



## **FINANCIAL REVIEW**

**Fiscal Year Ended December 31, 2015**



(An Exploration Stage Company)

**FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF RACKLA METALS INC.

We have audited the accompanying financial statements of Rackla Metals Inc., which comprise the statements of financial position as at December 31, 2015 and 2014, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rackla Metals Inc. as at December 31, 2015 and 2014, 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 2 in the financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
March 23, 2016

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF FINANCIAL POSITION**

As at December 31, 2015 and 2014

(Expressed in Canadian Dollars)

	<b>2015</b>	<b>2014</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 77,552	\$ 46,819
Available-for-sale investments (Note 5)	3,751	10,501
Taxes receivable	2,209	1,744
Prepaid expenses (Note 12)	375	-
	<b>83,887</b>	<b>59,064</b>
<b>Non-current assets</b>		
Long-term deposits (Note 12)	61,000	61,000
Property and equipment (Note 6)	9,504	11,952
Exploration and evaluation assets (Note 7)	77,028	77,028
	<b>147,532</b>	<b>149,980</b>
<b>TOTAL ASSETS</b>	<b>\$ 231,419</b>	<b>\$ 209,044</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,396	\$ 33,099
Due to related parties (Note 12)	19,364	69,451
<b>Total liabilities</b>	<b>41,760</b>	<b>102,550</b>
<b>Shareholders' equity</b>		
Share capital (Note 9)	7,549,555	7,301,555
Other equity reserves (Note 10)	128,023	128,023
Accumulated other comprehensive income	-	3,000
Deficit	(7,487,919)	(7,326,084)
<b>Total shareholders' equity</b>	<b>189,659</b>	<b>106,494</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 231,419</b>	<b>\$ 209,044</b>

APPROVED BY THE BOARD OF DIRECTORS AND AUTHORIZED FOR ISSUE ON MARCH 23, 2016:

*"Simon Ridgway" (signed)*  
Simon Ridgway, Director

*"William Katzin" (signed)*  
William Katzin, Director

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF COMPREHENSIVE LOSS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

	<b>2015</b>	<b>2014</b>
<b>EXPLORATION EXPENDITURES</b> (Notes 8 and 12)	\$ 1,410	\$ 10,190
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Amortization (Note 6)	2,448	2,448
Legal and audit fees	25,816	35,734
Management fees (Note 12)	42,000	42,000
Office and administrative (Note 12)	40,334	41,509
Public relations (Note 12)	7,158	7,914
Salaries and benefits (Note 12)	17,821	20,340
Transfer agent and regulatory fees (Note 12)	19,474	11,369
Travel and accommodation (Note 12)	1,624	2,957
	156,675	164,271
	(158,085)	(174,461)
Loss on impairment of available-for-sale investments (Note 5)	(3,750)	(10,999)
Write-down of exploration and evaluation asset costs (Note 7)	-	(895,540)
<b>Net loss for the year</b>	<b>(161,835)</b>	<b>(1,081,000)</b>
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on available-for-sale investments (Note 5)	(3,000)	(7,999)
Transfer on impairment of available-for-sale investments	-	10,999
	(3,000)	3,000
<b>Total comprehensive loss</b>	<b>\$ (164,835)</b>	<b>\$ (1,078,000)</b>
Basic and diluted loss per share	\$(0.02)	\$(0.11)
Weighted average number of common shares outstanding	11,098,858	10,098,858

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

	Number of common shares	Share capital	Other equity reserves		Accumulated other comprehensive income	Deficit	Total
			Share-based payments	Share purchase warrants			
Balance, December 31, 2013	10,098,858	\$ 7,301,555	\$ 128,023	\$ 6,045	\$ -	\$ (6,251,129)	\$ 1,184,494
Loss for the year	-	-	-	-	-	(1,081,000)	(1,081,000)
Fair value loss on available-for-sale investments	-	-	-	-	(7,999)	-	(7,999)
Transfer of impairment on available-for-sale investments	-	-	-	-	10,999	-	10,999
Fair value of expired warrants	-	-	-	(6,045)	-	6,045	-
Balance, December 31, 2014	10,098,858	7,301,555	128,023	-	3,000	(7,326,084)	106,494
Loss for the year	-	-	-	-	-	(161,835)	(161,835)
Shares issued on private placements	5,000,000	250,000	-	-	-	-	250,000
Share issuance costs	-	(2,000)	-	-	-	-	(2,000)
Fair value loss on available-for-sale investments	-	-	-	-	(3,000)	-	(3,000)
<b>Balance, December 31, 2015</b>	<b>15,098,858</b>	<b>\$ 7,549,555</b>	<b>\$ 128,023</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (7,487,919)</b>	<b>\$ 189,659</b>

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

**RACKLA METALS INC.**

(An Exploration Stage Company)

**STATEMENTS OF CASH FLOWS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

	<b>2015</b>	<b>2014</b>
<b>Cash provided by (used in):</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (161,835)	\$ (1,081,000)
Items not involving cash:		
Amortization	2,448	2,448
Loss on impairment of available-for-sale investments	3,750	10,999
Write-down of exploration and evaluation asset costs	-	895,540
	(155,637)	(172,013)
Changes in non-cash working capital items:		
Taxes receivable	(465)	4,656
Prepaid expenses	(375)	-
Accounts payable and accrued liabilities	(10,703)	13,302
Due to related parties	(50,087)	52,705
	(217,267)	(101,350)
<b>FINANCING ACTIVITIES</b>		
Proceeds on issuance of common shares	250,000	-
Share issuance costs	(2,000)	-
	248,000	-
<b>Increase (decrease) in cash</b>	<b>30,733</b>	<b>(101,350)</b>
Cash, beginning of year	46,819	148,169
<b>Cash, end of year</b>	<b>\$ 77,552</b>	<b>\$ 46,819</b>

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

# **RACKLA METALS INC.**

(An Exploration Stage Company)

## **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

### **1. CORPORATE INFORMATION**

Rackla Metals Inc. (the "Company") is pursuing opportunities related to exploration of mineral resource properties. The Company was incorporated in the province of British Columbia on September 20, 2011, and is listed on the TSX Venture Exchange ("TSX-V"), having the symbol RAK.

