

JAZZ RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017
(Expressed in Canadian dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Jazz Resources Inc.

We have audited the accompanying consolidated financial statements of Jazz Resources Inc., which comprise the consolidated statements of financial position as at June 30, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, changes in shareholders' deficit, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Jazz 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.



Emphasis of Matter

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

October 30, 2017

JAZZ RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT JUNE 30

	2017	2016
ASSETS		
Current		
Cash	\$ 105,759	\$ 151,742
Amounts receivable (Note 4)	102,133	172,278
Prepaid expenses	<u>8,914</u>	<u>7,667</u>
Total current assets	216,806	331,687
Security deposits	33,500	33,500
Mineral properties and deferred exploration costs (Note 4)	1,199,279	1,012,963
Equipment (Note 5)	<u>1,354</u>	<u>1,850</u>
Total assets	\$ 1,450,939	\$ 1,380,000
LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIT)		
Current		
Accounts payable and accrued liabilities	\$ 388,565	\$ 308,892
Due to related parties (Note 6)	<u>1,087,262</u>	<u>857,622</u>
Total current liabilities	1,475,827	1,166,514
Due to related parties (Note 6)	<u>-</u>	<u>226,640</u>
	1,475,827	1,393,154
Shareholders' equity (deficit)		
Share capital (Note 7)	4,121,988	4,004,486
Contributed surplus	842,508	842,508
Deficit	<u>(4,989,384)</u>	<u>(4,860,148)</u>
	<u>(24,888)</u>	<u>(13,154)</u>
Total liabilities and shareholders' equity (deficit)	\$ 1,450,939	\$ 1,380,000

Nature and continuance of operations and going concern (Note 1)

Approved and authorized on behalf of the Board:

"Rob Klenk" Director _____
"Steve Silveira" Director

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

JAZZ RESOURCES INC.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
YEARS ENDED JUNE 30

	2017	2016
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization (Note 5)	\$ 496	\$ 677
Filing fees	5,200	6,066
Interest (Note 6)	40,000	38,750
Office and miscellaneous	14,783	26,945
Consulting fees	15,049	-
Professional fees (Note 6)	44,985	32,656
Share-based compensation (Note 7)	-	38,395
Transfer agent fees	<u>8,723</u>	<u>10,669</u>
Total general and administrative expenses	(129,236)	(154,158)
Loss and comprehensive loss for the year	<u>\$ (129,236)</u>	<u>\$ (154,158)</u>
Basic and diluted loss per common share (Note 8)	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding – basic and diluted	<u>18,267,016</u>	<u>15,708,220</u>

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

JAZZ RESOURCES INC.**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT**

	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, June 30, 2015	14,281,105	\$ 3,672,921	\$ 819,053	\$ (4,705,990)	\$ (214,016)
Share-based compensation	-	-	23,455	-	23,455
Private placement units issued	3,250,000	325,000	-	-	325,000
Share issue costs	-	(8,375)	-	-	(8,375)
Bonus shares issued	83,000	14,940	-	-	14,940
Net loss for the year	-	-	-	(154,158)	(154,158)
Balance, June 30, 2016	17,614,105	4,004,486	842,508	(4,860,148)	(13,154)
Private placement units issued	1,537,500	123,000	-	-	123,000
Share issue costs	-	(5,498)	-	-	(5,498)
Net loss for the year	-	-	-	(129,236)	(129,236)
Balance, June 30, 2017	19,151,605	\$ 4,121,988	\$ 842,508	\$ (4,989,384)	\$ (24,888)

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

JAZZ RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	\$ (129,236)	\$ (154,158)
Items not affecting cash:		
Amortization	496	677
Share-based compensation	-	38,395
Changes in non-cash working capital items:		
Increase in amounts receivable	(5,269)	(11,699)
Increase in prepaid expenses	(1,247)	(3,334)
Increase in due to related parties	3,000	15,020
Increase (decrease) in accounts payable and accrued liabilities	<u>17,203</u>	<u>(13,596)</u>
Net cash used in operating activities	<u>(115,053)</u>	<u>(128,695)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property and deferred exploration costs, net of recoveries	(208,278)	(164,959)
Government subsidies	<u>159,846</u>	<u>45,487</u>
Net cash used in investing activities	<u>(48,432)</u>	<u>(119,472)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from related parties, net	-	75,000
Common shares	123,000	325,000
Share issue costs	<u>(5,498)</u>	<u>(8,375)</u>
Net cash provided by financing activities	<u>117,502</u>	<u>391,625</u>
Change in cash during the year	(45,983)	143,458
Cash, beginning of year	<u>151,742</u>	<u>8,284</u>
Cash, end of year	\$ 105,759	\$ 151,742

