

**GEM INTERNATIONAL RESOURCES INC.**

**Consolidated Financial Statements**

**(Expressed in Canadian Funds)**

**September 30, 2016 and 2015**

## **GEM INTERNATIONAL RESOURCES INC.**

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## **INDEPENDENT AUDITOR'S REPORT**

To: the Shareholders of  
Gem International Resources Inc.

I have audited the accompanying consolidated financial statements of Gem International Resources Inc. ("the Company"), which comprise the consolidated statements of financial position as at September 30, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity 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**

My responsibility is to express an opinion on these consolidated financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 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 my opinion, I draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$594,446 during the year ended September 30, 2016 and, as of that date, had an accumulated deficit of \$28,891,765 since inception. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

*"Sam S. Mah Inc"*  
Chartered Accountant

Vancouver, Canada  
January 30, 2017

**GEM INTERNATIONAL RESOURCES INC.**  
Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

	Note	September 30, 2016	September 30, 2015
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash		\$ 26,364	\$ 11,169
Other receivables	3	2,479	1,593
Prepaid expenses and deposits		46,910	-
		<b>75,753</b>	12,762
Reclamation bond	4	1,000	1,000
Exploration and evaluation assets	5, 11	551,525	-
		<b>\$ 628,278</b>	\$ 13,762
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts payable and accrued liabilities	8	\$ 37,418	\$ 70,519
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6	25,803,107	24,657,357
Contributed surplus		3,679,518	3,583,205
Deficit		(28,891,765)	(28,297,319)
		<b>590,860</b>	(56,757)
		<b>\$ 628,278</b>	\$ 13,762

**Nature of Operations and Going Concern** 1

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*On behalf of the Board of Directors:*

"Simon Tam", Director  
Simon Tam

"Craig Walker", Director  
Craig Walker

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

**GEM INTERNATIONAL RESOURCES INC.**  
Consolidated Statements of Loss and Comprehensive Loss  
For the Years Ended September 30, 2016 and 2015  
(Expressed in Canadian Dollars)

	Note	2016	2015
<b>General and Administrative Expenses</b>			
Audit, accounting and legal	8	\$ 79,371	\$ 80,989
Bank charges		833	312
Consulting fees	8	172,125	112,000
Marketing and investor relations		72,791	57,960
Office		631	636
Property investigation costs		36,851	30,880
Regulatory and transfer agent fees		25,597	25,790
Rent	8	18,000	18,000
Shareholders communication		6,330	6,451
Stock-based compensation	6 d)	96,313	138,244
Travelling and promotion		85,174	47,740
		<u>(594,016)</u>	<u>(519,002)</u>
<b>Other Income (Expense):</b>			
Foreign exchange loss		(624)	-
Gain on debt settlement		-	13,936
Interest income		194	196
<b>Net and comprehensive loss for the year</b>		<u><u>(\$594,446)</u></u>	<u><u>(\$504,870)</u></u>
<b>Basic and diluted loss per share</b>		<u><u>(\$0.03)</u></u>	<u><u>(\$0.05)</u></u>
<b>Weighted average number of common shares outstanding</b>		<u><u>22,956,169</u></u>	<u><u>11,206,280</u></u>

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

**GEM INTERNATIONAL RESOURCES INC.**

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended September 30, 2016 and 2015

(Expressed in Canadian Dollars)

	<b>Number of Common Shares</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total Shareholders' Equity</b>
<b>Balance, September 30, 2014</b>	<b>2,798,266</b>	<b>\$24,062,360</b>	<b>\$3,434,758</b>	<b>(\$27,792,449)</b>	<b>(\$295,331)</b>
Shares issued for private placement – Note 6 b	13,020,000	651,000	-	-	651,000
Share issuance costs on private placement – Note 6 b	-	(45,800)	-	-	(45,800)
Fair value of common shares issued – finder's fees – Note 6 b	127,273	(10,203)	10,203	-	-
Stock-based compensation – Note 6 d	-	-	138,244	-	138,244
Net loss for the year	-	-	-	(504,870)	(504,870)
<b>Balance, September 30, 2015</b>	<b>15,945,539</b>	<b>\$24,657,357</b>	<b>\$3,583,205</b>	<b>(\$28,297,319)</b>	<b>(\$56,757)</b>
Shares issued for private placement – Note 6 b	16,120,000	806,000	-	-	806,000
Share issuance costs on private placement – Note 6 b	-	(52,750)	-	-	(52,750)
Shares issued for private placement – Note 6 b	8,000,000	400,000	-	-	400,000
Share issuance costs on private placement – Note 6 b	-	(7,500)	-	-	(7,500)
Share-based compensation – Note 6 d	-	-	96,313	-	96,313
Net loss for the year	-	-	-	(594,446)	(594,446)
<b>Balance, September 30, 2016</b>	<b>40,065,539</b>	<b>\$25,803,107</b>	<b>\$3,679,518</b>	<b>(\$28,891,765)</b>	<b>\$590,860</b>