The address of the Company's corporate office and principal place of business is #650, 200 Burrard Street, Vancouver, BC, Canada V6C 3L6.

### **2. BASIS OF PREPARATION**

#### **Statement of Compliance**

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

#### **Basis of Measurement**

These financial statements have been prepared on the historical cost basis, except for certain financial instruments carried at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

#### **Ability to Continue as a Going Concern**

These financial statements have been presented on the basis that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Realization values may be substantially different from the carrying values shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At December 31, 2015, the Company had not yet achieved profitable operations, has accumulated deficit of \$7,487,919 since inception, and is expected to incur further losses in the development of its business, all of which raises significant doubt about its ability to continue as a going concern. The Company will periodically have to raise funds to continue operations; although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. If the Company is unable to obtain additional financing, management may be required to curtail certain discretionary expenses.



## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Loss Per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. In a loss year, potentially dilutive equity instruments are excluded from the loss per share calculation, as the effect would be anti-dilutive. Basic and diluted loss per share is the same for all years presented.

#### **(b) Income Taxes**

Income tax on profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive loss, in which case the income tax is recognized in equity or other comprehensive loss.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, on a non-discounted basis using tax rates at the end of the reporting period applicable to the period of expected realization.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

#### **(c) Foreign Currency Translation**

The functional currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

- (i) Monetary assets and liabilities, at the exchange rate in effect as at the statement of financial position date;
- (ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
- (iii) Revenues and expenses, at the exchange rates on the date of the transactions.

Exchange differences arising from the translations are recorded as a gain or loss on foreign currency translation in profit or loss.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(d) Property, Equipment and Amortization**

###### *Recognition and Measurement*

Property and equipment are recorded at cost less accumulated amortization and any impairment losses.

###### *Amortization*

Amortization is recognized in profit or loss. Property and equipment are amortized over their estimated useful lives using the following method:

Leasehold improvements	7 - 8 years straight-line
------------------------	---------------------------

Additions during the year are amortized on a pro-rated basis.

##### **(e) Exploration and Evaluation Assets and Expenditures**

Acquisition costs for exploration and evaluation assets, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs may include cash consideration, the value of common shares issued based on fair values, and the fair value of share purchase warrants and options issued based on amounts determined using the Black-Scholes option pricing model, for mineral property interests pursuant to the terms of the agreement.

Exploration expenditures, net of recoveries, are charged to operations as incurred. After a property is determined by management to be commercially feasible, development expenditures on the property are capitalized.

When there is little prospect of further work on a property being carried out by the Company or its optionee, when a property is abandoned or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount. Acquisition costs are also tested for impairment before the assets are transferred to development properties. The costs related to a property from which there is production, together with the costs of production equipment, will be depleted and amortized using the unit-of-production method.

Exploration and evaluation assets acquired under an option agreement where payments are made at the sole discretion of the Company are capitalized at the time of payment. The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures, which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized, with any excess cash recognized in profit or loss.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(f) Impairment of Non-Financial Assets**

Impairment tests on non-financial assets, including exploration and evaluation assets are undertaken annually at the financial year-end and whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit ("CGU"), which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss.

##### **(g) Provisions**

###### *Rehabilitation Provision*

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and revegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

At December 31, 2015, exploration and evaluation rehabilitation costs were not considered significant.

###### *Other Provisions*

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, where it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

##### **(h) Share Capital**

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and options are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of the unit components sold is measured using the residual value approach.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(i) Share-based Payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where terms and conditions of options are modified before they expire, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the fair value of goods or services received in exchange for the share-based payment cannot be reliably estimated, they are measured by use of a valuation model.

All equity-settled share-based payments are reflected in other equity reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in other equity reserves is credited to share capital, adjusted for any consideration paid. For those unexercised options and share purchase warrants that expired, the recorded value is transferred to deficit.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

##### **(j) Financial Instruments**

###### **Financial Assets**

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

###### *Fair Value Through Profit or Loss ("FVTPL")*

A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(j) Financial Instruments (cont'd)**

###### *Loans and Receivables*

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

###### *Available-for-Sale Investments*

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

On sale or impairment, the cumulative amount recognized in other comprehensive loss is reclassified from accumulated other comprehensive loss to profit or loss.

###### *Impairment of Financial Assets*

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

##### **Financial Liabilities**

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemptions, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period, which are unpaid. Accounts payable and accrued liabilities amounts are unsecured and are usually paid within 45 days of recognition.

The Company has made the following designations of its financial instruments:

Cash	FVTPL
Available-for-sale investments	Available-for-sale financial assets
Accounts payable and accrued liabilities	Other financial liabilities
Due to related parties	Other financial liabilities

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(k) New Standards and Interpretations Not Yet Adopted**

The Company will be required to adopt the following standard and amendment issued by the IASB as described below.

##### *IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for the Company's annual periods beginning January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

#### **4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

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

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgment applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- i) The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

Assets or CGUs are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

In respect of costs incurred for its investment in exploration and evaluation assets, management has determined the acquisition costs that have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economics assessment/studies, accessible facilities and existing permits.

- ii) The Company has not recognized a deferred tax asset as management believes that it is not probable that taxable profit will be available against which a deductible temporary difference can be utilized.
- iii) The determination of when an investment is impaired requires significant judgment. In making this judgment, the Company evaluates, amongst other things, the duration and extent to which the fair value of the investment is less than its original cost at each reporting period.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(cont'd)*

The key estimate applied in the preparation of the financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities is the provision for income taxes and recognition of deferred income tax assets and liabilities.

#### 5. AVAILABLE-FOR-SALE INVESTMENTS

As of December 31, 2015, available-for-sale investments consisted of 75,000 common shares of Damara Gold Corp. ("Damara"), a public company, and 200,000 common shares of Voyager Gold Corp. ("Voyager"), a private company with a common director. The private company shares were initially measured at fair value. During the year ended December 31, 2014, Damara completed a one-for-ten share consolidation thereby reducing the Company's holding in Damara to 75,000 common shares.