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Jazz Resources Inc. (the “Company”) was incorporated under the laws of the Province of British Columbia and is in the business of the exploration and development of mineral properties. The Company’s head office and records office is located at Suite 2 – 1493 Phoenix St. British Columbia, Canada, V4B 3L1. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

The Company’s common shares are listed on the TSX Venture Exchange with the symbol “JZR.V”.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary, unless otherwise noted.

Going concern of operations

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since its inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and to develop profitable operations. The Company does not have sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period.

Management is actively targeting sources of additional financing from investors, shareholders and through alliances with financial entities, and is considering issuances of debt or equity or other business and financial transactions which would assure continuation of the Company’s operations. To the extent financing is not available, working capital commitments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company. Management is closely monitoring economic trends, global financial conditions and the equity markets to determine the appropriate course of action to be taken by the Company.

There can be no assurance that the Company will be able to raise the funds necessary to continue future operations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the statements of financial position. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

Adverse financial market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

JAZZ RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN (cont'd...)

Going concern of operations (cont'd...)

These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

	June 30, 2017	June 30, 2016
Working capital deficiency	\$ (1,259,021)	\$ (834,827)
Deficit	\$ (4,989,384)	\$ (4,860,148)

2. BASIS OF PREPARATION

Statement of compliance

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

These consolidated financial statements are prepared using IFRSs in effect as at June 30, 2017. Significant accounting policies and the applicable basis of measurement used in the preparation of these consolidated financial statements are described in Note 3.

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are classified as fair value through profit or loss. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements were authorized by the Board of Directors on October 30, 2017.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies are those policies which the Company has adopted for its consolidated financial statements for the year ended June 30, 2017. These policies have been applied consistently to all periods presented in these financial statements, unless otherwise indicated.

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

JAZZ RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Basis of consolidation (cont'd...)

The consolidated financial statements include the accounts of the Company and the following subsidiary. All significant intercompany balances and transactions were eliminated on consolidation.

<u>Name</u>	<u>Place of incorporation</u>	<u>Ownership</u>	<u>Principal activity</u>
Jazz Mining 05 Inc.	British Columbia	100%	Exploration company

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is being provided for using the following rates and methods:

Vehicles	30% declining balance
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Mineral properties

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash generating units ("CGUs").

Acquisition costs

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

Exploration and evaluation costs

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been established are capitalized to the relevant CGU in the period incurred. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop and operate a mine or to market the mineral rights.

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

Mineral properties (cont'd...)

Development costs

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU.

Pre-commissioning revenues

Any pre-commissioning revenues earned from the sale of ore extracted from the Company's exploration and evaluation assets are applied against the carrying value of those assets. Costs incurred associated with third party crushing, processing and shipping of the ore are first netted against the pre-commissioning revenues, prior to being applied against the asset's carrying value.

Post-development costs

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

Reclamation provision

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured at the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus.

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

Flow-through shares

Common shares, which by agreement are designated as flow-through shares, are usually issued at a premium to non-flow-through common shares. On issue, share capital is increased only by the non-flow-through share equivalent value. Any premium is recorded as a flow-through share premium liability. Pursuant to any flow-through share agreement the Company must renounce its flow-through share exploration expenditures to the flow-through share owners, and the Company gives up its rights to the income tax benefits on the exploration expenditures. The loss of the tax benefit is recorded as a deferred tax liability and eliminates the original flow-through share premium liability, with the difference, if any, recorded as a deferred income tax expense. In instances where the Company has sufficient deductible temporary differences available to offset the deferred income tax liability created from renouncing the exploration expenditures, the realization of the deductible temporary differences will be shown as a recovery in profit or loss in the period of renunciation.

Impairment of mineral properties and equipment

The carrying amounts of equipment and mineral properties and deferred exploration costs, regardless of the stage of development, are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the CGU to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or CGU. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or CGU in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on equipment and mineral properties may be subsequently reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of net (loss) income when identified.

Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss," "loans and receivables," "available-for-sale," "held-to-maturity," or "financial liabilities measured at amortized cost" as follows:

i) Financial assets

Financial assets comprise cash, amounts receivable, and security deposits. Cash comprises liquid balances held at a large Canadian bank and is measured at fair value through profit and loss. Amounts receivable is classified as loans and receivables and is recorded at amortized cost less any impairment. Security deposits are designated for various operational or environmental reclamation purposes and are classified as held-to-maturity.

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

Financial instruments (cont'd...)

ii) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

iii) Financial liabilities

Financial liabilities comprise accounts payable and accrued liabilities and due to related parties. These are classified as other financial liabilities measured at fair value and subsequently measured at amortized cost using the effective interest method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

Assets and liabilities measured at fair value are further categorized in a fair value hierarchy based on the inputs used to determine their fair value. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 12 for fair value hierarchy classifications.

Government subsidies

Government assistance is recorded as a reduction of the cost of the applicable assets as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

(Loss) earnings per share

Basic (loss) earnings per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of options, warrants and other convertible instruments. Under this method, the dilutive effect on earnings per share reflects the assumption that the proceeds from the exercise of options, warrants and other convertible instruments are used to purchase and cancel common shares at the average market price during the period. In periods that the Company reports a net loss, loss per share is not presented on a diluted basis, as the result would be anti-dilutive.

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

Current and deferred income taxes

Current taxes receivable or payable are estimated on taxable income for the current year at the statutory tax rates enacted or substantively enacted on the statement of financial position date.

Deferred tax assets and liabilities are recognized based on the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits of the relevant entity or group of entities, in a particular jurisdiction, will be available against which the assets can be utilized.

Share-based compensation

The Company recognizes a share-based compensation charge in operations for stock options granted to employees, officers and directors of the Company. The share-based compensation charge is based on the fair value of option awards granted, measured using the Black-Scholes option pricing model at the date of issue. The fair value of stock options granted is amortized to expense on a graded basis over the vesting periods of the option granted with an off-setting amount recorded in contributed surplus.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Judgments, estimates and measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

i) Mineral properties and deferred exploration costs

The measurement, depletion and impairment of mineral properties and deferred exploration costs are based on various judgments and estimates. These include the technical and commercial feasibility of these properties, which incorporates various assumptions for mineral reserves, future mineral prices, and operating and capital expenditures for the properties.

ii) Reclamation provision

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

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

Judgments, estimates and measurement uncertainty (cont'd...)

iii) Taxation

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred tax assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

iv) Share-based compensation

The Company uses the Black-Scholes option pricing model to determine the fair value of stock options granted. This model requires management to estimate the volatility of the Company's future share price, expected lives of stock options and future dividend yields. Consequently, there is significant measurement uncertainty in the share-based compensation expense reported.

Accounting standards, amendments and interpretations not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2017 reporting period. These standards are not expected to have a significant impact on the Company's financial statements:

IFRS 9, Financial Instruments

The IASB intends to replace IAS 39 – “Financial Instruments: Recognition and Measurement” in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018. The Company has not early adopted this standard and is currently assessing the impact on its financial statements.

IFRS 15, Revenue from Contracts with Customers:

IFRS 15 is a new standard to establish principles for reporting the nature amount timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service.

The Company does not anticipate that the application of IFRS 15 in the future will have a material impact on the amounts reported and disclosures made in the Company's financial statements.

JAZZ RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

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

Accounting standards, amendments and interpretations not yet effective (cont'd...)

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

The Company does not anticipate that the application of IFRS 16 in the future will have a material impact on the amounts reported and disclosures made in the Company's financial statements.

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The Company owns two mineral properties, the Teddy Glacier Property and the Spider Property, both located in the Province of British Columbia ("B.C."). The Teddy Glacier Property is located in the Revelstoke Mining Division in B.C., comprising claims that are 100% owned by the Company through staking. The Spider Property is comprised of certain Crown granted mineral claims and several land lots in fee simple within the township of Camborne, B.C. During the year ended June 30, 2010, the Company entered into an agreement to earn a 100% interest in eight mining claims contiguous to the Teddy Glacier Property. Consideration for the claims was as follows:

- Payment of \$12,500, due on signing (paid); and
- Issuance of 25,000 common shares due on signing (issued – valued at \$13,000 or \$0.52 per share).

