

Max

R E S O U R C E C O R P .

**Consolidated Financial Statements
For the years ended December 31, 2016 and 2015**

Expressed in Canadian Dollars



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Max Resource Corp:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Vancouver, Canada
April 11, 2017

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Max Resource Corp.
Consolidated statements of loss and comprehensive loss
(Expressed in Canadian dollars)

	Notes	Years Ended	
		December 31, 2016	December 31, 2015
Expenses			
Amortization	3	\$ 66	\$ 355
Consulting		35,588	7,500
Foreign exchange gain		(327)	-
Interest expense	9	9,971	5,803
Management fees	9	30,000	7,500
Office and miscellaneous		31,624	32,624
Professional fees		19,883	31,747
Share-based compensation		-	7,642
Transfer agent, filing fees and shareholder relations		13,662	23,484
		(140,467)	(116,655)
Other items			
Gain on settlement of debt	9	-	97,313
Impairment of exploration and evaluation assets	4	-	(537,823)
		-	(440,510)
Loss and comprehensive loss for the year		\$ (140,467)	\$ (557,165)
Loss per share – basic and diluted		\$ (0.01)	\$ (0.07)
Weighted average number of common shares outstanding – basic and diluted		11,360,198	7,424,184

Max Resource Corp.
Consolidated statement of changes in equity
(Expressed in Canadian dollars)

	Note	Share capital		Reserves			Total
		Number of shares	Amount	Share purchase warrant reserve	Share-based payment reserve	Deficit	
Balance at December 31, 2014		6,165,198	\$ 14,059,099	\$ 292,851	\$ 2,125,781	\$ (16,213,188)	\$ 264,543
Comprehensive loss:							
Loss for the year		-	-	-	-	(557,165)	(557,165)
Transactions with owners, in their capacity as owners, and other transfers:							
Shares issued for cash	7	5,195,000	259,750	-	-	-	259,750
Share-based compensation	7	-	-	-	7,642	-	7,642
Balance at December 31, 2015		11,360,198	14,318,849	292,851	2,133,423	(16,770,353)	(25,230)
Comprehensive loss:							
Loss for the year		-	-	-	-	(140,467)	(140,467)
Balance at December 31, 2016		11,360,198	\$ 14,318,849	\$ 292,851	\$ 2,133,423	\$ (16,910,820)	\$ (165,697)

See accompanying notes to the consolidated financial statements

Max Resource Corp.
Consolidated statements of cash flows
(Expressed in Canadian dollars)

	Years ended	
	December 31, 2016	December 31, 2015
Operating activities		
Loss for the year	\$ (140,467)	\$ (557,165)
Adjustments for:		
Amortization	66	355
Gain on settlement of debt	-	(97,313)
Accrued interest expense	9,971	5,803
Impairment of exploration and evaluation assets	-	537,823
Share-based compensation	-	7,642
Changes in non-cash working capital items:		
Decrease in prepaids	4,148	-
Increase in taxes recoverable	(41)	(188)
Increase (decrease) in trade payables and accrued liabilities	73,717	(130,288)
Net cash flows used in operating activities	(52,606)	(233,331)
Investing activity		
Expenditures on exploration and evaluation asset	-	(270)
Net cash flows used in investing activity	-	(270)
Financing activities		
Shares issued for cash	-	259,750
Related party loans	7,337	59,523
Net cash flows provided by financing activities	7,337	319,273
Change in cash	(45,269)	85,672
Cash, beginning of year	88,575	2,903
Cash, end of year	\$ 43,306	\$ 88,575

Supplemental disclosure with respect to cash flows (Note 11)

1. Nature and continuance of operations

Max Resource Corp. (the “Company”) was incorporated on April 25, 1994, under the laws of the province of Alberta, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada and the United States. The Company’s shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol “MXR”. During the year ended December 31, 2015, the Company completed a 5 for 1 share consolidation (Note 7).

The Company’s head office is located at #2300 – 1066 West Hastings Street, Vancouver, British Columbia, Canada, V6E 3X2 and its registered and records office is located at 700 - 9th Avenue S.W. Calgary, Alberta, Canada, T2P 3V4.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2016, the Company had an accumulated deficit of \$16,910,820 and a working capital deficiency of \$165,697 and, to date, the Company has not generated any revenues to meet its operating and administrative expenses or its other obligations. The Company’s continuation as a going concern is dependent upon its ability to raise equity capital or borrowings sufficient to meet current and future obligations and ultimately to attain profitable operations. These uncertainties may cast significant doubt on the ability of the Company to continue operations as a going concern. Management intends to finance operating costs over the next twelve months with private placements of the Company’s common shares and loans from related parties.