As at December 31, 2015, the carrying amount for the available-for-sale investments was \$3,751 (2014: \$10,501).

During the year ended December 31, 2015, there was a decline in value of the Damara shares by \$6,750. Due to the Company having recorded an impairment on the Damara shares in a prior fiscal year, \$3,000 of the decline in value was recorded as a change in fair value to bring the accumulated other comprehensive income balance relating to the Damara shares to \$Nil and recorded a further decrease in fair value which was deemed to be prolonged and recorded as an impairment charge of \$3,750 during the current year.

During the year ended December 31, 2014, the Company determined that the value of its Voyager shares, which were previously carried at cost, were impaired, and as a result, recorded an impairment charge of \$10,999 to bring the carrying cost to a nominal value.

	Damara	Voyager	Total
Balance, December 31, 2013	\$ 7,500	\$ 11,000	\$ 18,500
Impairment of investments	-	(10,999)	(10,999)
Change in fair value	3,000	-	3,000
Balance, December 31, 2014	10,500	1	10,501
Change in fair value	(6,750)	-	(6,750)
<b>Balance, December 31, 2015</b>	<b>\$ 3,750</b>	<b>\$ 1</b>	<b>\$ 3,751</b>

**RACKLA METALS INC.**

(An Exploration Stage Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

**6. PROPERTY AND EQUIPMENT**

	<b>Leasehold improvements</b>
<b>Cost</b>	
Balance, December 31, 2013	\$ 19,060
Additions	-
Balance, December 31, 2014	19,060
Additions	-
<b>Balance, December 31, 2015</b>	<b>\$ 19,060</b>
<b>Accumulated amortization</b>	
Balance, December 31, 2013	\$ 4,660
Charge for the year	2,448
Balance, December 31, 2014	7,108
Charge for the year	2,448
<b>Balance, December 31, 2015</b>	<b>\$ 9,556</b>
<b>Carrying amounts</b>	
At December 31, 2014	\$ 11,952
<b>At December 31, 2015</b>	<b>\$ 9,504</b>

**7. EXPLORATION AND EVALUATION ASSETS**

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended December 31, 2015 and 2014:

	<b>Rivier</b>	<b>Scarlet</b>	<b>Sixty Mile</b>	<b>Face</b>	<b>Total</b>
Balance, December 31, 2013	\$ 77,025	\$ 895,541	\$ 1	\$ 1	\$ 972,568
Write-off acquisition costs	-	(895,540)	-	-	(895,540)
<b>Balance, December 31, 2014 and 2015</b>	<b>\$ 77,025</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 77,028</b>

## (i) Rivier Property – Yukon Territory

The Rivier Property, located in the Watson Lake Mining District, consists of 116 claims of which 16 claims are 100% owned and 100 claims are held pursuant to an option agreement (the "Initial Option") with the property owner.



## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

#### 7. EXPLORATION AND EVALUATION ASSETS (cont'd)

(i) Rivier Property – Yukon Territory

Pursuant to amending agreements dated July 15, 2014 and October 28, 2015, in order for the Company to exercise the option, it must make cash and share payments to the property owner according to the following schedule:

- (a) 50,000 common shares on or before July 18, 2012 (shares issued);
- (b) 50,000 common shares on or before October 31, 2016;
- (c) \$20,000 cash and 50,000 common shares on or before October 31, 2017;
- (d) \$40,000 cash and 50,000 common shares on or before October 31, 2018; and
- (e) \$80,000 cash and 50,000 common shares on or before October 31, 2019.

Voyager holds an option (the “Voyager Option”) to acquire from the Company a 60% interest in the Rivier Property. Pursuant to amending agreements dated November 14, 2014 and October 28, 2015, in order to keep the Voyager Option in good standing, Voyager must pay \$200,000 cash to the Company, issue a total of 1,000,000 common shares of Voyager to the Company and incur an aggregate \$1,000,000 in exploration expenditures on the property, as follows:

Due date	Cash	Shares	Expenditures
Upon completion of the Arrangement (shares received December 9, 2011)	\$ -	200,000	\$ -
By December 31, 2011 (expenditures incurred)	-	-	100,000
On public listing of Voyager	-	200,000	-
By November 30, 2016	50,000	200,000	200,000
By November 30, 2017	50,000	200,000	300,000
By November 30, 2018	100,000	200,000	400,000
	\$ 200,000	1,000,000	\$ 1,000,000

The 200,000 Voyager shares issued to the Company had a fair value of \$11,000 at the date of transaction.

The Company must keep the Initial Option in good standing as long as the Voyager Option remains outstanding. Assuming the Initial Option and the Voyager Option are exercised, a joint venture will be formed to further develop the property on the basis of Voyager 60%/the Company 40%. Pursuant to the Initial Option, the Company’s and Voyager’s ownership will be subject to a 3% net smelter return royalty (“NSR”). An advance royalty payment of \$20,000 is to be paid to the property owner annually beginning October 31, 2020 until the property is deemed to be in production. The Company and Voyager may jointly elect to reduce the NSR to 2% by making a one-time payment to the property owner of \$1,000,000.

(ii) Scarlet Property – Yukon Territory

The Scarlet Property consists of 743 100% owned claims located in the Mayo Mining District. The property is divided into two claim blocks: Scarlet East, which consists of 230 claims, and Scarlet West, which consists of 513 claims.

On March 27, 2012, the Company granted to Strategic Metals Ltd. (“Strategic”) the option to acquire an undivided 60% interest in the Scarlet East claim block by making \$5,000,000 in exploration expenditures on the property by December 31, 2016. During the 2014 fiscal year, Strategic terminated the option agreement.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **7. EXPLORATION AND EVALUATION ASSETS (cont'd)**

(ii) Scarlet Property – Yukon Territory

During the 2014 fiscal year, the Company determined the carrying value of the Scarlet Property to be impaired and recorded a write-down of \$895,540.