All acquisition and deferred exploration costs have been grouped with the Teddy Glacier Property costs for presentation purposes.

The following table summarizes mineral property costs, by property.

	Teddy Glacier	Spider	Total
Balance, June 30, 2015	\$ 578,782	\$ 217,184	\$ 795,966
Acquisition costs	-	1,750	1,750
Property taxes	-	1,843	1,843
Contractors	-	4,061	4,061
Site exploration	341,039	184,578	525,617
Sale of ore by-product	(162,211)	-	(162,211)
Government subsidies	(99,771)	(54,292)	(154,063)
Balance, June 30, 2016	657,839	355,124	1,012,963
Property taxes	-	1,435	1,435
Site exploration	10,433	258,880	269,313
Government subsidies	(6,878)	(77,554)	(84,432)
Balance, June 30, 2017	\$ 661,394	\$ 537,885	\$ 1,199,279

JAZZ RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

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

Government subsidies

As at June 30, 2017, the Company has accrued a total of \$78,649 (2016 - \$154,063) as B.C. mining tax credits receivable for exploration work completed during the year. These government subsidies are recorded as a reduction of deferred exploration costs and are included in amounts receivable.

Processing facility and recovery from ore sales

During the year ended June 30, 2015, the Company entered into a binding contract with an arm's length service provider to process ore that is stockpiled on the Company's mining properties. The processing is expected to commence in 2018 and will be completed at a fixed cost per tonne.

During the year ended June 30, 2016, the Company received \$162,211 (net of transportation costs incurred) from sales of unprocessed ore. Pursuant to the Company's significant accounting policy, the net proceeds were applied against the carrying value of the Company's mineral properties.

5. EQUIPMENT

	June 30, 2017			June 30, 2016		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicles	\$ 47,553	\$ 46,199	\$ 1,354	\$ 47,553	\$ 45,703	\$ 1,850

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6. RELATED PARTY TRANSACTIONS

As at June 30, 2017, a total of \$1,087,262 (2016 - \$1,084,262) was owing to related parties which comprise the following:

- 1) \$60,000 (2016 - \$60,000) is owed to a shareholder of the Company.
- 2) \$36,000 (2016 - \$36,000) is owed to a former director of the Company.
- 3) \$200,000 (2016 - \$200,000) is owed to the estate of a former director of the Company.
- 4) \$14,704 (2016 - \$11,704) is owed to an officer of the Company. During the year ended June 30, 2017, \$8,000 (2016 - \$6,000) in services were paid or accrued to this officer for accounting services provided.
- 5) \$75,000 (2016 - \$75,000) is owed to the estate of the former President of the Company.
- 6) \$295,000 (2016 - \$295,000) is owed to the President of the Company. Of this amount, \$100,000 is owing pursuant to a loan agreement, bears interest at the rate of 25% per annum and is repayable on or before April 2, 2017, \$75,000 is owing pursuant to an additional loan agreement, bears interest at the rate of 20% per annum and is repayable on or before August 5, 2017, \$100,000 is owing pursuant to an additional loan agreement, does not bear interest and is due on demand. In respect of the \$75,000 loan made by the officer; the Company issued 83,000 bonus shares per the terms of the loan agreement, which were valued at \$14,940 (\$0.18 per share). \$20,000 in interest has been accrued on the balances owing as at June 30, 2017 (2016 - \$20,000), and all of the loans received are unsecured. During the year ended June 30, 2017, the company paid \$40,000 (2016 - \$Nil) in interest on these loans and \$75,000 (2016 - \$82,230) was paid or accrued for site exploration costs and was included in deferred exploration costs.
- 7) \$406,558 (2016 - \$406,558) is owed to a company owned by the former President of the Company. During the year ended June 30, 2017, \$69,318 (2016 - \$135,738) in site exploration costs were paid or accrued and included as deferred exploration costs.

As at June 30, 2017, \$300,684 (2016 - \$233,046) owed to a company owned by the former President of the Company was included in accounts payable and accrued liabilities. As at June 30, 2017 \$32,739 (2016 - \$51,140) is owed to the President of the Company and is included in accounts payable and accrued liabilities. These amounts are not subject to the repayment schedule discussed below.

