# CANSTAR RESOURCES INC.

# FINANCIAL STATEMENTS

# JUNE 30, 2017 AND 2016

# (EXPRESSED IN CANADIAN DOLLARS)

**CANSTAR RESOURCES INC.**

**FINANCIAL STATEMENTS**

**JUNE 30, 2017 AND 2016**

# Independent Auditors' Report

To the Shareholders of Canstar Resources Inc.

We have audited the accompanying financial statements of Canstar Resources Inc., which comprise the statements of financial position as at June 30, 2017 and 2016, and the statements of operations and comprehensive loss, cash flows, changes in equity, and interest in exploration properties and deferred exploration expenditures 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 audits 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 auditor's 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 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 Canstar Resources Inc. as at June 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Mississauga, Ontario
October 13, 2017

MNP

CANSTAR RESOURCES INC.
**STATEMENTS OF FINANCIAL POSITION**
(EXPRESSED IN CANADIAN DOLLARS)
AS AT JUNE 30



| | 2017 $ | 2016 $ |
|---|---|---|
| **ASSETS** | | |
| **CURRENT** | | |
| Cash and cash equivalents | 718,075 | 214,898 |
| Short-term investments (Note 3) | - | 100,000 |
| Amounts receivable and prepaid expenses | 31,465 | 39,191 |
| **TOTAL CURRENT ASSETS** | 749,540 | 354,089 |
| **EQUIPMENT** (Note 5) | 1,166 | 1,457 |
| **INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES** (Note 4 and 10) | 2,968,894 | 2,573,226 |
| **TOTAL ASSETS** | 3,719,600 | 2,928,772 |
| **LIABILITIES** | | |
| **CURRENT** | | |
| Accounts payable and accrued liabilities | 153,584 | 95,313 |
| **SHAREHOLDERS' EQUITY** | | |
| **CAPITAL STOCK** (Note 6(b)) | 11,948,816 | 11,122,125 |
| **WARRANTS** (Note 6(d)) | 318,852 | 150,561 |
| **SHARE-BASED PAYMENTS RESERVE** (Note 6(c)) | 354,700 | 547,455 |
| **DEFICIT** | (9,056,352) | (8,986,682) |
| **TOTAL SHAREHOLDERS' EQUITY** | 3,566,016 | 2,833,459 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | 3,719,600 | 2,928,772 |

**CONTINGENCIES** (Note 13)

**SUBSEQUENT EVENT** (Note 14)

APPROVED ON BEHALF OF THE BOARD:

Signed " D. Peterson " , Director

Signed " J.E. Hurley " , Director

See accompanying notes to the financial statements.

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **OPERATING EXPENSES** | | |
| Share-based payments (Notes 6(c)(i) and 10) | 212,850 | 53,550 |
| Professional fees (Note 10) | 111,930 | 101,477 |
| Transfer agent and filing fees | 55,629 | 26,871 |
| Management fees (Note 10) | 55,683 | 54,539 |
| General and office expenses | 10,951 | 9,793 |
| Rent (Note 10) | 20,838 | 20,838 |
| Travel | 2,842 | - |
| Shareholder information | 4,665 | 3,182 |
| Interest and bank charges | 1,625 | 1,315 |
| Depreciation (Note 5) | 291 | 363 |
| **TOTAL OPERATNG EXPENSES** | **477,304** | **271,928** |
| Loss before interest income and flow-through premium | 477,304 | 271,928 |
| Interest income (Note 3) | (2,029) | (6,254) |
| Flow-through premium (Note 6(b)) | - | (23,863) |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR** | 475,275 | 241,811 |
| **NET LOSS PER SHARE –** Basic and diluted (Note 12) | 0.00 | 0.00 |
| **WEIGHTED AVERAGE NUMBER OF SHARES –** Basic and diluted | 101,594,356 | 86,493,052 |

See accompanying notes to the financial statements.