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

**GEM INTERNATIONAL RESOURCES INC.**  
Consolidated Statements of Cash Flows  
For the Years Ended September 30, 2016 and 2015  
(Expressed in Canadian Dollars)

	2016	2015
<b>Operating Activities</b>		
Net and comprehensive loss for the year	(\$594,446)	(\$504,870)
Non-cash items included in net loss:		
- Stock-based compensation	96,313	138,244
Changes in non-cash working capital		
- Other receivables	(886)	(734)
- Prepaid expenses and deposits	(46,910)	-
- Accounts payable and accrued liabilities	(33,101)	(245,996)
Net cash used in operating activities	(579,030)	(613,356)
<b>Investing Activities</b>		
Exploration and evaluation assets	(551,525)	-
Net cash used in investing activities	(551,525)	-
<b>Financing Activities</b>		
Shares issued, net of costs	1,145,750	605,200
Net cash provided by financing activities	1,145,750	605,200
<b>Increase (decrease) in cash</b>	<b>15,195</b>	<b>(8,156)</b>
<b>Cash, beginning of year</b>	<b>11,169</b>	<b>19,325</b>
<b>Cash, end of year</b>	<b>\$26,364</b>	<b>\$11,169</b>

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

**GEM INTERNATIONAL RESOURCES INC.**  
Notes to the Consolidated Financial Statements  
For the Years Ended September 30, 2016 and 2015  
(Expressed in Canadian Dollars)

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**1. Nature of Operations**

Gem International Resources Inc. (the “Company”) was incorporated on September 25, 1985 under the laws of British Columbia, Canada and is a junior natural resource company listed on the TSX Venture Exchange, having the symbol GI.V. The Company is primarily engaged in the acquisition, exploration and development of mineral properties with its principal focus on diamond, gold and other precious metals. All of the Company’s activities to date have been of an exploratory nature. On December 18, 2014, the Company consolidated all of its authorized and issued share capital pursuant to which each common share was consolidated on a ten (10) for one (1) basis such that each ten (10) common shares were consolidated into one (1) post-consolidation share. All references to share and per share amounts have been retroactively restated to reflect the share consolidation.

The address of the Company’s corporate office and principal place of business is 3467 Commercial Street, Vancouver, British Columbia, Canada V5N 4E8.

**Going Concern**

The Company has not yet determined whether any of its properties contain mineral deposits that are economically recoverable. The recoverability of any amounts shown as deferred mineral interest costs is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of its properties.

While the Company’s consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events indicate a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. For the year ended September 30, 2016, the Company reported a loss of \$594,446 (2015: \$504,870) and as at that date had an accumulated deficit of \$28,891,765 (September 30, 2015: \$28,297,319). As of September 30, 2016, the Company had net working capital of \$38,335 (September 30, 2015: working capital deficiency - \$57,757). The Company does not have sufficient funds available to bring its mineral properties to production, if possible, which would allow it to be self-sustaining. The Company will need additional financing to continue exploring, and if successful develop its properties to bring it to the production stage. While in the past the Company has been successful in obtaining funding from equity financings, option agreements, loans or through other arrangements, there is no assurance that these initiatives will be successful in the future.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material. The directors of the Company have approved these consolidated financial statements.

## **2. Significant Accounting Policies**

### **a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The policies applied in these financial statements are based on IFRS issued and outstanding as of January 30, 2017, the date the Board of Directors approved the consolidated financial statements.

### **b) Basis of Presentation**

These consolidated financial statements were prepared on an accrual basis and are based on historical costs, except for financial instruments measured at fair value.

### **c) Critical Accounting Estimates, Judgments and Uncertainties**

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

#### *Critical Accounting Estimates and Assumptions*

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

##### *Share-Based payments*

The Company uses the Black Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Under this model, the Company must estimate the term, volatility and if applicable, the forfeiture rate of options granted and warrants issued.

#### *Critical Accounting Judgments*

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

##### *Depreciation rates*

The application of determining the useful lives of equipment are estimates by management based on assumptions about future events. Estimates and assumption made may change if new information becomes available. New information may become available during the use of the equipment that causes the Company to adjust its estimate.

**GEM INTERNATIONAL RESOURCES INC.**  
Notes to the Consolidated Financial Statements  
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**2. Significant Accounting Policies - *continued***

**c) Critical Accounting Estimates, Judgments and Uncertainties - *continued***

*Critical Accounting Judgments - continued*

*Impairment of non-financial assets*

The Company reviews and evaluates its property, including exploration and evaluation assets, plant and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs 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 assessment of the time value of money and the risks specific to the asset.

