mineral properties in British Columbia. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon:

- the existence of economically recoverable reserves;
- the ability of the Corporation to obtain financing in order to secure and maintain title and beneficial interest in its properties;
- the ability to complete the development of the properties; and,
- the ability to achieve future profitable production from the properties or obtain proceeds from the sale of properties.

The Corporation’s ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate sufficient cash from operating and financing activities to meet the Corporation’s needs. However, certain conditions exist that may cast significant doubt on the validity of this assumption. The Corporation incurred a net loss of \$596,367 (December 31, 2015 – net loss \$178,615) for the three months ended December 31, 2016 and had negative cash flows from operating activities of \$744,216 (2015 – \$192,981). These condensed interim financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Corporation were unable to continue as a going concern and therefore be required to realize its assets and liabilities in other than the normal course of business and potentially at amounts significantly different from those recorded in these condensed interim financial statements. The Corporation intends to raise the required funds through the issuance of equity, by securing strategic partners or assuming debt.

3. BASIS OF PREPARATION

(a) **Statement of compliance:** These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”).

These condensed interim financial statements for three months ended December 31, 2016 were authorized for issue in accordance with the resolution of the Board of Directors on March 1, 2017.

(b) **Basis of measurement:** These condensed interim financial statements have been prepared on the historical cost basis with the exception of the convertible debt derivative, which is measured at fair value. In addition, these condensed interim financial statements have been prepared on an accrual basis of accounting, except for cash flow information.

(c) **Functional and presentation currency:** These condensed interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

3. BASIS OF PREPARATION (continued)

(d) **Jointly controlled operations:** The Corporation enters into joint arrangements with one or more parties whereby economic activity and decision-making are shared. These arrangements may take the form of joint operations or joint ventures. When making this assessment, management considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Corporation accounts for its interest in joint operations by recognizing its share of assets, liabilities, revenues and expenses of the joint operation.

(e) **Use of estimates and judgements:** The preparation of condensed interim financial statements requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the statement of financial position and the reported amounts of revenues and expenses during the year. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. Adjustments are recorded in the current year as they become known.

Estimates

Amounts recorded for depreciation and depletion and amounts used for impairment calculations are based on estimates of petroleum and natural gas reserves. By their nature, the estimates of reserves, including the estimates of future prices, costs, discount rates and the related future cash flows, are subject to measurement uncertainty. Accordingly, the impact to the condensed interim financial statements in future years could be material.

Amounts recorded for decommissioning provisions and the related accretion expense requires the use of estimates with respect to the amount and timing of decommissioning expenditures. Other provisions are recognized in the year when it becomes probable that there will be a future cash outflow.

Share-based payments require the estimation of the ultimate payout using the Black-Scholes model which is based on significant assumptions such as volatility, risk-free rate, forfeiture, dividend yield and expected term.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Corporation operates are subject to change. As such, income taxes are subject to measurement uncertainty.

The unrealized fair value of the convertible debt derivative liability and the valuation of the convertible debt are subject to assumptions. The valuation of the convertible debt derivative liability is valued using pricing models such as the Black-Scholes valuation model. The valuation model requires the input of highly subjective assumptions including the expected stock price volatility. Because the convertible debt derivative liability has characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty. By their nature, these estimates are subject to measurement uncertainty and the effect on the condensed interim financial statements of changes in estimates in future periods could be significant. The determination of the fair value of the liability component of the convertible debt requires management to make estimates regarding the interest rate that the Corporation would have obtained a similar unsecured loan without a conversion feature. Management takes into consideration the valuation of both components, historical data regarding issuances of warrants and the proceeds received upon issuance of the convertible debt to determine the inputs used in the valuation models and the resulting fair value for each instrument.

The estimated market rate used to fair value the note payable without a conversion option is subject to estimation.

Judgments

The collectability of trade receivables requires judgment which by its very nature creates measurement uncertainty.

The Corporation is required to make significant judgements regarding the capitalization of exploration and evaluation properties expenditures. The Corporation is also required to make significant judgements on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing

3. BASIS OF PREPARATION (continued)

exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation properties should be impaired.

Judgments (continued)

The determination of whether deferred tax assets are probable to be realized and related recognition of deferred tax assets, and requires judgment by management about the future profitability of the Corporation, and the ability to offset deferred tax assets with deferred tax liabilities reversing at the same time period.

For the purpose of assessing impairment of exploration and evaluation expenditures and equipment, assets are grouped at the lowest level of separately identified cash flows which make up the cash generating unit (“CGU”). Determination of what constitutes a CGU is subject to management judgement. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. In assessing the recoverability of tangible and intangible assets, each CGU’s carrying value is compared to the greater of its fair value less costs to sell and value in use. The Corporation has determined that it has one CGU.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these condensed interim financial statements.

(a) **Cash:** Cash is comprised of cash on hand and cash held with banks.

(b) **Financial instruments:** Financial instruments are recognized when the Corporation becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Corporation has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Derivative financial instruments are recognized at fair value.