**STATEMENTS OF CASH FLOWS**
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net (loss) for the year | (475,275) | (241,811) |
| Charges not involving cash: | | |
| Share-based payments | 212,850 | 53,550 |
| Depreciation | 291 | 363 |
| Flow-through premium | - | (23,863) |
| | (262,134) | (211,761) |
| Changes in non-cash working capital balances: | | |
| Decrease (increase) in amounts receivable and prepaid expenses | 7,726 | (29,278) |
| Increase (decrease) in accounts payable and accrued liabilities | 11,132 | 11,307 |
| Cash flows (used in) operating activities | (243,276) | (229,732) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issuance of shares and warrants for cash | 1,080,230 | 548,612 |
| Share issue costs | (56,740) | (22,670) |
| Repurchased shares | (28,508) | - |
| Cash flows from financing activities | 994,982 | 525,942 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sales of short-term investments | 100,000 | 300,000 |
| Interest in exploration properties and deferred exploration expenditures | (348,529) | (433,497) |
| Cash flows (used in) investing activities | (248,529) | (133,497) |
| Increase in cash and cash equivalents | 503,177 | 162,713 |
| Cash and cash equivalents, beginning of year | 214,898 | 52,185 |
| **Cash and cash equivalents, end of year** | **718,075** | **214,898** |
| **SUPPLEMENTAL INFORMATION** | | |
| Change in accrued exploration property and deferred exploration expenditures | 47,139 | - |
| Common shares issued for property interest | - | 8,000 |
| Finders warrants | 14,082 | 5,236 |
| **CASH AND CASH EQUIVALENTS AS AT JUNE 30** | | |
| Cash | 556,744 | 155,596 |
| Cash equivalents | 161,331 | 59,302 |
| | 718,075 | 214,898 |

See accompanying notes to the financial statements.

**STATEMENTS OF CHANGES IN EQUITY**
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

| | Capital Stock $ | Warrants $ | Share-based Payments Reserve $ | Deficit $ | Total $ |
|---|---|---|---|---|---|
| **Balance, June 30, 2015** | 10,762,607 | - | 528,405 | (8,779,371) | 2,511,641 |
| Share-based payments | - | - | 53,550 | - | 53,550 |
| Issuance of units in private placement | 394,889 | 153,723 | - | - | 548,612 |
| Share issue costs | (19,508) | (8,398) | - | - | (27,906) |
| Finders' warrants | - | 5,236 | - | - | 5,236 |
| Flow-through premium | (23,863) | - | - | - | (23,863) |
| Issuance of shares for property | 8,000 | - | - | - | 8,000 |
| Expiry of options | - | - | (34,500) | 34,500 | - |
| Net loss for the year | - | - | - | (241,811) | (241,811) |
| **Balance, June 30, 2016** | 11,122,125 | 150,561 | 547,455 | (8,986,682) | 2,833,459 |
| Share-based payments | - | - | 212,850 | - | 212,850 |
| Issuance of units in private placement | 864,225 | 179,570 | - | - | 1,043,795 |
| Share issue costs | (58,663) | (12,159) | - | - | (70,822) |
| Finders' warrants | - | 14,082 | - | - | 14,082 |
| Exercise of warrants | 49,637 | (13,202) | - | - | 36,435 |
| Expiry of options | - | - | (405,605) | 405,605 | - |
| Cancellation of shares | (28,508) | - | - | - | (28,508) |
| Net loss for the year | - | - | - | (475,275) | (475,275) |
| **Balance, June 30, 2017** | 11,948,816 | 318,852 | 354,700 | (9,056,352) | 3,566,016 |

See accompanying notes to the financial statements.