(iii) Sixty Mile Area – Yukon Territory

The Sixty Mile Property consists of 638 100% owned claims located in the Dawson Mining District.

(iv) Face Property – Yukon Territory

The Face Property consists of 147 100% owned claims located in the Dawson Mining District.

#### **8. EXPLORATION EXPENDITURES**

During the year ended December 31, 2015, the Company incurred \$1,410 on general care and maintenance of its Scarlet and Sixty Mile mineral properties.

During the year ended December 31, 2014, the Company incurred the following exploration expenditures:

	<b>Sixty Mile</b>	<b>Face</b>	<b>Yukon General</b>	<b>Total</b>
Field expense	\$ -	\$ -	\$ 3,794	\$ 3,794
Geological fees	810	2,561	1,463	4,834
Travel	-	-	1,562	1,562
	<b>\$ 810</b>	<b>\$ 2,561</b>	<b>\$ 6,819</b>	<b>\$ 10,190</b>

#### **9. SHARE CAPITAL AND RESERVES**

**(a) Common Shares**

The Company is authorized to issue an unlimited number of common shares without par value.

On October 1, 2015, the Company completed a one-for-five consolidation of its issued and outstanding shares and stock options. As a result, the Company's issued shares were reduced to 10,098,858. All references to common shares, share purchase warrants and stock options in these financial statements reflect the share consolidation.

On October 19, 2015, the Company closed a private placement of 5,000,000 units at \$0.05 per unit for gross proceeds of \$250,000, of which 1,000,000 units were purchased by Radius Gold Inc., a company with common directors. Each unit consists of one common share and one full share purchase warrant entitling the holder to purchase an additional common share exercisable for two years at a price of \$0.05. Share issuance costs associated with this financing totalled \$2,000.

There was no share capital activity during the year ended December 31, 2014.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

## 9. SHARE CAPITAL AND RESERVES

### (b) Share Purchase Warrants

A summary of share purchase warrants activity for the years ended December 31, 2015 and 2014 is as follows:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2013	1,434,375	\$0.50
Expired	(1,434,375)	\$0.50
Balance, December 31, 2014	-	\$0.50
Issued	5,000,000	\$0.05
<b>Balance, December 31, 2015</b>	<b>5,000,000</b>	<b>\$0.05</b>

As at December 31, 2015, the following share purchase warrants were outstanding:

Expiry date	Number of warrants	Exercise price
October 18, 2017	5,000,000	\$0.05

## 10. SHARE-BASED PAYMENTS

### Option Plan Details

The Company has in place a stock option plan (the "Plan") that allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX-V. Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V regulation. The options are for a maximum term of ten years.

### Share Purchase Options

There was no stock option activity during the years ended December 31, 2015 and 2014.

As at December 31, 2015, the following stock options were outstanding:

Expiry date	Number of options	Exercise price
July 19, 2022	245,000	\$0.75

The weighted average remaining contractual life of the options outstanding at December 31, 2015 is 6.55 (2014: 7.55) years.

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

#### 11. INCOME TAXES

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2014: 26.00%) to income before income taxes. The reasons for the differences are as follows:

	2015	2014
Net loss for the year	\$ (161,835)	\$ (1,081,000)
Canadian statutory tax rate	26.00%	26.00%
Income tax recovery computed at statutory rates	(42,077)	(281,000)
Change in timing differences	(193)	230,000
Unused tax losses and tax offsets not recognized in tax asset	42,270	51,000
<b>Deferred income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

The Company recognizes tax benefits on losses or other deductible amounts where it is probable of the Company will generate sufficient taxable income to utilize its deferred tax assets have. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	2015	2014
Non-capital losses	\$ 912,000	\$ 750,000
Available-for-sale investments	103,000	100,000
Share issue costs and other	17,000	22,000
Mineral properties	1,281,000	1,279,000
Capital losses	136,000	136,000
<b>Unrecognized deductible temporary differences</b>	<b>\$ 2,449,000</b>	<b>\$ 2,287,000</b>

As at December 31, 2015, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years.

Non-capital Canadian tax losses expire as follows:

Year of expiry	Taxable losses
2031	\$ 21,000
2032	349,000
2033	209,000
2034	171,000
2035	163,000
	<b>\$ 913,000</b>

## RACKLA METALS INC.

(An Exploration Stage Company)

### NOTES TO THE FINANCIAL STATEMENTS

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

## 12. RELATED PARTY TRANSACTIONS

The Company had transactions during the years ended December 31, 2015 and 2014 with related parties consisting of directors, officers and the following companies with common directors:

<b>Related party</b>	<b>Nature of transactions</b>
Gold Group Management Inc. ("Gold Group")	Shared office and administrative related charges
Mill Street Services Ltd. ("Mill Street")	Management services

Balances and transactions with related parties not disclosed elsewhere in these financial statements are as follows:

- (a) During the years ended December 31, 2015 and 2014, the Company reimbursed Gold Group for the following costs:

	<b>2015</b>	<b>2014</b>
General and administrative expenses:		
Office and administration	\$ 39,183	\$ 40,753
Public relations	-	1,268
Salaries and benefits	17,821	26,586
Transfer agent and regulatory fees	5,739	2,224
Travel and accommodation	1,643	2,137
	<b>\$ 64,386</b>	<b>\$ 72,968</b>

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Chief Financial Officer and Corporate Secretary.

- (b) Deposits as of December 31, 2015 consist of \$61,000 (2014: \$61,000) paid to Gold Group and are related to the shared office and administrative services agreement with Gold Group that was effective July 1, 2012. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.
- (c) Amounts due to related parties as of December 31, 2015 consist of \$12,014 (2014: \$47,401) due to Gold Group and \$7,350 (2014: \$22,050) owed to Mill Street. The balance due to Gold Group is collateralized by a deposit and the balance due to Mill Street is unsecured and due on demand. The amounts due do not bear interest.

These transactions are measured at fair value of the services rendered.

### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

	<b>2015</b>	<b>2014</b>
Management fees <sup>1</sup>	\$ 42,000	\$ 42,000
Salaries and benefits	4,583	8,875
	<b>\$ 46,583</b>	<b>\$ 50,875</b>

<sup>1</sup> Paid to Company controlled by related party (CEO).

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company is exposed to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

##### **General Objectives, Policies and Processes**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

##### **(a) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

###### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to not be significant.

###### *Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Damara and Voyager are monitored by management with decisions on sale taken at Board level. A 10% change in fair value of the shares would result in a \$375 increase or decrease in net loss and comprehensive loss.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

##### **(b) Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset-based commercial paper.

##### **(c) 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 provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2015, the Company had cash of \$77,552 (2014: \$46,819) available to apply against short-term business requirements and current liabilities of \$41,760 (2014: \$102,550). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

##### **Determination of Fair Value**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at December 31, 2015 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of \$3,750 (2014: \$10,500), which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

##### **Fair Value Hierarchy**

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	Unadjusted quoted prices 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 available-for-sale investment in Damara is based on a quoted price and is therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was acquired and assessed for impairment as at December 31, 2015 and 2014. This investment is considered to be Level 3.

## **RACKLA METALS INC.**

(An Exploration Stage Company)

### **NOTES TO THE FINANCIAL STATEMENTS**

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

---

#### **14. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. The Company defines its capital as all components of equity. In order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for general administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the year. As at December 31, 2015, the Company is not subject to any externally imposed capital requirements. The Company does not expect its capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto.

#### **15. SEGMENTED REPORTING**

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities. All of the Company's long-term assets and operations are in Canada.





(the “Company”)

## **MANAGEMENT’S DISCUSSION AND ANALYSIS Year End Report – December 31, 2015**

### **General**

This Management’s Discussion and Analysis (“MD&A”) supplements, but does not form part of, the audited financial statements of the Company for the year ended December 31, 2015. The following information, prepared as of March 23, 2016, should be read in conjunction with the December 31, 2015 financial statements. The Company reports its financial position, results of operations and cash flows in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relevant to the Company’s activities can be found on SEDAR at ([www.sedar.com](http://www.sedar.com)).

### **Forward-looking Information**

This MD&A contains certain statements which constitute forward-looking information within the meaning of applicable Canadian securities legislation (“Forward-looking Statements”). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this MD&A include, without limitation, statements relating to the Company’s plans for exploration of its properties; the sufficiency of the Company’s cash position; and its ability to raise equity capital or access debt facilities. Often, but not always, these Forward-looking Statements can be identified by the use of words such as “anticipates”, “believes”, “plans”, “estimates”, “expects”, “forecasts”, “scheduled”, “targets”, “possible”, “strategy”, “potential”, “intends”, “advance”, “goal”, “objective”, “projects”, “budget”, “calculates” or statements that events, “will”, “may”, “could” or “should” occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- risks associated with mineral exploration;
- fluctuations in commodity prices, foreign exchange rates, and interest rates;
- credit and liquidity risks;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- reliance on key personnel;
- property title matters and local community relationships;
- risks associated with potential legal claims generally or with respect to environmental matters;
- dilution from further equity financing;
- competition; and
- uncertainties relating to general economic conditions;

as well as those factors referred to in the “Risks and Uncertainties” section in this MD&A.

Forward-looking Statements contained in this MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration and development of the Company's properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matters;
- exploration activities proceeding on a basis consistent with the Company's current expectations;
- expected trends and specific assumptions regarding commodity prices and currency exchange rates; and
- prices for and availability of fuel, electricity, equipment and other key supplies remaining consistent with current levels.

These Forward-looking Statements are made as of the date hereof and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on Forward-looking Statements.

### **Business of the Company**

The Company is a Vancouver-based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. Management is actively seeking prospective projects for possible acquisition, to add to the Company's Yukon property portfolio described below.

Effective October 1, 2015, the Company completed a share consolidation so that every five existing common shares of the Company were exchanged for one new common share of the Company, resulting in an issued capital of 10,098,858 shares. The Company's name and trading symbol remain the same; only the CUSIP number of the common shares has changed. **All references to common shares, share purchase warrants and stock options in this MD&A reflect the share consolidation.**

### **Scarlet Property, Rackla Belt Area**

The Company owns 743 claims (15,520 hectares / 38,370 acres) in the Rackla Belt area, Yukon, of which 230 claims comprise the Scarlet East property and 513 claims the Scarlet West property.

#### *Scarlet East*

The Scarlet East property covers what is believed to be the eastern extension of the belt of rocks that host ATAC Resources' Osiris and Conrad discoveries located northeast of Keno City, Yukon.

Mineralization in the Rackla belt shares many of the characteristics of Carlin-type gold deposits, including similar alteration assemblages and association with the low-temperature arsenic sulphides, realgar and orpiment. In the eastern part of the belt, host rocks are two 150-to-250-metre-thick limestone debris flow and turbidite units, referred to by Atac Resources as the Osiris and Isis horizons. Regional and detailed mapping over the Scarlet East property has identified similar carbonate stratigraphy and fold patterns.

In 2012, the Company granted to Strategic Metals Ltd. ("Strategic") the option to acquire an undivided 60% interest in the Scarlet East claim block. In 2013, Strategic conducted a detailed prospecting and geological mapping program along with geochemical soil sampling (517 samples). Geochemical results identified an irregularly shaped, approximately north-north-westerly trending gold-arsenic-mercury-antimony in soil anomaly over an area of about 2,000 by 700 metres in the eastern part of the property. Additional work is recommended by Archer, Cathro & Associates (1981) Limited, who carried out the work for Strategic, consisting of remote sensing studies, detailed geological mapping and prospecting, hand trenching and if results are promising, additional diamond drilling. Strategic reported in its June 30, 2014 financial statements that it had incurred a total of \$686,242; however on October 5, 2014, Strategic terminated the option agreement.

The Scarlet East claims are in good standing until 2023 but no work is planned on the property by the Company at the present time.