At initial recognition, all financial instruments are classified in one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss (“FVTPL”) are financial assets held for trading or that are designated as such by management. Such assets are held for trading if it is acquired principally for the purpose of selling in the short-term. These assets are initially recognized, and subsequently carried, at fair value, with changes recognized in the statement of net loss and comprehensive loss. Transaction costs are expensed. The Corporation has no FVTPL financial assets.

Loans and receivables

Loans and receivables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest expense recognized on an effective yield basis. Assets in this category include cash, trade receivables and deposits.

Available for sale

Available for sale financial assets are measured at fair value, and are subsequently measured at fair value, with gains or losses, net of tax, included in other comprehensive loss until the instruments are derecognized or impaired, at which time the gains or losses are included in net loss and comprehensive loss. The Corporation has no available-for-sale financial assets.

Held-to-maturity

Held to maturity financial assets are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest method. The Corporation has no held-to-maturity financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Liabilities in this category include trade and other payables, loan and note payable.

Financial liabilities through FVTPL

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in profit and loss. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. The Corporation has no financial liabilities through FVTPL.

(c) Exploration and evaluation expenditures

Oil and Gas

Pre-licence costs are recognized in the statement of net loss and comprehensive loss as incurred. Costs associated with acquiring an exploration licence, including costs to acquire acreage and exploration rights, legal and other professional fees and land brokerage fees are capitalized as exploration and evaluation ("E&E") assets. Geological, geophysical and seismic costs associated with assessing exploration licences are also capitalized to E&E. Land acquisition costs and expenditures directly associated with exploratory wells are capitalized as E&E assets and remain capitalized until the Corporation has made a determination of reserves or has chosen to discontinue all exploration activities in the associated area. E&E assets are not subject to depreciation and depletion.

Proved reserves are determined to exist when the technical feasibility and commercial viability of extracting a mineral resource can be reasonably ascertained. At least annually a review of each exploration area is carried out to identify whether proved reserves have been discovered. Upon determination of proved reserves, E&E assets, including land acquisition costs, related seismic and costs directly associated with exploratory wells attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property and equipment. E&E assets are assessed for impairment if (i) sufficient data exists to determine the lack of technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to cash-generating units, which are the smallest group of assets capable of generating largely independent cash inflows.

If no reserves are identified, the capitalized exploration costs and relevant dry hole costs are charged to the statement of net loss and comprehensive loss as impairment.

Mineral rights, property and acquisition costs

Mineral property acquisition costs and exploration costs directly related to specific properties are deferred, commencing on the date that the Corporation acquires legal rights to explore a mineral property, until technical and economical feasibility of extracting a mineral resource is demonstrable, or until the properties are sold or abandoned. All other costs, including administrative overhead are expensed as incurred. If the properties are put into commercial production, the acquisition and exploration expenditures will be depleted using the units of production basis based upon the proven reserves available. If the properties are sold or abandoned, these expenditures will be written off.

Mineral interests are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may exceed the recoverable amount. Where there is evidence of impairment, the net carrying amount of the asset will be written down to its recoverable amount.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many resource properties. The Corporation has investigated title to all of its mineral properties and to the best of its knowledge, title to all of its properties are in good standing.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) **Property and equipment:** Property and equipment include petroleum and natural gas assets and computer equipment.

Petroleum and natural gas assets

Development and production costs, including E&E transfers, proved property acquisitions, seismic and geological analysis of proved reserves, drilling, completion, equipping and tying in of development wells, facility and road construction, and decommissioning costs related to oil and gas reserves which have reached technical feasibility and commercial viability are capitalized within property and equipment.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as petroleum and natural gas assets only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of net loss and comprehensive loss as incurred. Such capitalized subsequent petroleum and natural gas assets generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis.

Repairs, maintenance and the day-to-day servicing of the items of property and equipment are expensed as incurred. The carrying amount of any replaced or sold component is derecognized and any gains or losses from the divestiture of property and equipment are recognized in the statement of net loss and comprehensive loss.

Petroleum and natural gas assets are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Petroleum and natural gas assets are depleted using the unit-of-production method over their reserve life based on proved plus probable reserve volumes, unless the useful life of the asset is less than the reserve life, in which case the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are included in costs subject to depletion. Reserves and estimated future development costs are determined annually by qualified independent reserve engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis.

Proved and probable reserves are estimated using independent reserves reports and represent the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially viable.

Such reserves may be considered commercially viable if management has the intention of developing and producing them and such intention is based upon:

- (a) a reasonable assessment of the future economics of such production;
- (b) a reasonable expectation that there is a market for all or substantially all the expected oil and natural gas production; and,
- (c) evidence that the necessary production, transmission and transportation facilities are available or can be made available.

Reserves may only be considered proved and probable if their ability to be produced is supported by either actual production or a conclusive formation test.

Petroleum and natural gas assets are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in the statement of net loss and comprehensive loss in the year of derecognition.