**STATEMENTS OF INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED JUNE 30,

| | Mary March Properties $ | Kenora Property $ | Total $ |
|---|---|---|---|
| **PROPERTY ACQUISITION COSTS** | | | |
| Balance, June 30, 2015 | 65,884 | 18,200 | 84,084 |
| Incurred | - | 8,000 | 8,000 |
| Balance, June 30, 2016 | 65,884 | 26,200 | 92,084 |
| **DEFERRED EXPLORATION COSTS** | | | |
| Balance, June 30, 2015 | 1,969,866 | 77,779 | 2,047,645 |
| Access costs | 8,124 | 79,289 | 87,413 |
| Assaying | - | 24,966 | 24,966 |
| Field supplies | - | 60,550 | 60,550 |
| Geological consulting | - | 64,125 | 64,125 |
| Geophysics and exploration | 9,100 | - | 9,100 |
| Geophysics surveys | - | 83,294 | 83,294 |
| Labour and supervision | - | 60,710 | 60,710 |
| Travel | - | 43,339 | 43,339 |
| Balance, June 30, 2016 | 1,987,090 | 494,052 | 2,481,142 |
| **Total, June 30, 2016** | 2,052,974 | 520,252 | 2,573,226 |
| **PROPERTY ACQUISITION COSTS** | | | |
| Balance, June 30, 2016 | 65,884 | 26,200 | 92,084 |
| Incurred | - | - | - |
| Balance, June 30, 2017 | 65,884 | 26,200 | 92,084 |
| **DEFERRED EXPLORATION COSTS** | | | |
| Balance, June 30, 2016 | 1,987,090 | 494,052 | 2,481,142 |
| Access costs | 294 | 11,241 | 11,535 |
| Assaying | - | 41,038 | 41,038 |
| Drilling | - | 64,181 | 64,181 |
| Field supplies | 70 | 40,090 | 40,160 |
| Geological consulting | - | 96,405 | 96,405 |
| Geophysics and exploration | 6,300 | - | 6,300 |
| Geophysics surveys | - | 5,893 | 5,893 |
| Labour and supervision | - | 82,906 | 82,906 |
| Travel | - | 47,250 | 47,250 |
| Balance, June 30, 2017 | 1,993,754 | 883,056 | 2,876,810 |
| **Total, June 30, 2017** | 2,059,638 | 909,256 | 2,968,894 |

## 1. NATURE OF OPERATIONS

Canstar Resources Inc. (the "Company" or "Canstar") was formed by amalgamation on April 5, 2005. The Company is publicly traded with its shares listed on the TSX Venture Exchange. The Company's registered and head office is located at 56 Temperance Street, Suite 1000, Toronto, Ontario M5H 3V5.

The financial statements were approved by the Board of Directors on October 13, 2017.

The Company is in the process of exploring its exploration properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of the carrying values of exploration properties and deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves, the preservation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing necessary to complete development of the properties, and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

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

As at June 30, 2017, the Company had a deficit of $9,056,352 (2016 - $8,986,682) and working capital of $595,956 (2016 - $258,776). The Company's ability to continue operations and fund its future exploration property expenditures is dependent on management's ability to secure additional financing. Management is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

## 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"). These financial statements have been prepared in compliance with IFRS and in accordance with the accounting policies described in Note 3, Summary of Significant Accounting Policies. The policies set out below have been consistently applied to all the periods presented, unless otherwise noted.

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

**Basis of Preparation**
These financial statements have been prepared on the basis of a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern; such adjustments could be material.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the years ended June 30, 2017 and 2016.

**Functional and presentation currency**
The Company's presentation and functional currency is the Canadian dollar. The Company does not have any foreign operations. Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items at period end exchange rates are recognized in the statements of operations.

**Cash and cash equivalents**
Cash and cash equivalents include cash on hand and balances with banks and investments with original maturities of ninety days or less. During the year ended June 30, 2017, the Company earned $2,029 (2016 - $6,254) interest from its cash equivalents and short-term investments.

**Short-term investments**
Short-term investments consist of guaranteed investment certificates with original maturity dates exceeding ninety days and not exceeding one year. As at June 30, 2017 the principal amounts of the GIC investments were $nil (2016 – $100,000 bearing interest at a rate of 1.60% with a maturity date of November 9, 2016).

**Income taxes**
Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or other comprehensive income. Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years. Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in the statements of operations or in equity depending on the item to which the adjustment relates.

Deferred tax assets are recognized to the extent future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

**Loss per share**
Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and warrants, in the weighted average number of common shares outstanding during the period, if dilutive. In the Company's case, diluted loss per share is the same as basic loss per share for the periods presented as there were no potentially dilutive securities during the years ended June 30, 2017 and 2016.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Flow-through shares

The Company finances a portion of its exploration and evaluation activities through the issuance of flow-through shares. Under the terms of the flow-through common share issues, the tax attributes of the related expenditures are renounced to investors. On the date of issuance of the flow-through shares, the premium relating to the proceeds received in excess of the fair value of the Company's common shares is allocated to liabilities. The premium liability is reduced pro-rata based on the percentage of flow-through expenditures renounced in comparison to renunciations required under the terms of the flow-through share agreement. The reduction to the premium liability in the period of renunciation is recognized in the statements of operations. The Company has indemnified the subscribers for any tax related amounts that become payable to the subscribers as a result of the Company not meeting its expenditure commitments.

### Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are measured at fair value through profit or loss ("FVTPL"). These instruments are measured at fair value with subsequent changes in fair value recognized in the statements of operations. The Company's cash equivalents and short-term investments are classified as FVTPL.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statements of operations. The Company's amounts receivable are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Financial liabilities that are not measured at fair value through profit or loss are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statements of operations. The Company has classified accounts payable and accrued liabilities as other financial liabilities. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) 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) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At June 30, 2017, the Company's financial instruments that were carried at fair value consisted of cash equivalents of $161,331 (2016 - $59,302) and short-term investments of $nil (2016 - $100,000) that were classified as Level 1 within the fair value hierarchy.

### Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statements of operations.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statements of operations.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Impairment of non-financial assets**

The carrying value of equipment is assessed for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs to sell for the asset and the asset's value in use.

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a geographical or licence basis.

If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset or CGU is impaired and an impairment loss is charged to the statement of operations so as to reduce the carrying amount to its recoverable amount.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statements of operations.

**Share-based payments**

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity settled share-based transactions are set out in the stock option note.

The fair value is measured at the grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the statement of operations such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Interests in Exploration properties and deferred exploration expenditures**
Once a licence to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration properties and deferred exploration expenditures. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Purchased exploration and evaluation assets are recognized as assets at their cost of acquisition or at fair value if purchased as part of a business combination. Capitalized exploration and evaluation costs are considered to be intangible assets. These assets are not depreciated as they are not currently available for use.

The Company qualifies for the Junior Exploration Assistance program of the Department of Natural Resources of the Government of Newfoundland and Labrador. Recoverable amounts are offset against deferred exploration costs incurred when the Company has complied with the terms and conditions of the program and the recovery is reasonably assured.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress.

Mineral reserves and capitalized mine development expenditures are, upon commencement of production, depreciated using a unit of production method or are written off if the property is abandoned.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is fully provided against, in the financial year in which this is determined. Exploration properties and deferred exploration expenditures are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

**Equipment**
Equipment is measured at cost less accumulated depreciation and accumulated impairment losses. The cost of equipment comprises its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated decommissioning and restoration costs associated with the asset. Equipment is depreciated on a diminishing balance basis at 20% per year.

**Provisions**
*General*
Provisions are recognized when (a) the Company has a present obligation (legal or constructive) as a result of a past event, and (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statements of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Provisions** (Continued)
*Rehabilitation provision*
The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, dismantling operating facilities, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the exploration or production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related exploration and evaluation asset to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of operations as a finance cost. Additional disturbances or changes in rehabilitation costs are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of operations.

The Company does not currently have any such significant legal or constructive obligations and therefore no decommissioning liabilities have been recorded as at June 30, 2017 and 2016.

**Critical judgments and estimation uncertainties**
The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

*Assets' carrying values and impairment charges*
In determining whether any impairment losses have been incurred, management assesses the higher of the asset's fair value less costs to sell and its value in use for non-financial assets. These determinations and their individual assumptions require that management make a decision based on the best available information at the end of each reporting period.

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Critical judgments and estimation uncertainties** (Continued)

*Capitalization of deferred exploration costs*

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

*Estimation of decommissioning and restoration costs and the timing of expenditure*

Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

*Income, value added, withholding and other taxes*

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

*Share-based payments*

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Recent Accounting Pronouncements**

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective for its annual periods beginning after July 1, 2017, many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 3. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IAS 12 – Income Taxes (“IAS 12”) was amended in January 2016 to clarify that, among other things, unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument’s holder expects to recover the carrying amount of the debt instrument by sale or by use; the carrying amount of an asset does not limit the estimation of probable future taxable profits; and estimates for future taxable profits exclude tax deduction resulting from the reversal of deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017.

**Change in accounting policies**

IFRS 11 – Joint Arrangements (“IFRS 11”) was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. At July 1, 2016, the Company adopted this standard and there was no material impact on the Company's financial statements.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. At July 1, 2016, the Company adopted this standard and there was no material impact on the Company's financial statements.

## 4. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

The Company has interests in exploration properties in the McFauld's Lake area, the McDonough and Kenora Townships in Ontario, Canada, and the Buchans area of Newfoundland, Canada. Due to disappointing exploration results and/or lack of a current exploration plan or recent work, the Slate Bay and McFaulds Lake properties have been written off for accounting purposes.