Pursuant to an agreement dated April 30, 2015, the amounts owing above to the company owned by the former President of the Company and the estate of the former director of the Company are non-interest bearing and are repayable 25% by June 30, 2016, 50% by June 30, 2017, and 25% by June 30, 2018. The June 30, 2016 and June 30, 2017 repayments were not made, and the Company is currently renegotiating a revised payment date.

All other amounts are non-interest bearing and have no fixed terms of repayment.

During the year ended June 30, 2017, Nil stock options were granted to directors and officers of the Company with a fair value of \$Nil (2016 - 250,000 stock options with a fair value of \$23,455).

7. SHARE CAPITAL

Authorized

Unlimited common voting shares, no par value.

Issued

During the year ended June 30, 2017, the Company completed a non-brokered private placement of 1,537,500 units at \$0.08 per unit for total proceeds of \$123,000. Each unit is comprised of one common share and one share purchase warrant, with each warrant being exercisable into an additional common share at a price of \$0.12 for a period of 1.5 years. Total share issue costs of \$5,498 were incurred in connection with the unit offering completed. No residual value was allocated to the warrant component of the unit.

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7. SHARE CAPITAL (cont'd...)

Issued (cont'd...)

During the year ended June 30, 2016, the Company completed a non-brokered private placement consisting of the issue of 3,250,000 units at a price of \$0.10 per unit for total proceeds of \$325,000. Each unit is comprised of one common share and one share purchase warrant, with each warrant being exercisable into an additional common share at a price of \$0.12 for a period of 2 years. Total share issue costs of \$8,375 were incurred in connection with the unit offering completed. No residual value was allocated to the warrant component of the unit.

The Company also issued 83,000 shares as consideration for a related party loan (Note 6) received during the year. The shares had a total fair value of \$14,940 (\$0.18 per share) and was recognized as a share-based compensation expense during the year ended June 30, 2016.

Share purchase warrants

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2015	-	\$ -
Issued	<u>3,250,000</u>	<u>\$ 0.12</u>
Balance, June 30, 2016	3,250,000	\$ 0.12
Issued	<u>1,537,500</u>	<u>\$ 0.12</u>
Balance at June 30, 2017	4,787,500	\$ 0.12

As at June 30, 2017 the following warrants were outstanding and exercisable.

Number of Warrants	Exercise Price	Expiry Date
3,250,000	\$ 0.12	January 5, 2018
1,537,500	\$ 0.12	July 27, 2018

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7. SHARE CAPITAL (cont'd...)

Stock options

As at June 30, 2017, the Company has a stock option plan in place (the “Stock Option Plan”) under which it can grant a maximum number of stock options equal to 20% of the total issued and outstanding common shares. The purpose of the Stock Option Plan is to encourage ownership of the Company’s common shares by persons who are directors, senior officers and employees, as well as consultants, and employees of management companies providing services to the Company. The term of any option granted under the Stock Option Plan may not exceed 10 years. The vesting periods for all options granted pursuant to the Stock Option Plan will be determined at the discretion of the Board of Directors at the time of the grant. The vesting schedule shall provide for a vesting period of at least 12 months and that the options will vest equally on a quarterly basis over the vesting period in respect to options granted to consultants performing investor relations activities. The number of options granted to any one person may not exceed 5% of the outstanding listed common shares in a 12 month period.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable at June 30, 2015	1,650,000	\$ 0.10
Granted	250,000	\$ 0.10
Outstanding and exercisable at June 30, 2016 and 2017	1,900,000	\$ 0.10
Weighted average fair value of options granted during the year	(2017-N/A)	(2016-\$0.094)

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

Number of Options	Exercise Price	Expiry Date
1,650,000	\$ 0.10	June 1, 2020
250,000	\$ 0.10	February 1, 2021

JAZZ RESOURCES INC.
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7. SHARE CAPITAL (cont'd...)

Share-based compensation

For stock options granted to employees, officers, directors and consultants, the Company recognizes as an expense the estimated fair value of the stock options granted using a graded vesting approach. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model.

During the year ended June 30, 2017, Nil stock options (2016 – 250,000) were granted to officers and directors of the Company. The total share-based compensation recognized during the year from the granting of stock options was \$Nil (2016 - \$23,455).