2. Significant accounting policies and basis of preparation

These consolidated financial statements were authorized for issue on April 11, 2017 by the directors of the Company.

Statement of compliance with International Financial Reporting Standards

The consolidated financial statements of the Company comply 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”).

Basis of preparation

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

2. Significant accounting policies and basis of preparation (cont'd)

Consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

	Country of incorporation	Percentage owned*	
		December 31, 2016	December 31, 2015
Max Resource, Inc.	USA	100%	100%

*Percentage of voting power is in proportion to ownership.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ significantly from these estimates.

Areas requiring a significant degree of estimation relate to the determination of the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Significant judgments

The preparation of financial statements in accordance with IFRS requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include:

- Whether there exists indications of impairment of the Company's non-current assets;
- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the classification and allocation of expenditures as exploration and evaluation expenditures or operating expenses.

Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company and subsidiary's functional and presentation currency.

2. Significant accounting policies and basis of preparation (cont'd)

Foreign currency translation (cont'd)

Transactions and balances:

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

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

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

Exploration and evaluation expenditures

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred.

Exploration and evaluation expenditures include the costs of acquiring licenses and rights, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Option payments are considered acquisition costs provided that the Company has the intention of exercising the underlying option.

Property option agreements are exercisable entirely at the option of the optionee. Therefore, option payments (or recoveries) are recorded when payment is made (or received) and are not accrued.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

2. Significant accounting policies and basis of preparation (cont'd)

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined at the grant date using a Black–Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Financial instruments

The Company classifies its financial instruments in the following categories: loans and receivables and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. The Company determines the classification of its financial instruments at initial recognition.

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

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

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

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

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

2. Significant accounting policies and basis of preparation (cont'd)

Impairment of assets

The carrying amount of the Company's assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of an asset is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

2. Significant accounting policies and basis of preparation (cont'd)

Income taxes (cont'd)

Deferred income tax assets and deferred income tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in market conditions or regulatory requirements. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized or expensed in accordance with the Company's accounting policy for exploration and evaluation assets.

Equipment

Equipment is stated at historical cost less accumulated amortization and accumulated impairment losses.

Subsequent costs directly related to a recognized asset are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of significant replaced parts are derecognized. All other repairs and maintenance costs are charged to the statement of loss and comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category is as follows:

Class	Amortization rate
Equipment	30%

2. Significant accounting policies and basis of preparation (cont'd)

New accounting standards, amendments and interpretations

IFRS 9, “Financial Instruments: Recognition and Measurement” replaces the requirements of IAS 39, “Financial Instruments: Recognition and Measurement”. This final version of IFRS 9 brings together the classification and measurements as well as impairment and hedge accounting phases of the project to replace IAS 39. In addition to the new requirements for classification and measurement of financial assets, a new general hedge accounting model and other amendments issued in previous versions of IFRS 9, the standard also introduces new impairment requirements that are based on a forward-looking expected credit loss model. These changes are applicable for annual periods beginning on or after January 1, 2018. The Company has not yet assessed the future impact of this new standard on its financial statements.

IFRS 15, “Revenue from contracts with customers” replaces the requirements of IAS 11, “Construction Contracts”, and IAS 18, “Revenue and related interpretations”. This standard specifies the steps and timing for issuers to recognize revenue as well as requiring them to provide more informative, relevant disclosures. These changes are applicable for annual periods beginning on or after January 1, 2017, with earlier application permitted. The standard is effective for the Company’s fiscal year beginning January 1, 2017. The Company has not yet assessed the future impact of this new standard on its financial statements.

IFRS 16 “Leases” replaces IAS 17 “Leases” and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. The Company has not yet assessed the future impact of this new standard on its financial statements.

There are no other pending IFRSs or IFRIC interpretations that are expected to be relevant to the Company’s financial statements.

3. Equipment

Cost:	
At December 31, 2015 and 2016	\$ 5,148
Amortization:	
At December 31, 2014	4,727
Charge for the year	355
At December 31, 2015	5,082
Charge for the year	66
At December 31, 2016	5,148
Net book value:	
At December 31, 2015	\$ 66
At December 31, 2016	\$ -

4. Exploration and evaluation assets

	Balance December 31, 2014	Additions	Impairment	Balance December 31, 2015 and 2016
Acquisition costs:				
East Manhattan, NV	\$ 305,678	\$ -	\$ (305,678)	\$ -
Exploration costs:				
East Manhattan, NV	231,875	270	(232,145)	-
	\$ 537,553	\$ 270	\$ (537,823)	\$ -

During the year ended December 31, 2015, the Company assigned reclamation bonds totaling \$53,498 (US\$43,343) to a related party in settlement of debt. (Note 9)

East Manhattan, Nevada, United States

On November 11, 2007, as amended December 4 2008, December 21 2010 and August 22 2014, the Company entered into an option agreement with MSM Resource LLC (“MSM”), a Nevada corporation, for the acquisition of a 100% interest in the East Manhattan Wash (“East Manhattan”) mineral claims located in Nye County, Nevada.