### a) Mary March Properties

#### (i) Glencore Joint Venture

The Company entered into an option and Joint Venture Agreement with Glencore plc ("Glencore") whereby the Company earned a 50% interest in the Mary March property located at Buchans Junction in central Newfoundland. The remaining 50% interest in the property was held by Glencore. The Company has a first right of refusal on Glencore's 50% interest, should they wish to sell. The Company, combined with the $755,000 spent by Freeport-McMoran of Canada Limited ("FMCL"), had completed the necessary exploration expenditures to earn a 50% interest in the property. Exploration of the property was held up approximately 10 years due to a title dispute that was resolved in 2012 in the Company's favor by the Newfoundland and Labrador Supreme Court.

The property consists of 92 staked claims, 5 licenses, 1 lease and 2 patented lots.

Should the Glencore Joint Venture thus established proceed to production, the Company would make a one-time cash payment of $2 million within six months of the commencement of commercial production. Canstar's share of production would be subject to a one percent (1%) net smelter return royalty ("NSR").

The Company is the operator of the Glencore Joint Venture and has the deciding vote in the event of a deadlock between the Company and Glencore. A diamond drilling program was completed in late 2012. The Company followed this up with a drill program in the fall of 2013. Glencore contributed $150,000 towards the 2012 exploration costs of the joint venture but did not contribute to the 2013, 2014 and 2015 exploration expenditures. Glencore was therefore subject to a voluntary reduction due to non-participation of these exploration programs. Canstar now holds a 56% interest in the joint venture and Glencore holds a 44% interest.

#### (ii) Mary March Extension Property

The Mary March Extension Property was acquired on April 7, 2009 and is comprised of 34 claims. The property is located immediately west and north of the Mary March Property.

Canstar holds a 100% interest in the property, which was written off in 2011 for accounting purposes.

(EXPRESSED IN CANADIAN DOLLARS)

## 4. INTEREST IN EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

**b) Kenora Properties**

On March 2, 2014, the Company entered into an option agreement to acquire several properties in the Kenora, Ontario area, collectively called the Kenora Gold Project. The Kenora Gold Project is situated in the Wabigoon sub-province, and located approximately 20 kilometres east of the Town of Kenora.

Canstar acquired a 100% interest in the Kenora Gold Project by making cash payments totalling $18,200 and issuing 200,000 common shares (valued at $8,000). The Kenora Gold Project is subject to a 3% NSR, subject to a buy-back right of $1,000,000 for the first 1.5% and $3,000,000 for the remaining 1.5%, which would reduce the NSR to 0%.

**c) Slate Bay Property**

The Slate Bay Property is comprised of eight contiguous patented claims located approximately 10 kilometres north of the town of Red Lake, Ontario. The Company earned a 75% interest in the property pursuant to an option and joint venture participation agreement entered into with Luxor Enterprises Inc. (“Luxor”) on February 4, 2002.

The Company has attempted to joint venture this property without success. Accordingly, the property has been written off although the Company still retains its interest.

## 5. EQUIPMENT

| | Office and field equipment $ |
|---|---|
| **Cost** | |
| Balance, June 30, 2016 and 2017 | 10,141 |
| **Accumulated depreciation** | |
| Balance, June 30, 2015 | 8,321 |
| Depreciation | 363 |
| Balance, June 30, 2016 | 8,684 |
| Depreciation | 291 |
| Balance, June 30, 2017 | 8,975 |
| **Carrying value** | |
| At June 30, 2016 | 1,457 |
| At June 30, 2017 | 1,166 |

(EXPRESSED IN CANADIAN DOLLARS)

## 6. CAPITAL STOCK, OPTIONS AND WARRANTS

### a) Authorized

Unlimited number of common shares, without par value

### b) Issued

102,758,522 common shares

Summary of changes in capital stock:

| | Common Shares # | Amount $ |
|---|---|---|
| **Common shares** | | |
| **Balance, June 30, 2015** | **82,856,381** | **10,762,607** |
| Issuance of flow-through shares (i) | 6,103,333 | 366,200 |
| Cost of issue (Note 10) | | (27,906) |
| Flow-through premium (i) | | (23,863) |
| Warrants (i) and (iii) | | (145,325) |
| Issuance of shares for property (ii) | 200,000 | 8,000 |
| Issuance of common shares (iii) | 3,040,200 | 182,412 |
| **Balance, June 30, 2016** | **92,199,914** | **11,122,125** |
| Private placement (iv) | 10,437,950 | 1,043,795 |
| Cost of issue (Note 10) | - | (58,663) |
| Exercise of warrants | 368,560 | 49,637 |
| Warrant valuation (iv) | - | (179,570) |
| Cancellation of shares (v) | (247,902) | (28,508) |
| **Balance, June 30, 2017** | **102,758,522** | **11,948,816** |