Computer equipment

Computer equipment is carried at cost less accumulated depreciation. Depreciation is charged so as to write-off the cost of these assets less residual value using the declining balance method at 45% per year.

(e) **Leased assets:** Operating leases are not recognized on the Corporation's condensed interim statement of financial position. Payments made under operating leases are recognized in the statement of net loss and comprehensive loss as the costs are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) **Impairment of long-lived assets:** The Corporation assesses at each reporting date whether there are indications of impairment of the CGU it has identified. If indications of impairment exist, the Corporation estimates the asset's recoverable amount, which is the higher of an asset's or CGU's fair value less costs of disposal and its value-in-use.

Fair value less costs of disposal represents the value for which an asset could be sold in an arm's length transaction, and is presented as a function of the future cash flows of the proved and probable reserves. Value in use is estimated as the discounted present value of the future cash flows expected to arise from the continued use of the asset or CGU. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and the impairment loss is charged to the statement of net loss and comprehensive loss.

For impairment losses recognized in prior years, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. Previously recognized impairment loss reversals are limited to the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Impairment reversals are recognized as an impairment recovery in the statement of net loss and comprehensive loss.

(g) **Provisions and decommissioning liabilities:** Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in net loss net of any reimbursement.

Decommissioning liabilities include an estimate of the future costs associated with the abandonment and reclamation of a long-lived asset that results from the acquisition, construction or development or normal operation of a long-lived asset, discounted to its present value, and is capitalized as part of the cost of that asset. The estimated costs are based on the present value of the expenditure expected to be incurred. Changes in the discount rate, estimated timing of decommissioning, or cost estimates are dealt with prospectively by recording a change in estimate, and a corresponding adjustment to the long-lived asset. The accretion on the decommissioning provision is included in the statement of net loss and comprehensive loss.

Actual expenditures incurred are charged against the decommissioning liability.

(h) **Long-term prepaid:** Advance royalty payments to be applied against future production are recorded as long term prepaids. Prepaid royalties are not expected to be applied within the next twelve months.

(i) **Revenue:** Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party and collection is reasonably assured. Revenue is presented both before and after royalties payable to the Crown and others.

(j) **Finance income:** Interest income is recognized as it accrues in the statement of net loss and comprehensive loss, using the effective interest rate method.

(k) **Taxes:** Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) **Taxes (continued):** A deferred tax asset is recognized to the extent that it is probable 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 are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) **Loss per share:** Basic loss per share is calculated by dividing the profit or loss attributable to shareholders of the Corporation by the weighted average number of common shares outstanding during the year. The Corporation uses the treasury stock method to determine the dilutive effect of issued instruments such as options and warrants. This method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the year. These instruments are not included in the per share calculation if the effect of their inclusion is antidilutive.

(m) **Flow-through shares:** Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the transfer of tax deductions. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A liability is recognized for this difference. The liability is reversed when tax benefits are renounced and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

(n) **Share-based payment transactions:** The Corporation operates an equity-settled compensation plan under which it receives services from employees, directors, officers, and contractors as consideration for equity instruments of the Corporation.

The Corporation uses the Black-Scholes pricing model to estimate the fair value of equity-settled awards at the grant date. The expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

When recognizing the fair value of each tranche over its respective vesting period, the Corporation incorporates an estimate of the number of options expected to vest and revises that estimate when subsequent information indicates that the number of options expected to vest differs from previous estimates.

No expense is recognized for awards that do not ultimately vest, except for equity-settled awards where vesting is conditional upon a market or non-vesting condition which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied. Upon the exercise of options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(o) **Share capital:** The Corporation records proceeds from share issuances net of share issue costs. Proceeds, and issue costs, from unit placements are allocated between shares and warrants issued according to their relative fair value. The fair value of the warrant is determined using the Black-Scholes option pricing model, while the fair value of the share is based on the market value at the time of issuance. The relative value of the share component is credited to share capital and the relative value of the warrant component is credited to warrants reserve. Upon exercise of the warrant, consideration paid by the warrant holder together with the amount previously recognized in warrant reserve is recorded as an increase to share capital.

(p) **Compound Financial Instruments:** Compound financial instruments issued by the Corporation are comprised of borrowing that have both a liability and equity component. The liability component of the compound financial instrument is recognized initially at fair value. The equity component is recognized as the difference between the proceeds received from the compound financial instrument and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. The Corporation valued the conversion feature of the note payable using the residual method (the "Residual Method"). Using this method, the fair value of the debt component was calculated using an estimated market rate for similar debt without a conversion feature.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) **New standards not yet adopted** - The IASB has issued a number of new standards to come into effect in future periods. The Corporation is currently assessing the impact of the new standards on its condensed interim financial statements, but at this time does not anticipate that the adoption of the standards will have a significant impact on the Corporation's condensed interim financial statements.