The terms of the option agreement with MSM called for payments totaling US\$145,000 (paid) by December 31, 2014 and future payments of US\$20,000 by June 30, 2015, US\$30,000 by June 30, 2016 and US\$40,000 by June 30, 2017. In addition, the Company was obligated to incur exploration expenditures totaling US\$100,000 on the claims by December 4, 2014 (completed).

The East Manhattan Property was subject to a 3% NSR royalty. Upon full exercise of the option, the Company would have owned 100% of the project.

During the year ended December 31, 2015, management chose to terminate the option agreement and, as a result, the Company fully impaired accumulated acquisition and exploration costs totaling \$537,823.

5. Trade payables and accrued liabilities

The components of trade payables and accrued liabilities are as follows:

	December 31, 2016	December 31, 2015
Trade payables	\$ 26,330	\$ 21,403
Amounts due to related parties (Note 9)	90,775	21,724
Accrued liabilities	8,000	8,000
	\$ 125,105	\$ 51,127

6. Deferred tax assets and liabilities

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Loss for the year	\$ (140,467)	\$ (557,165)
Statutory tax rate	26%	26%
Expected income tax recovery at the statutory tax rate	(36,521)	(144,863)
Non-deductible items and other	(8)	6,517
Difference in tax rates in foreign jurisdiction	491	(6,348)
Effect of foreign exchange rates	76,466	150,846
Expiration of loss carryforwards	-	41,974
Temporary differences not recognized	(40,428)	(48,126)
Income tax recovery	\$ -	\$ -

The Company has the following tax effected deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2016	December 31, 2015
Non-capital loss carry-forwards	\$ 3,345,091	\$ 3,385,541
Exploration and evaluation assets	70,784	70,784
Equipment	1,610	1,588
Other	2,632	2,632
	\$ 3,420,117	\$ 3,460,545

The tax pools relating to these deductible temporary differences expire as follows:

	Canadian non-capital losses	Canadian resource pools	United States tax Losses (US\$)
2025	\$ -	\$ -	\$ 4,080
2026	383,173	-	-
2027	518,148	-	174,949
2028	607,835	-	274,214
2029	720,438	-	3,153,918
2030	607,390	-	160,383
2031	788,671	-	164,777
2032	475,711	-	602,578
2033	363,424	-	1,209,311
2034	165,983	-	1,615,673
2035	230,608	-	381,703
2036	132,355	-	6,125
No or various expiries	-	272,247	-
	\$ 4,993,736	\$ 272,247	\$ 7,747,711

7. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

At December 31, 2016, there are 11,360,198 issued and fully paid common shares outstanding.

During the year ended December 31, 2015, the Company completed a 5-old for 1-new share consolidation. All common shares, warrant and stock option information presented in these consolidated financial statements is presented on a post-consolidation basis.

During the year ended December 31, 2015, the Company completed, in two tranches, a non-brokered private placement of 5,195,000 units at \$0.05 per unit for proceeds totaling \$259,750. Each unit is comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.10 per share for a two year period.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2016 was based on the loss attributable to common shareholders of \$140,467 (2015 – \$557,165) and the weighted average number of common shares outstanding of 11,360,198 (2015 – 7,427,184). Diluted loss per share did not include the effect of outstanding stock options and warrants as they are anti-dilutive.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the TSX-V requirements, grant to directors, officers, employees and consultants of the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 20% of the Company's issued and outstanding common shares to a maximum of 980,123. Such options will be exercisable for a period of up to 5 years from the date of grant. Options granted typically vest on the grant date.

The changes in options during the years ended December 31, 2016 and 2015 are as follows:

	Number of options	Weighted average exercise price
Options outstanding, December 31, 2014	545,000	\$ 0.60
Options expired	(85,000)	1.25
Options outstanding, December 31, 2015	460,000	0.50
Options expired	(460,000)	0.50
Options outstanding, December 31, 2016	-	\$ -

The weighted average remaining contractual life of stock options outstanding at December 31, 2016 is Nil years (2015 – 0.35 years).