### *Scarlet West*

Although the Scarlet West property was initially staked for its potential to host lode gold deposits, the Company has identified its potential to also host significant high grade Pb-Zn replacement or Mississippi Valley Type deposits.

At Scarlet West, lead-zinc mineralization and geochemical soil anomalies are found on the margins of a lower dolomite unit and as replacements and fillings in steeply dipping and crosscutting fault structures. In the 1970's McIntyre Mines identified three mineralized occurrences (White Ridge, Chopper Pad and Discovery Zone), all in the same stratigraphic horizon along a nine kilometre strike length and an additional zone, Puddle Zone, in a lower horizon that extends for at least two kilometres. In 2012 the Larry Zone was discovered on a fault structure that can be traced for four kilometres. Although McIntyre Mines diamond drilled eight small diameter holes (total 816.5 metres) on the Puddle and Discovery Zones, neither the drill hole locations or results are available.

Geochemical results from rock and soil samples taken during 2011 and 2012 returned significant anomalies for zinc from the southeast side of the property over all the above zones. A four kilometre linear zinc in soil anomaly was delineated and includes both the Chopper Pad and Discovery Zone. Most of the soil lines, spaced at 200 metres and crossing the host carbonate horizon, included two or more samples spaced at 50 metres that contained >2,800 ppm to >10,000 ppm zinc. Coincident lead in soil anomalies range from 500 ppm to >1,000 ppm and several rock samples from the replaced carbonate mineralized horizon contained >2% zinc from highly leached and oxidized samples.

The White Ridge Zone, located on the northeast side of the property, has a gold in soil anomaly (>5 – 39 ppb) with scattered anomalous thallium values (>2 ppm) that was traced for 2 kilometres to the east. Anomalous mercury values (>1,864 ppb) are restricted to the immediate area of the original carbonate hosted White Ridge Zone over an east-west strike length of one kilometre.

Expanded soil sample coverage over the Puddle Zone, located one kilometre north of the White Ridge Zone and also underlain by carbonates, identified a coincident arsenic (>63 ppm), antimony (>8 ppm) anomaly, with sporadic anomalies for mercury (>911 ppb), arsenic (>62 ppm), silver (>563 ppb), lead (>106) and zinc (>1,110 ppm). This soil anomaly extends over a one kilometre east-west strike length, extends 500 m north-south, and is open to the west.

The claims are in good standing until 2017 but no additional work is planned for the Scarlet West property at the present time.

### Rivier Property

The Company holds a 100% interest in the Rivier Property partly by staking and partly under an option agreement. Voyager Gold Corp. ("Voyager"), a private BC company, has the option to acquire from the Company a 60% interest in the property, and Voyager has to date issued to the Company 200,000 common shares in its capital stock in order to keep its option agreement in good standing. The Company's option agreements with the property owner and with Voyager were amended in October 2015 to extend the earn-in deadlines by one year.

The Rivier claims are located 90 kilometres southeast of Ross River, Yukon and cover an ultramafic body shedding anomalous gold values from its margin into stream sediments and soil. In 2011, Voyager completed a program of geological mapping and geochemical sampling followed by an airborne geophysical (magnetic and radiometrics) survey. Two zones of anomalous gold in soil, ranging from background to over 2,000 ppb Au, were identified. In 2012 Voyager intended to explore with an initial program of trenching and 500 metres of diamond drilling exploration but poor market conditions precluded financing arrangements.

In 2013, Voyager carried out a short program of geological mapping and geochemical soil, stream sediment and rock sampling (139, 8 and 37 samples respectively). Geochemical results included a number of anomalous values for gold in soil (>27 ppb gold) extending the known anomalies but not closing them off. The report recommended detailed geological mapping, additional soil geochemistry to close off the gold anomalies, geophysics (HLEM and or IP) and, instead of trenching the flanks of the listwanitized ultramafic, to use a 'geoprobe' bedrock sampling tool to test for gold in bedrock.

The Rivier claims are in good standing until 2022, and the Company and Voyager are reassessing their plans for this property on a regular basis, with a view to recommencing exploration activities if the mining investment climate improves.

### Sixty Mile Property

The 100% owned Sixty Mile Property consists of 638 claims (approximately 12,958 hectares / 33,016 acres) which cover portions of the headwaters and drainage areas of the prolific Sixty Mile Gold Camp of the Yukon Territory

which reportedly produced over 500,000 ounces of gold from the creeks that drain the Company's holdings. Of the 638 claims, 508 are in good standing until 2018 or later and 130 are in good standing until the end of March 2016. No exploration work is currently planned for this property.

#### Face Property

The Face property consists of 147 claims in two groups located in western Yukon, 8 kilometres and 25 kilometres, respectively, due east of Eagle, Alaska.

Work by the Company in 2013 consisted of 1,109 soil and 115 rock samples, prospecting and reconnaissance geological mapping over gold and silver anomalies identified in 2011 and 2012. Although the sampling was hindered by overburden and permafrost, geochemical soil sample results identified an irregular shaped area anomalous in silver (>10 ppm Ag and up to 88 ppm Ag) located over an area of approximately one square kilometre. The silver anomaly is accompanied by anomalous zinc values (>500 ppm to 6,000 ppm Zn) and is underlain by black shale, likely belonging to the Road River Group. Rock samples of the black shale contained similar values for silver and zinc. No significant gold values from the soil or rock samples were obtained.

No exploration work is currently planned for this property. The claims covering the silver anomaly are in good standing until April 2019, while 98 other Face property claims are in good standing until the end of March or April 2016.