The new IFRS pronouncements which have been issued but are not yet effective and may have an impact on the Corporation in the future are as follows:

IASB issued IFRS 9, "Financial Instruments" replaces IAS 39, "Financial Instruments: Recognition and Measurement". The standard revises and limits the classification and measurement models available for financial assets and liabilities to amortized cost or fair value. Previously multiple models were available. The new standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 15, "Revenue from Contracts with Customers". In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 16, "Leases". In January 2016, the IASB issued IFRS 16, Leases. The objective of IFRS 16 is to bring all leases on-balance sheet for lessees. IFRS 16 requires lessees to recognize a "right of use" asset and a lease liability calculated using a prescribed methodology. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. Early adoption is permitted provided that IFRS 15, Revenue from Contracts with Customers, is also adopted.

IAS 7 "Statement of Cash Flows" - Amendments to IAS 7 Statement of Cash Flows require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

IAS 12 "Income Taxes" - IAS 12 Income Taxes Amendments to IAS 12 Income Taxes clarify the recognition of deferred tax assets for unrealized losses related debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017.

5. PROPERTY AND EQUIPMENT

	Petroleum and natural		
	gas assets	Equipment	Total
	\$	\$	\$
Cost			
Balance as at September 30, 2015	272,399	32,149	304,548
Additions	-	37,460	37,460
Balance as at September 30, 2016	272,399	69,909	342,008
Additions	-	87,263	87,263
Balance as at December 31, 2016	272,399	156,872	429,271
Accumulated depletion and depreciation and impairment			
Balance as at September 30, 2015	272,399	19,134	291,533
Charge for the year	-	8,527	8,527
Balance as at September 30, 2016	272,399	27,661	300,060
Charge for the year	-	5,339	5,339
Balance as at December 31, 2016	272,399	33,000	305,399
Net book value			
September 30, 2016	-	41,948	41,948
December 31, 2016	-	123,872	123,872

During the three months ended December 31, 2016, the Corporation capitalized \$nil (December 31, 2015 - \$nil) related to the decommissioning liability of petroleum and natural gas properties.

6. EXPLORATION AND EVALUATION ASSETS

	\$
Balance as at October 1, 2015	1,702,474
Additions	302,361
Balance as at September 30, 2016	2,004,835
Additions	742,702
Balance as at December 31, 2016	2,747,537

E&E assets consist of costs expended on the Corporation's projects which are pending determination of technical feasibility and commercial viability.

Management assessed the E&E assets at December 31, 2016 and determined that no indicators of impairment existed.

During the three months ended December 31, 2016, the Corporation focused its activities to mining and entered into an option agreement ("Option Agreement") with Apex Resources Inc. (formerly Sultan Minerals) ("Apex") for the Jersey-Emerald Property, located in Salmo, British Columbia ("Property"), based on the following terms:

Under the terms of the Option Agreement dated November 8, 2013, as amended agreements dated January 22, 2014, October 26, 2015, December 31, 2015, February 11, 2016 and March 30, 2016, the Corporation will have the exclusive option to acquire a 100% working interest in the Property (subject to the net smelter returns royalties ("NSRs") discussed below) as follows:

1) by making payments to Apex in aggregate of \$4.0 million, paid in several installments as follows:

- 1) initial deposits of \$200,000 (paid);
- 2) release of a cash payment of \$300,000, previously held in trust pending receipt of TSX Venture Exchange approval for the transaction (paid);
- 3) on or before November 8, 2015, a cash payment of \$400,000 (paid);
- 4) payments of \$15,000 per month commencing April 1, 2016 for a period of 12 months for total payment of \$180,000 (\$135,000 paid as of December 31, 2016);
- 5) payments of \$50,000 per month commencing April 1, 2017 for a period of 12 months for a total payment of \$600,000; and,
- 6) payments of \$100,000 per month commencing April 1, 2018 until a total of \$4.01 million has been paid to Apex under the option agreement.

2) incurring not less than \$2,000,000 in expenditures on the Property on or before the third anniversary of the Agreement Date. The Corporation has incurred the required property expenditures during the period.

The Corporation will use its best efforts to incur expenditures of \$6,000,000 on the Property on or prior to the third anniversary of the agreement date.

APEX retains a 1.5% NSR on the Property. For a period of 60 days following the earlier of: (a) the commencement of commercial production on the Property or (b) the completion of a feasibility study on the Property, Margaux may purchase 50% of the NSR (being a 0.75% net smelter returns royalty) from Apex for a payment to Apex of \$5.0 million.

The Property is also subject to several additional NSRs, ranging from 1%-3% on various areas of the Property and these additional NSRs require advance royalty payments totalling \$50,000 per year. As at December 31, 2016, \$150,000 had been paid towards the advance royalty payments are recorded in prepaids on the statement of financial position.

Apex may elect to receive up to one-half of any option payment in the form of common shares of the Corporation. The number of shares to be issued in partial payment shall be calculated by reference to the trading price of the Corporations shares at the election date.