(i) On December 23, 2015 and December 29, 2015, the Company completed two tranches of a non-brokered private placement financing comprising an aggregate of 6,103,333 flow-through units at $0.06 per unit for gross proceeds of $366,200 of which $23,863 was allocated to the flow-through premium. Each unit consisted of one flow-through common share and one common share purchase warrant.

Each warrant entitles the holder to purchase one common share of the Company for a period of 24 months after closing at a price of $0.10 in the first year after closing, and $0.175 in the second year after closing if the holder so elects. When the closing price on the TSX Venture Exchange of the shares equals or exceeds $0.175 per share in the first year after closing or $0.25 per share in the second year after closing, for a period of 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants.

The grant date fair value of the warrants was estimated to be $96,640 net of issue costs of $1,564. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 130%, risk-free interest rate of 0.50%, and expected life of 2 years.

Finders' fees of $1,100 were paid and 29,600 finders' warrants were issued, valued at $1,062. The finders' warrants are exercisable into units having the same terms as the private placement at an exercise price of $0.06 for a period of two years.

Insiders of the Company acquired 1,283,333 units of the private placement for gross proceeds of $77,000.

## 6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

### b) Issued (Continued)

(ii) On February 26, 2016, the Company issued 200,000 common shares at a fair value of $0.04 per share pursuant to the acquisition of the Kenora Gold Project (Note 4) based on the quoted market price at the time of receipt.

(iii) On May 2, 2016, the Company completed a non-brokered private placement financing comprising an aggregate of 1,158,334 flow-through units at $0.06 per unit and 1,881,866 hard dollar units at $0.06 per unit for gross proceeds of $182,412. Each flow-through unit consisted of one flow-through common share and one common share purchase warrant. Each hard dollar unit consisted of one common share and one common share purchase warrant.

Each warrant entitles the holder to purchase one common share of the Company for a period of 24 months after closing at a price of $0.10 in the first year after closing, and $0.175 in the second year after closing if the holder so elects. When the closing price on the TSX Venture Exchange of the shares equals or exceeds $0.175 per share in the first year after closing, or $0.25 per share in the second year after closing, for a period of 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants.

The grant date fair value of the warrants was estimated to be $48,685 net of issue costs of $6,834. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 113%, risk-free interest rate of 0.58%, and expected life of 2 years.

Finders' fees of $6,811 were paid and 181,626 finders' warrants were issued, valued at $4,174. The finders' warrants are exercisable into hard dollar units having the same terms as the private placement at an exercise price of $0.06 for a period of two years.

(iv) On August 2, 2016, the Company completed a non-brokered private placement financing of 10,437,950 units at $0.10 per unit for gross proceeds of $1,043,795. Each unit consisted of one common share and one-half of one common share purchase warrant.

Each warrant entitles the holder to purchase one common share of the Company until December 31, 2017 at a price of $0.15. The grant date fair value of the warrants was estimated to be $179,570. The fair value of the warrants on the date of grant was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 127% based on the Company's historical trading data, risk-free interest rate of 0.55%, and expected life of 1.4 years.

Issue cost of $70,822 were paid including 256,000 finders' warrants issued, valued at $14,082, of which $12,159 was allocated to warrants. Each finders warrant is exercisable at $0.10 into one common share and one-half of one common share purchase warrant and have the same terms as the units issued pursuant to the private placement.

(v) As a result of the consolidation of the Company's common shares on a 10 for 1 basis and subsequent stock split on a 10 for 10 basis, 247,902 common shares were cancelled. Shareholders can receive cash consideration equal to $0.12 per common share for the shares that were cancelled. Accordingly, the Company paid $28,508 in relation to these cancelled shares.