*Qualified Person: Roger Hulstein, B.Sc., P.Geo., a member of the Association of Professional Engineers and Geoscientists of British Columbia, is the Company's Qualified Person as defined by National Instrument 43-101, and is responsible for the accuracy of the technical information in this MD&A.*

#### Selected Financial Information

The following table provides financial results for the years ended December 31, 2015, 2014 and 2013:

	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Exploration expenditures	1,410	10,190	498,862
General and administrative expenses	156,675	164,271	311,925
Net loss	161,835	1,081,000	4,373,259
Basic and diluted loss per share	0.02	0.11	0.43
Total assets	231,419	209,044	1,221,037
Total liabilities	41,760	102,550	36,543
Shareholders' equity	189,659	106,494	1,184,494

The net loss for 2013 fiscal year was significantly higher than the other two fiscal years presented due to a write-down of exploration and evaluation assets of \$3,628,446 compared to a write-down of \$895,540 in the 2014 fiscal year and no write-downs in fiscal 2015. The exploration and evaluation asset write-downs during the 2013 and 2014 fiscal years resulted in total assets and shareholders' equity being significantly lower in fiscal 2013 and 2014.

#### Quarterly Information

The following table provides quarterly information for the eight fiscal quarters ended December 31, 2015:

<b>Quarter Ended</b>	<b>Dec. 31, 2015</b>	<b>Sep. 30, 2015</b>	<b>Jun. 30, 2015</b>	<b>Mar. 31, 2015</b>	<b>Dec. 31, 2014</b>	<b>Sep. 30, 2014</b>	<b>Jun. 30, 2014</b>	<b>Mar. 31, 2014</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Exploration expenditures	-	450	960	-	720	720	2,714	6,036
General and administrative expenses	66,557	25,443	26,016	38,659	59,804	29,712	34,189	40,566
Net loss	67,307	28,143	27,726	38,659	71,523	925,972	36,903	46,602
Basic and diluted loss per share	0.01	0.00	0.00	0.01	0.01	0.09	0.00	0.01

The net loss for the quarter ended September 30, 2014 was significantly impacted by a write-down of \$895,540 for the Scarlet property. The net losses for the quarters ended December 31, 2015 and 2014 are higher than most other quarters due primarily to the timing of legal and audit fees and also in the most recent quarter, expenses relating to

the share consolidation. Exploration expenditures for the past eight quarters have consisted of care and maintenance activities.

## **Results of Operations**

### *Quarter ended December 31, 2015*

The quarter ended December 31, 2015 had a net loss of \$67,307 compared to \$71,523 for the quarter ended December 31, 2014, a decrease of \$4,216. This decrease is due to a loss on impairment of available-for-sale investments of \$10,999 in the comparative quarter compared to a loss of \$750 in the current quarter. There were no exploration expenditures in the current quarter compared to \$720 in the comparative quarter. Exploration costs in the comparative quarter were related to general care and maintenance of the Company's mineral properties.

General and administrative expenses for the quarter ended December 31, 2015 totalled \$66,557 compared to \$59,804 for the comparative quarter, an increase of \$6,753. During the current quarter, there were increases of \$7,904 in transfer agent and regulatory fees and \$5,211 in salaries and benefits and a decrease of \$10,403 in legal and audit fees compared to the comparative quarter. Transfer agent and regulatory fees were higher due to the share consolidation that took effect during the current quarter. The difference in salaries and benefits costs is due to a cost recovery in the comparative quarter; otherwise, personnel costs were similar between the two quarters. Legal and audit fees were higher in the comparative quarter due to the Company requiring more legal services during that period.

### *Year ended December 31, 2015*

The net loss for the year ended December 31, 2015 was \$161,835 compared to \$1,081,000 for the year ended December 31, 2014, a decrease of \$919,165. The comparative year net loss is significantly higher due to the write-down of \$895,540 on exploration and evaluation costs while no such expense was recorded in the current year. Current year exploration expenditures were \$1,410 compared to \$10,190 for the comparative year, a decrease of \$8,780. As with the quarterly comparison, most exploration costs for the current and comparative years were related to care and maintenance of the properties.

General and administrative expenses for the year ended December 31, 2015 totalled \$156,675 compared to \$164,271 for the year ended December 31, 2014, a decrease of \$7,596. Current year general and administrative costs were either lower than or consistent with the comparative year, except for transfer agent and regulatory fees which were \$8,105 higher due to the share consolidation. The most significant current year cost decrease was \$9,918 in legal and audit fees for the same reason in the quarterly comparison. Overall current year expenses were lower due to continued efforts to reduce costs where possible.

## **Liquidity and Capital Resources**

The Company is in the exploration stage and therefore has no cash flow from operations. While the Company does not have any commitments, it does have an option agreement on the Rivier property whereby the next scheduled payment due to keep the option in good standing is a payment of 50,000 common shares due on or before October 31, 2016.

As at December 31, 2015, current assets were \$83,887 of which \$77,552 was cash and \$3,751 was the fair value of available-for-sale investments. Current liabilities were \$41,760, resulting in working capital of \$42,127. During the year ended December 31, 2015, the Company raised \$250,000 through a private placement of 5.0 million units at \$0.05 per unit. Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share of the Company at \$0.05 for two years. These funds are being used for care and maintenance activities on the Company's properties and for general working capital purposes.

The Company has primarily financed its operations through the issuance of equity financing. The Company does not expect its current capital resources to be sufficient to cover its corporate operating costs and future exploration expenditures through the next twelve months. As such, the Company will seek to raise additional capital and believes it will be able to do so, but recognizes the uncertainty attached thereto. If the Company is unable to obtain additional financing, management may be required to further curtail certain discretionary expenses. Actual funding requirements may vary from those planned due to a number of factors, including the progress of property acquisition and exploration activity.

## **Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its mineral properties. The Company defines its capital as all components of equity. In

order to facilitate the management of its capital requirements, the Company prepares periodic budgets that are updated as necessary. The Company manages its capital structure and makes adjustments to it to effectively support the acquisition and exploration of mineral properties. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out any exploration work and pay for general administrative costs, the Company will spend its existing capital resources and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management during the current year. As at December 31, 2015, the Company is not subject to any externally imposed capital requirements.

### **Financial Instruments and Risk Management**

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout the Company's financial statements.

#### **General Objectives, Policies and Processes:**

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

#### a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices affecting the Company are comprised of the following types of risk: interest rate risk and equity price risk. The Company is not exposed to the risk related to the fluctuation of foreign currency rates.