The Corporation incurred \$ 742,702 of E&E on the Property during the three months ended December 31, 2016 (December 31, 2015 - \$nil) relating to exploration activity.

6. EXPLORATION AND EVALUATION ASSETS (continued)

On October 24, 2016, the Corporation entered into an option agreement with a third party for the acquisition of 100% of the Jackpot/Oxide Property, located in Salmo, British Columbia (the “Jackpot Option Agreement”).

Under the terms of the Jackpot Option Agreement, Margaux will have the exclusive option to acquire the Property, by making payments to the third party of an aggregate \$340,000 cash and aggregate issuance of 500,000 shares, paid in several installments as follows:

- 1) within ten business days of execution of the Jackpot Option Agreement, a cash payment of \$5,000 (paid);
- 2) upon receipt of TSX Venture Exchange approval, a cash payment of \$5,000 and issuance of 50,000 shares (paid);
- 3) on or before the first anniversary of the execution of the Jackpot Option Agreement, a cash payment of \$30,000 and the issuance of 150,000 shares;
- 4) on or before the second anniversary of the execution of the Jackpot Option Agreement, a cash payment of \$60,000 and issuance of 150,000 shares;
- 5) on or before the third anniversary of the execution of the Jackpot Option Agreement, a cash payment of \$90,000 and issuance of 150,000 shares; and,
- 6) on or before the fourth, fifth and sixth anniversary of the execution of the Jackpot Option Agreement, a cash payment of \$50,000.

The third party will retain a 1.5% net smelter returns royalty on the property. The Corporation may at any time purchase up to 50% of the NSR from the third party by payment of \$1,000,000

During the three months ended December 31, 2016, the corporation paid \$10,000 cash in option payments and issued 50,000 shares.

7. LOAN

	December 31, 2016	September 30, 2016
	\$	\$
Loan	-	-

On November 2, 2015, the Corporation repaid \$50,000 in settlement of an outstanding loan.

8. NOTE PAYABLE

On March 30, 2016, the Corporation issued an unsecured promissory note to an arm’s length third party. Pursuant to the note, the Corporation may borrow up to \$180,000 to be used for the payments of the Option Agreement between April 1, 2016 and March 31, 2017 (Note 6). The note bears interest at a rate of 7.5% per annum, payable in arrears on the first business day of the following calendar month, and shall be payable in cash on or before March 31, 2017. On the repayment date, at the sole option of the holder of the note, the principal amount of the promissory note may be repaid by conversion into shares at a value of \$0.25 per share or by a combination of cash and shares. Any accrued unpaid interest on the note shall be payable in cash. As at December 31, 2016, \$90,000 has been advanced to the Corporation.

The Corporation valued the conversion feature of the promissory note using the residual method. Using this method, the fair value of the debt component was calculated using an estimated market rate for similar debt without a conversion feature. The liability component was \$42,254 and the equity component was \$2,746 at inception. Interest of \$1,165 has been accrued for the three months ended December 31, 2016. Total accrued interest as of December 31, 2016 was 2,204.

9. SHARE CAPITAL, WARRANT RESERVE AND CONTRIBUTED SURPLUS

Authorized

Unlimited number of common shares

The common shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. No preferred shares have been issued by the Corporation.

9. SHARE CAPITAL, WARRANT RESERVE AND CONTRIBUTED SURPLUS (continued)

Issued	December 31, 2016		September 30, 2016	
	Common Shares	Amount	Common Shares	Amount
Opening balance	29,093,938	\$6,541,166	21,021,255	\$5,540,199
Shares issued, net (a)(b)(c)(d)(e)	-	-	8,072,683	1,000,967
Shares issued, net (f)(g)	7,774,969	1,480,112	-	-
Closing Balance	36,868,907	\$8,021,278	29,093,938	\$6,541,166
Warrants				
Opening balance	4,775,000	747,392	730,000	108,779
Warrant Issuance (h)	6,104,000	444,607	4,045,000	638,613
Closing balance	10,879,000	1,191,999	4,775,000	747,392
Note payable – equity component (Note 8)	-	2,746	-	2,746
Total Share Capital		\$9,216,023		\$7,291,304