The fair value of stock options granted was estimated on the measurement date using the Black-Scholes option-pricing model and is amortized over the vesting period of the underlying options. The assumptions used to calculate the fair value were as follows:

	June 30, 2017	June 30, 2016
Risk-free interest rate	N/A	0.67%
Expected life of options	N/A	5 years
Expected volatility	N/A	166.38%
Dividend yield	N/A	Nil

8. LOSS PER SHARE

The following table reconciles the numerators and denominators of the basic and diluted loss per share:

	2017	2016
Net loss for the year	\$ (129,236)	\$ (154,158)
Weighted average number of shares outstanding – basic and diluted	18,267,016	15,708,220
Loss per share – basic and diluted	\$ (0.01)	\$ (0.01)

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9. INCOME TAXES

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

	2017	2016
Loss for the year	\$ (129,236)	\$ (154,158)
Expected income tax (recovery)	\$ (34,000)	\$ (40,000)
Change in statutory tax rates, foreign exchange rates and other	2,000	(2,000)
Permanent differences	-	10,000
⌘ Share issue costs	(1,000)	(6,000)
Other adjustments	1,000	112,000
Change in unrecognized deductible temporary differences	<u>32,000</u>	<u>(74,000)</u>
Total income tax expense (recovery)	<u>\$ -</u>	<u>\$ -</u>

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2017	2016
Deferred tax assets		
Mineral properties and deferred exploration costs	\$ 67,000	\$ 59,000
Equipment	12,000	12,000
Share issue costs	5,000	5,000
Non-capital losses available for future period	<u>484,000</u>	<u>460,000</u>
Total unrecognized deferred tax assets	<u>\$ 568,000</u>	<u>\$ 536,000</u>

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	June 30 2017	Expiry Date Range	June 30 2016	Expiry Date Range
Temporary differences:				
Mineral properties and deferred exploration costs	\$ 109,000	No expiry date	\$ 77,000	No expiry date
Investment tax credit	53,000	2028 to 2034	53,000	2028 to 2034
Equipment	46,000	No expiry date	46,000	No expiry date
Share issue costs	18,000	2037 to 2041	19,000	2038 to 2040
Non-capital losses available for future periods	<u>\$ 1,862,000</u>	<u>2028 to 2037</u>	<u>\$ 1,771,000</u>	<u>2028 to 2036</u>

Tax attributes are subject to review, and potential adjustment, by tax authorities.

10. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and development of mineral properties in Canada.

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the year ended June 30, 2017 were as follows:

- a) As at June 30, 2017, a total of \$78,648 has been accrued for B.C. mining tax credits receivable based on exploration expenditures incurred during the year. The amount has been included in amounts receivable.
- b) As at June 30, 2017, \$356,656 in deferred exploration costs were included in accounts payable and accrued liabilities.
- c) During the year \$226,640 in due to related parties owed to the former President and President was reclassified from non-current to current as amounts are due June 30, 2018.

The significant non-cash transactions during the year ended June 30, 2016 were as follows:

- a) Recognition of share-based compensation of \$23,455 on options vested during fiscal 2016.
- b) As at June 30, 2016, a total of \$154,063 has been accrued for B.C. mining tax credits receivable based on exploration expenditures incurred during the year. The amount has been included in amounts receivable.
- c) As at June 30, 2016, \$294,186 in deferred exploration costs were included in accounts payable and accrued liabilities.
- d) Recognition of share-based compensation of \$14,940 on bonus shares issued during fiscal 2016.

12. FINANCIAL INSTRUMENTS AND RISKS

The Company's financial instruments consist of cash, amounts receivable, security deposits, accounts payable and accrued liabilities and due to related parties. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company's cash is measured at level 1 of the fair value hierarchy. The fair value of these financial instruments approximates their carrying values due to their short term nature, unless otherwise noted.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

JAZZ RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

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 balance of \$105,759 to settle current liabilities of \$1,475,827. There is a risk that the Company may not be able to fulfill its obligation when a liability is due. All of the Company's current financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has \$33,500 of security deposits earning interest at an average rate of 0.57% per annum. Pursuant to a loan agreement with an officer of the Company, the Company has related party loans of \$100,000 bearing interest at 25% per annum and \$75,000 bearing interest at 20% per annum as at June 30, 2017.

(b) Foreign currency risk

The Company does not have assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

13. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. share capital, contributed surplus and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's overall strategy remains unchanged from the year ended June 30, 2016.