##### *Interest Rate Risk*

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with chartered Canadian financial institutions. The Company considers this risk to not be significant.

##### *Equity Price Risk*

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company's available-for-sale investments are exposed to significant equity price risk due to the potentially volatile and speculative nature of the businesses in which the available-for-sale investments are held. The common shares held in Damara Gold Corp ("Damara"), and Voyager are monitored by management with decisions on sale taken at Board level. A 10% decrease in fair value of the shares would result in a \$375 decrease in equity.

#### b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and available-for-sale investments. The Company limits exposure to credit risk by maintaining its cash with chartered Canadian financial institutions. The Company does not have cash or available-for-sale investments that are invested in asset based commercial paper.

c) 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 provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2015, the Company had cash of \$77,552 (2014: \$46,819) available to apply against short-term business requirements and current liabilities of \$41,760 (2014: \$102,550). All of the Company's financial liabilities have contractual maturities of less than 45 days and are subject to normal trade terms.

**Determination of Fair Value:**

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. All financial instruments at December 31, 2015 are carried at amortized cost, apart from the available-for-sale investment in a public company with shares in an active market of \$3,750 (2014: \$10,500) which is carried at fair value. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The statement of financial position carrying amounts for cash, accounts payables and accrued liabilities, and due to related parties approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

The Company has made the following designations of its financial instruments: cash as fair-value-through-profit-or-loss, available-for-sale investments as available-for-sale financial assets, and accounts payable and accrued liabilities and due to related parties as other financial liabilities.

**Fair Value Hierarchy:**

Financial instruments that are measured subsequent to initial recognition at fair value are categorized in Levels 1 to 3 based on the degree to which the fair value is observable:

Level 1	Unadjusted quoted prices 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 available-for-sale investment in Damara is based on a quoted price and is therefore considered to be Level 1.

The available-for-sale investment in Voyager was recorded at fair value when it was received and assessed for impairment during the prior fiscal year, lowering its carrying value at that time to a nominal \$1. This investment is considered to be Level 3.

**Related Party Transactions**

The Company had transactions during the periods ended December 31, 2015 and 2014 with related parties who consisted of directors, officers and the following companies with common directors:

<b><u>Related party</u></b>	<b><u>Nature of transactions</u></b>
Gold Group Management Inc. ("Gold Group")	Shared office and administrative related charges
Mill Street Services Ltd. ("Mill Street")	Management services

During the periods ended December 31, 2015 and 2014, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, for the following costs:

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
General and administrative expenses:				
Office and administration	\$ 11,076	\$ 10,285	\$ 39,183	\$ 40,753
Public relations	-	225	-	1,268
Salaries and benefits	5,553	6,726	17,821	26,586
Transfer agent and regulatory fees	3,486	45	5,739	2,224
Travel and accommodation	935	232	1,643	2,137
	<b>\$ 21,050</b>	<b>\$ 17,513</b>	<b>\$ 64,386</b>	<b>\$ 72,968</b>

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits costs paid to Gold Group include those for the Chief Financial Officer and Corporate Secretary.

Deposits as of December 31, 2015 consisted of \$61,000 (2014: \$61,000) paid to Gold Group and are related to the shared office and administrative services agreement with Gold Group that was effective July 1, 2012. Upon termination of the agreement, the deposits, less any outstanding amounts owing to Gold Group, are to be refunded to the Company.

Amounts due to related parties as of December 31, 2015 consist of \$12,014 (2014: \$47,401) due to Gold Group for reimbursement of shared costs and \$7,350 (2014: \$22,050) due to Mill Street, a company controlled by the Chief Executive Officer of the Company, for accrued management fees. The balance due to Gold Group is collateralized by a deposit and the amount due to Mill Street is unsecured and due on demand. The amounts due do not bear interest.

### Key management compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include certain directors and officers. Key management compensation comprises:

	Three months ended December 31,		Year ended December 31,	
	2015	2014	2015	2014
Management fees <sup>(1)</sup>	\$ 10,500	\$ 10,500	\$ 42,000	\$ 42,000
Salaries and benefits <sup>(2)</sup>	1,375	2,704	4,583	8,875
	<b>\$ 11,875</b>	<b>\$ 13,204</b>	<b>\$ 46,583</b>	<b>\$ 50,875</b>

<sup>(1)</sup> Paid to Mill Street for services of Simon Ridgway, CEO

<sup>(2)</sup> Paid to Gold Group for services of Kevin Bales, CFO

### Other Data

Additional information related to the Company is available for viewing at [www.sedar.com](http://www.sedar.com).

### Share Position and Outstanding Warrants and Options

As at March 23, 2016, the Company had 15,098,858 common shares issued and outstanding and the following share purchase warrants and incentive stock options are currently outstanding:

#### SHARE PURCHASE WARRANTS

No. of warrants	Exercise price	Expiry date
5,000,000	\$0.05	October 18, 2017

#### STOCK OPTIONS

No. of options	Exercise price	Expiry date
245,000	\$0.75	July 19, 2022



## **Future Accounting Changes**

The Company will be required to adopt the following standards and amendments issued by the IASB as described below.

### *IFRS 9 Financial Instruments*

IFRS 9 is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for the Company's annual periods beginning January 1, 2018. The Company is in the process of evaluating the impact of the new standard.

## **Risks and Uncertainties**

### *Mineral Property Exploration and Mining Risks*

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

### *Joint Venture Funding Risk*

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

### *Commodity Price Risk*

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

### *Financing and Share Price Fluctuation Risks*

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues.

### *Political and Regulatory Risks*

The Company is currently operating in Canada which has a stable political and regulatory environment. However, changing political aspects may affect the regulatory environment in which the Company operates.

### *Insured and Uninsured Risks*

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes,

unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

#### *Environmental and Social Risks*

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are considered low in Canada, the principal country of operation of the Company, but a change in social expectations could add new layers of risk to the viability of exploration and development properties.

#### *Competition*

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.