- (a) On November 9, 2015, the Corporation closed a non-brokered private placement of 750,000 units of the Corporation at a purchase price of \$0.20 per unit for total proceeds of \$150,000. Each unit consists of one common share of the Corporation and one half of one common share purchase warrant in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from November 6, 2015.
- (b) On December 2, 2015, the Corporation closed on a non-brokered private placement of 500,000 units of the Corporation at a purchase price of \$0.20 per unit for total proceeds of \$100,000. Each unit consists of one common share of the Corporation and one half of one common share purchase warrant in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from December 2, 2015.
- (c) On April 13, 2016, the Corporation issued 173,592 commons shares of the Corporation at a deemed price of \$0.20 per common share in exchange for the extinguishment of debt with the Corporation’s service providers. An aggregate amount owing to the service providers in the amount of \$34,718 was fully extinguished.
- (d) On July 4, 2016, the Corporation closed on a non-brokered private placement of 2,005,000 units of the Corporation at a purchase price of \$0.20 per unit, 2,320,000 common shares issued of a “CEE flow-through” basis at a purchase price of \$0.25 per unit, and 909,091 common shares issued on a CDE flow-through basis at a purchase price of \$0.22 per unit for total proceeds of \$1,181,000. Each unit consists of one common share of the Corporation and one common share purchase warrant in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from July 4, 2016.
- (e) On August 4, 2016, the Corporation closed on a non-brokered private placement of 1,415,000 units of the Corporation at a purchase price of \$0.20 per unit for total proceeds of \$283,000. Each unit consists of one common share of the Corporation and one common share purchase warrant in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from August 4, 2016.
- (f) On October 21, 2016, the Corporation closed on a non-brokered private placement of 3,976,000 units of the Corporation at a purchase price of \$0.31 per unit and 548,387 common shares issued on a “CEE flow-through” basis at a purchase price of \$0.31 per unit for total proceeds of \$1,164,000. Each unit consists of one common share of the Corporation and one common share purchase warrants in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from October 21, 2016.
- (g) On November 24, 2016, the Corporation closed on a non-brokered private placement of 2,128,000 units of the Corporation at a purchase price of \$0.25 per unit and 1,122,582 common shares issued on a “CEE flow-through”

9. SHARE CAPITAL, WARRANT RESERVE AND CONTRIBUTED SURPLUS (continued)

basis at a purchase price of \$0.31 per unit for total proceeds of \$880,000. Each unit consists of one common share of the Corporation and one common share purchase warrants in the Corporation. Each whole warrant will be exercisable by the holder at a price of \$0.30 per warrant for a period of two years from November 24, 2016.

- (h) As part of the non-flow through units issued on October 21, 2016 and November 24, 2016 (note 11(f)(g)); subscribers received one warrant per unit purchased. Each whole warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 for a period of 24 months from the date of closing. All warrants vest immediately. A value of \$444,607 has been attributed to the warrants issued based on the Black-Scholes pricing model and has been credited to warrants within shareholders' equity. The fair value of these warrants were estimated using the Black-Scholes option pricing model based on the date of grant and using the following assumptions:

Risk-free rate	0.56%
Weighted-average life	2 years
Dividend yield	nil
Annualized Volatility	262%-266%
Weighted-average fair value	\$0.29
Expected Life	2 years

Flow-through shares

During the year ended September 30, 2016, the Corporation raised \$580,000 on a CEE flow-through share basis and \$200,000 on a CDE flow-through share basis as was required to incur a net total of \$780,000 of qualifying expenditures to renounce the tax deductions to investors. As at December 31, 2016, \$780,000 of qualifying expenditures were incurred, therefore the Corporation has met its minimum flow-through expenditure commitment. The total flow-through share premium recorded \$15,426 has been fully amortized. Amortization on the flow-through share premium is reflected as flow-through share premium in the statement of net loss and comprehensive loss.

During the period ended December 31, 2016, the Corporation raised \$518,000 on a CEE flow-through share basis as was required to incur a net total of \$518,000 of qualifying expenditures to renounce the tax deductions to investors. As at December 31, 2016, \$110,063 of qualifying expenditures were incurred which requires the Corporation to expend a further \$407,937 to meet its minimum flow-through shares expenditures commitment. The Corporation expects to expend the remaining amounts in the calendar year 2017.

Stock option plan

The Corporation has adopted an incentive stock option plan in accordance with the policies of the TSX Venture (the "Stock Option Plan") which provides that the Board of Directors of the Corporation may from time to time, at its discretion, grant to directors, officers, employees and consultants of the Corporation non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance under the Stock Option Plan shall not exceed ten percent (10%) of the issued and outstanding common shares exercisable for the period of up to ten (10) years. In addition, the number of common shares reserved for issuance to any one person shall not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to any one consultant will not exceed two percent (2%) of the issued and outstanding common shares. The Board of Directors determines the price per common share and the number of common shares which may be allocated to each director, officer, employee and consultant and all other terms and conditions of the option, subject to the rules of TSX Venture.

9. SHARE CAPITAL, WARRANT RESERVE AND CONTRIBUTED SURPLUS (continued)

A summary of the Corporation's stock option plan activity is as follows:

	Number of Options	Weighted-average Exercise Price
Outstanding as at September 30, 2015	1,075,000	\$0.10
Exercisable as at September 30, 2015	716,668	\$0.10
Outstanding as at September 30, 2016	1,525,000	\$0.12
Exercisable as at September 30, 2016	1,108,333	\$0.12
Granted (a)	450,000	\$0.27
Granted (b)	1,305,000	\$0.29
Exercisable as at December 31, 2016	1,701,660	\$0.17
Outstanding at December 31, 2016	3,305,000	\$0.20

At December 31, 2016, the weighted-average life of the options outstanding was 4.8 years (2015 – 4 years).