7. Share capital (cont'd)

Warrants

The changes in warrants during the years ended December 31, 2015 and 2014 are as follows:

	Number of warrants	Weighted average exercise price
Warrants outstanding, December 31, 2014	1,290,600	\$ 0.60
Warrants issued	5,195,000	0.10
Warrants outstanding, December 31, 2015	6,485,600	0.20
Warrants expired	(1,290,600)	0.60
Warrants outstanding, December 31, 2016	5,195,000	\$ 0.10

Details of warrants as at December 31, 2015 are as follows:

Exercise price	Number of warrants outstanding	Expiry Date
\$ 0.10	3,880,000	September 30, 2017
\$ 0.10	1,315,000	October 14, 2017

The weighted average remaining contracted life of warrants outstanding at December 31, 2016 is 0.46 years (2015 – 1.46).

8. Reserves

Share based payment reserve and share purchase warrant reserve

The reserves record items recognized as share-based payments expense until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

9. Related party transactions

The following amounts due to related parties are included in trade payables and accrued liabilities:

	December 31, 2016	December 31, 2015
Director, company controlled by a director of the Company and significant shareholder	\$ 90,775	\$ 21,724

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

At December 31, 2016, the Company owes \$84,894 (2015 - \$67,847) in related party loans. The loans bear interest at 12% per annum, are unsecured and have no fixed terms of repayment. During the year ended December 31, 2016 the Company accrued interest of \$9,971 (2015 - \$5,803) which is included in accounts payable above.

9. Related party transactions (cont'd)

Key management personnel compensation (consisting of management and certain directors)

	Years ended	
	December 31, 2016	December 31, 2015
Short-term employee benefits:		
Management fees	\$ 30,000	\$ 7,500

During the year ended December 31, 2015, the Company settled related party debts of \$150,811 (US\$130,000) pursuant to the transfer of the rights to recovery of the Company's reclamation bonds to a director. As a result of the transaction, the Company recognized a gain on the settlement of debt of \$97,313.

Included in share units issued during the year ended December 31, 2015 were 1,800,000 units issued to directors, their private companies and a spouse (Note 7).

10. Financial risk and capital management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company's cash is deposited with a major bank in Canada. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis.

Historically, the Company's primary source of funding has been the issuance of equity securities for cash, primarily through private placements and the advance of loans. The Company's access to equity financing is dependent upon market conditions and market risks. There can be no assurance of continued access to equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it incurs expenditures that are denominated in United States dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The majority of cash is held in Canadian dollars.

10. Financial risk and capital management (cont'd)

The following is a summary of Canadian dollar equivalent financial assets and liabilities that are denominated in United States dollars:

	December 31, 2016	December 31, 2015
Cash	\$ 14	\$ 412
Accounts payable	(261)	(921)
	\$ (247)	\$ (509)

Based on the above net exposures, as at December 31, 2016, a 10% change in the United States dollar to Canadian dollar exchange rate could impact the Company's net loss by \$Nil (2015 - \$51).

Interest rate risk

Interest rate risk is the risk due to variability of interest rates. The Company is exposed to interest rate risk on its bank account and related party loans. The income earned on the bank account is subject to the movements in interest rates. The Company has cash balances and fixed interest bearing debt, therefore, interest rate risk is nominal.

Capital Management

The Company's policy is to maintain a capital base sufficient to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of working capital deficiency and share capital. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

Classification of financial instruments

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

	December 31, 2016	December 31, 2015
Loans and receivables:		
Cash	\$ 43,306	\$ 88,575

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

	December 31, 2016	December 31, 2015
Non-derivative financial liabilities:		
Trade payables	\$ 26,330	\$ 21,403
Amounts due to related parties	90,775	21,724
Related party loans	84,894	67,847
	\$ 201,999	\$ 110,974

Fair value

The carrying value of the Company's financial instruments approximates their fair value.

11. Supplemental cash flow information

During the years ended December 31, 2016 and 2015 the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	Years ended	
	December 31, 2016	December 31, 2015
Reclamation bond assigned to a related party pursuant to the settlement of debt	\$ -	\$ 53,498

12. Subsequent event

Subsequent to December 31, 2016, the Company completed a private placement of 4,293,000 units at price of \$0.075 per unit for gross proceeds of \$321,975. Each unit consists of one common share and one share purchase warrant granting the right to acquire a common shares exercisable at a price of \$0.20 per share for a two year period. A finder's fee of \$3,964 was paid on this private placement.