(EXPRESSED IN CANADIAN DOLLARS)

## 6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

### c) Stock Options

The Company has granted options for the purchase of common shares to its directors, officers, and consultants. The aggregate number of common shares which may be issued under the stock option plan is 15,000,000. The options are non-assignable and may be granted for a term not exceeding five years. The exercise price of the options is fixed by the Board of Directors of the Company at the time of grant subject to all applicable regulatory requirements.

A summary of changes in stock options is as follows:

| | Number of Options # | Weighted Average Exercise Price $ |
|---|---|---|
| Balance, June 30, 2015 | 6,075,000 | 0.17 |
| Expired | (450,000) | (0.08) |
| Balance, June 30, 2016 | 5,625,000 | 0.12 |
| Granted (i) | 2,475,000 | 0.11 |
| Expired | (2,475,000) | (0.18) |
| Balance, June 30, 2017 | 5,625,000 | 0.08 |

(i) On January 3, 2017, the Company granted 2,475,000 stock options to certain directors, officers and consultants of the Company. Each stock option allows the holder to acquire one common share of the Company at an exercise price of $0.11 for a period of 5 years. A grant date fair value of $212,850 was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 1.14%; expected life of 5 years; and an expected volatility of 108% based on the Company's historical trading data. Options vest immediately on issuance.

The total value of share-based payments for the year ended June 30, 2017 was $212,850, (year ended June 30, 2016 - $53,550).

As at June 30, 2017, the following stock options were outstanding:

| Options Granted # | Exercisable Options # | Exercise Price $ | Expiry Date |
|---|---|---|---|
| 100,000 | 100,000 | 0.20 | August 10, 2017* |
| 500,000 | 500,000 | 0.10 | May 1, 2018 |
| 100,000 | 100,000 | 0.10 | July 17, 2018 |
| 2,450,000 | 2,450,000 | 0.05 | December 11, 2019 |
| 2,475,000 | 2,475,000 | 0.11 | January 3, 2022 |
| 5,625,000 | 5,625,000 | 0.08 | |

The weighted average exercise price of the options granted and exercisable as at June 30, 2017 and 2016 was $0.08 and $0.12 respectively. The weighted average remaining contractual life of options granted and exercisable as at June 30, 2017 and 2016 was 3.15 years and 2.08 years, respectively.

**expired subsequent to year end (Note 14)*

(EXPRESSED IN CANADIAN DOLLARS)

## 6. CAPITAL STOCK, OPTIONS AND WARRANTS (Continued)

### d) Share Purchase Warrants

A summary of changes in warrants is as follows:

| | Number of Warrants # | Weighted Average Exercise Price $ | Value $ |
|---|---|---|---|
| Balance, June 30, 2015 | - | - | - |
| Issued | 9,354,759 | 0.10 | 150,561 |
| Balance, June 30, 2016 | 9,354,759 | 0.10 | 150,561 |
| Issued | 5,647,255 | 0.15 | 181,493 |
| Exercised | (368,560) | (0.10) | (13,202) |
| Balance, June 30, 2017 | 14,633,454 | 0.15 | 318,852 |

As at June 30, 2017, the following warrants were outstanding:

| Black-Scholes Valuation $ | Number of Warrants # | Exercise price $ | Expiry Date |
|---|---|---|---|
| 167,411 | 5,298,975 | 0.15 | December 31, 2017 |
| 2,640[(1)] | 48,000 | 0.10 | December 31, 2017 |
| 9,025 | 570,000 | 0.175 | December 29, 2017 |
| 531 | 14,800 | 0.06 | December 29, 2017 |
| 87,615 | 5,533,333 | 0.175 | December 23, 2017 |
| 48,685 | 3,040,200 | 0.10 | May 2, 2018 |
| 2,945 | 128,146 | 0.175 | May 2, 2018 |
| 318,852 | 14,633,454 | 0.15 | |

(1) Each warrant is exercisable into one common share and one-half of one common share purchase warrant exercisable at $0.15 until December 31, 2017.

## 7. FINANCIAL INSTRUMENTS

Fair Value

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the end of the reporting period based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

## 8. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

There were no changes in the Company's approach to capital management approach during the years ended June 30, 2017 and 2016.

## 9. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous year.

**Credit risk**
The Company's credit risk is primarily attributable to cash and cash equivalents and receivables included in amounts receivable and prepaid expenses. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in amounts receivable and prepaid expenses consist of goods and services tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable and prepaid expenses is remote.