(a) On November 1, 2016, the Corporation issued 475,000 stock options to the certain employees, consultants, and the Company's VP Exploration in accordance with the Corporation's shareholder approved stock option plan. The options are exercisable at \$0.25 per share, expire in five years and vest as to one-third immediately and one-third on the first and second anniversaries on the grant date.

The fair value of these options were estimated using the Black-Scholes option pricing model based on the date of grant and using the following assumptions:

Risk-free rate	0.70%
Weighted-average life	5 years
Dividend yield	nil
Annualized Volatility	141%
Weighted-average fair value per option	\$0.27
Expected Option Life	5 years
Forfeiture rate	0%

(b) On November 29, 2016, the Corporation issued 1,350,000 stock options to directors, officers, advisory committee members and IR consultants of the Corporation in accordance with the Corporation's shareholder approved stock option plan. The options are exercisable at \$0.25 per share, expire in five years and vest as to one-third immediately and one-third on the first and second anniversaries on the grant date.

The fair value of these options was estimated using the Black-Scholes option pricing model based on the date of grant and using the following assumptions:

Risk-free rate	0.95%
Weighted-average life	5 years
Dividend yield	nil
Annualized Volatility	141%
Weighted-average fair value per option	\$0.29
Expected Option Life	5 years
Forfeiture rate	0%

Share-based payments expense of \$110,750 for the three months ended December 31, 2016 (December 31, 2015 – \$3,135) was recognized based on the estimated fair value of the options on the grant date in accordance with the fair value method of accounting for share-based payments, and recorded over the vesting period of the options.

Contributed Surplus

<u>Description</u>	<u>December 31, 2016</u>	<u>September 30, 2016</u>
Opening balance	\$ 4,464,557	\$ 4,407,378
Share-based payments	110,750	57,179
Closing balance	\$ 4,575,307	\$ 4,464,557

10. CAPITAL DISCLOSURES

The Corporation considers its capital to include shareholders' equity and debt. The objectives of the Corporation are to attain a strong financial position from which the Corporation will be able to exhibit continued growth and obtain access to capital. The Corporation has no externally imposed restrictions.

The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Corporation may from time to time, issue shares, obtain debt financing, and adjust capital spending. There were no changes to the Corporation's approach to capital management from the previous year.

11. FINANCIAL INSTRUMENTS

IFRS 13, Fair Value Measurement, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of cash, trade receivables, deposits, trade and other payables, loan and note payable approximate their fair values due to their short terms to maturity.

The Corporation is exposed to a number of different financial risks from normal course business exposures, as well as from the Corporation's use of financial instruments. These risk factors include market risk, liquidity risk, and credit risk.

(a) Market risk

Market risk is the risk of uncertainty arising from possible commodity market price movements and their impact on the future economic viability of the Corporation's projects and the ability of the Corporation to raise capital. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis and adjusting operating and exploration budgets accordingly.

(i) Commodity price risk

The value of the Corporation's exploration and evaluation of assets are related to the price of zinc, lead, tungsten, gold and other mineral commodities, and the outlook for the minerals. Management's outlook on the price of zinc is positive given that the global supply of zinc has fallen. Demand for zinc has steadily increased throughout the last several years and prices are at a 5 year high of \$1.30 per pound. Industry analysts are bullish on the price of zinc forecasting the price of zinc to reach up to \$1.80 per pound by 2018.

(ii) Interest rate risk

Interest rate risk is the risk of exposure to changes in market interest rates affecting future cash flows. The Corporation is not exposed to interest rate risk as the note payable bears interest at a fixed rate.

(iii) Foreign exchange risk

Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Corporation holds some funds in US dollars which is what exposes it

11. FINANCIAL INSTRUMENTS (continued)

to foreign currency risk. The Corporation will use the US funds to pay for any invoices denominated in US dollars to reduce the foreign currency risk.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation believes that it has access to sufficient capital through internally generated cash flows, and potential external equity sources to meet projected expenditures. All of the Corporation's liabilities consist of trade and other payables and note payables.

All financial liabilities are current in nature and are due within one year.

(c) Credit risk

Credit risk is the risk that a customer or counter party will fail to perform an obligation or fail to pay amounts due causing a financial loss. The Corporation's credit risk is primarily attributable to cash and trade and other receivables which are with customers and are subject to normal credit risks.

Credit risk associated with cash is minimized substantially by ensuring that these financial assets are placed with major Canadian financial institutions.

The Corporation's maximum exposure for the three months ended December 31, 2016 relates to \$710,271 (2015 - \$3,157) of cash and \$26,147 (2015 - \$24,755) of trade receivables for the three months ended December 31, 2016.

12. COMMITMENTS

(a) Rental Payments

The Corporation has leases for office space in Calgary, Alberta which expire in October 2017. For the three months ended December 31, 2017, the total minimum rental payments under the office space lease is \$9,000.

(b) Vehicle Operating Leases

The Corporation has leases for company vehicles which expire in May 2017 and Oct 2019. The following is a schedule, by year, of the future minimum lease payments under the operating lease agreements:

2017 - \$21,358
2018 - \$10,695
2019 - \$1,337

13. LOSS PER SHARE

The calculation of basic and diluted loss per share for the three months ended December 31, 2016 was based on net loss and comprehensive loss of \$596,367 (2015 - net loss of \$178,615) For the three months ended December 31, 2016, the weighted average number of common shares outstanding was 28,501,329 (2015 - 22,271,255).

The effect of warrants and stock options outstanding (Note 11) on loss per share for the three months ended December 31, 2016 is anti-dilutive.

14. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere, all related party transactions are in the normal course of operations.

As at December 31, 2016, the Corporation had an amount of \$652 (2015 - \$97,873) due to directors and officers included in trade and other payables.

During the three months ended December 31, 2016, the Corporation was provided geological consulting services in the amount of \$6,705 (2015 - \$nil) from a Company controlled by a director of the Corporation. The total amount has been

14. RELATED PARTY TRANSACTIONS (continued)

capitalized to the mineral property as exploration costs. The Corporation also incurred equipment rental fees in the amount of \$4,500 (2015 - \$nil) provided by a Company controlled by a director of the Corporation, and professional services in the amount of \$14,588 (2015 - \$nil) provided by a Company controlled by a director of the Corporation. These fees have been reflected in general and administrative expenses. An aggregate of \$58,000 (2015 - \$nil) in consulting fees were paid to a corporation owned by a director and officer of the Corporation for compensation as CEO of the Corporation. Costs associated with various administrative support costs of \$48,877 (2015 - \$28,579) were also reimbursed to a director and officer of the Corporation recorded in general and administrative expenses on the statement of net loss and comprehensive loss.

Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the year were as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Short-term employee salary and benefits	-	30,000
Share-based payments	110,750	3,135
Total	110,750	33,135

15. SUBSEQUENT EVENTS

- (a) On January 6, 2017, the Corporation entered into an option agreement with Yellowstone Resources Ltd. (a private company, based in British Columbia) for the acquisition of 100% of the Bayonne and Sheep Creek properties, located in Salmo, British Columbia (“the Bayonne Option Agreement”).

Under the terms of the YSR Agreement, the Corporation will have the exclusive option to acquire the Bayonne property, by making payments to Yellowstone Resources Ltd. of an aggregate \$194,000 cash and aggregate issuance of 550,000 shares, paid in several installments as follows:

- 1) within ten business days of execution of the Bayonne Option Agreement, a non-refundable cash payment of \$5,000 (paid);
- 2) within ten business days of completion of title due diligence on the Properties, a cash payment of \$9,000 (paid);
- 3) upon receipt of TSX Venture Exchange approval, a cash payment of \$10,000 and issuance of 50,000 shares (paid);
- 4) on or before the first anniversary of TSX Venture Exchange approval, a cash payment of \$30,000 and the issuance of 150,000 shares;
- 5) on or before the second anniversary of TSX Venture Exchange approval, a cash payment of \$60,000 and issuance of 150,000 shares; and,
- 6) on or before the third anniversary of TSX Venture Exchange approval, a cash payment of \$80,000 and issuance of 200,000 shares.

In addition, the Corporation will have the exclusive option to acquire the Sheep Creek property by making payments to Yellowstone Resources Ltd. of an aggregate \$500,000 cash and aggregate issuance of 1,050,000 shares, paid in several installments as follows:

- 1) upon receipt of TSX Venture Exchange approval, a cash payment of \$25,000 (paid);
- 2) on or before six months, following TSX Venture Exchange approval, a cash payment of \$25,000;

- 3) on or before the first anniversary of TSX Venture Exchange approval, a cash payment of \$25,000;
- 4) on or before eighteen (18) months following, TSV Venture Exchange approval, a cash payment of \$25,000;
- 5) on or before the second anniversary of TSX Venture Exchange approval, a cash payment of \$100,000 and issuance of 300,000 shares;
- 6) on or before the third anniversary of TSX Venture Exchange approval, a cash payment of \$100,000;
- 7) on or before the fourth anniversary of TSX Venture Exchange approval, a cash payment of \$100,000 and issuance of 300,000 shares; and,
- 8) on or before the fifth anniversary of TSX Venture Exchange approval, a cash payment of \$100,000 and issuance of 450,000 shares.
- (b) On February 9, 2017, the Corporation announced a non-brokered private placement of up to 5,000,000 units of the Corporation at a price of \$0.30 per Unit and up to 9,722,222 common shares of the Corporation issued on a CEE flow-through basis at a price of \$0.36 per Flow-Through share for aggregate proceeds of \$5,000,000.

Each unit consists of one common share and one-half common share purchase warrant. Each warrant will expire 24 months from the closing dates of the offering and will entitle the holder to acquire one common share of the Corporation at a price of \$0.40 per common share.