**Liquidity risk**
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2017, the Company had a cash and cash equivalents balance of $718,075 (2016 - $214,898) to settle current liabilities of $153,584 (2016 - $95,313). The Company's ability to continue operations and fund its exploration property expenditures is dependent on management's ability to secure additional financing. Management is continuing to pursue various financing initiatives in order to provide sufficient cash flow to finance operations as well as funding its exploration expenditures. The Company's financial liabilities generally have contractual maturities of less than 30 days and are subject to normal trade terms.

**Interest rate risk**
The Company has cash, cash equivalents and short-term investment balances subject to interest. Management does not believe the Company is exposed to significant interest rate risk.

**Foreign currency risk**
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company is not exposed to foreign exchange risk.

**Price risk**
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(EXPRESSED IN CANADIAN DOLLARS)

## 9. FINANCIAL RISK FACTORS (Continued)

**Sensitivity analysis**
Based on management's knowledge and experience in the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

(i) Cash, cash equivalents and short-term investments are invested with a Canadian chartered bank or a financial institution controlled by a Canadian chartered bank. Sensitivity to a plus or minus 1% change in rates, based on the balance of cash, cash equivalents and short-term investments at June 30, 2017, would affect the net loss by plus or minus $7,100 during a twelve-month period.

(ii) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

## 10. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2017, the Company incurred $20,838 (2016 - $20,838) for rent charged by a corporation of which the Chairman of the Board and the President are directors of the Company.

The remuneration of directors and key management during the years ended June 30, 2017 and 2016 was as follows:

| | **2017**<br>**$** | **2016**<br>**$** |
|---|---|---|
| Short-term benefits (i) | 135,923 | 103,794 |
| Share-based payments | 193,500 | 53,550 |
| | 329,423 | 157,344 |

(i) During the year ended June 30, 2017, $78,406 (2016 - $50,000) of short-term benefits was capitalized as deferred exploration expenditures and $57,517 (2016 - $53,794) was included in management fees.

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

During the year ended June 30, 2017, the Company incurred $27,038 (2016 - $22,500) for professional fees charged by Peterson McVicar LLP, a law firm of which a director is a partner. Of this amount, $8,508 (2016 - $12,154) has been included in share issue costs in relation to these fees.

During the year ended June 30, 2016, officers and directors of the Company acquired 1,283,333 units of the private placement described in Note 6.

(EXPRESSED IN CANADIAN DOLLARS)

## 11. INCOME TAXES

a) The reconciliation of the income tax recovery, calculated using the combined Canadian federal and provincial statutory income tax rate of 28% (2016 – 28%) is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Loss before income taxes | (475,275) | (241,811) |
| Expected income tax (recovery) | (133,000) | (67,000) |
| Adjustments to benefit resulting from: | | |
| Non-deductible expenses and other | 60,000 | (86,000) |
| Flow-through renunciation | 19,000 | 121,000 |
| Change in unrecognized tax benefits | 54,000 | 32,000 |
| Income tax (recovery) | - | - |

b) Deferred tax assets have not been recognized in respect to the following deductible temporary differences:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Non capital losses | 567,000 | 552,000 |
| Capital loss carry-forwards | 172,000 | 172,000 |
| Exploration properties | 5,477,000 | 5,217,000 |
| Share issue costs | 59,000 | 18,000 |
| Investment tax credits and other | 247,000 | 246,000 |
| | 6,522,000 | 6,205,000 |

c) The tax losses expire from 2027 to 2037. The other temporary differences do not expire under current regulation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

d) The Company has Canadian development and exploration expenditure pools for tax purposes of approximately $7,610,000 at June 30, 2017 (2016 - $7,790,000) that may, in certain situations be applied to reduce taxable income in subsequent years.

## 12. NET LOSS PER SHARE

The calculation of basic and diluted loss per share for the years ended June 30, 2017 and 2016 was based on the net loss attributable to common shareholders of $475,275 and $241,811, respectively, and the weighted average number of common shares outstanding of 101,594,356 and 86,493,052, respectively.

## 13. CONTINGENCIES

### Environmental Contingencies

The Company's exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## 14. SUBSEQUENT EVENT

On August 10, 2017, 100,000 stock options expired, unexercised.