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

**d) Subsidiaries**

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

Name of Subsidiary	Principal Activity	Place of Incorporation and Operation	Portion of Ownership Interest and Voting Power Held	
			September 30, 2016	September 30, 2015
Sierra Exploration and Mining Ltd.	Inactive	Tanzania	100%	100%
Gold Land Group Ltd.	Inactive	British Virgin Island	100%	100%
Ease Land Holdings Ltd.	Inactive	British Virgin Island	100%	100%

The subsidiaries have been inactive since May 1, 2014.

**GEM INTERNATIONAL RESOURCES INC.**  
Notes to the Consolidated Financial Statements  
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**2. Significant Accounting Policies - *continued***

**e) Consolidation Principles**

Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Intercompany transactions are eliminated at consolidation.

**f) Business Combinations**

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any acquisition-related costs incurred to effect a business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 '*Business Combinations*' are recognized at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 '*Noncurrent Assets Held for Sale and Discontinued Operations*,' which are recognized and measured at fair value less cost to sell.

**g) Functional and Presentation Currency**

The Company's functional currency is the Canadian Dollar ("CAN"). The consolidated financial statements are presented in CAN which is the Company's presentation currency, unless otherwise noted.

All amounts in these consolidated financial statements are rounded to the nearest dollar.

**h) Exploration and Evaluation Assets**

Exploration and evaluation expenditures are capitalized once the legal right to explore a property has been acquired. Exploration and evaluation assets are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, exploration and evaluation of mineral properties are capitalized until the commercial viability of the asset is established, at which time the capitalized costs are reclassified to mineral properties under development. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature.

The depreciation of a capital asset in connection with exploring or evaluating a property of this nature will be included in the cost of the intangible asset.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of the project are deemed to be impaired. As a result, those exploration and expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property in accordance with the provisions of IAS 36.

Exploration stage assets and development stage assets are considered separate CGUs for impairment testing purposes.

**GEM INTERNATIONAL RESOURCES INC.**  
Notes to the Consolidated Financial Statements  
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**2. Significant Accounting Policies - *continued***

**h) Exploration and Evaluation Assets - *continued***

The amount shown for mineral properties does not necessarily represent present or future values. Recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**i) Foreign currency translation**

In preparing the consolidated financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the consolidated income statement.

**j) Cash and Cash Equivalents**

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less.

**k) Reclamation Deposit**

Cash and other short-term deposits which are required as a part of ownership of legal rights to explore a property are classified separately as reclamation deposits.

**l) Income Taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the income statement. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

**GEM INTERNATIONAL RESOURCES INC.**  
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**2. Significant Accounting Policies - *continued***

**l) Income Taxes - *continued***

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

**m) Equipment**

Equipment is recorded at cost less accumulated impairment losses.

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of normal overheads.

The costs of day-to-day servicing are recognized in profit or loss as incurred. These costs are more commonly referred to as “maintenance and repairs.”

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

The Company depreciates its assets as follows:

Category	Methods	Rate/Useful life
Computer equipment and software	Declining balance	30 – 100%
Office equipment and furniture	Declining balance	20%
Field equipment	Straight-line	5 years
Vehicles	Straight-line	5 years

The depreciation method, rates, useful life and residual values are assessed annually.

**GEM INTERNATIONAL RESOURCES INC.**  
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**2. Significant Accounting Policies – *continued***

**m) Equipment**

*Subsequent Costs*

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

*Impairment*

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

*Reversal of Impairment*

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

**n) Decommissioning and restoration provisions**

The Company records a liability based on the best estimates of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows required to discharge the liability discounted at a risk-free rate. The restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

**2. Significant Accounting Policies – continued**

**n) Decommissioning and restoration provisions – continued**

The restoration provision is also accreted to full value over time through periodic charges to profit or loss. The amount of the restoration provision initially recognized is capitalized as part of the related asset's carrying value and amortized to profit or loss. The method of amortization follows that of the underlying asset. The costs related to a restoration provision are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. A revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the related asset.

**o) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, and it is probably that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**p) Earnings (Loss) per Share**

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

**q) Financial Assets**

Financial assets are classified into one of four categories:

- fair value through profit or loss ("FVTPL");
- held-to-maturity ("HTM");
- available for sale ("AFS"); and
- loans and receivables.

**GEM INTERNATIONAL RESOURCES INC.**  
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**2. Significant Accounting Policies – continued**

**q) Financial Assets**

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

***FVTPL financial assets***

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future;
- it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. Transaction costs are expensed as incurred.

***HTM investments***

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. They are subsequently measured at amortized cost.

***AFS financial assets***

Short-term investments and other assets held by the Company are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in equity in the investments revaluation reserve. Impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, are recognized directly in profit or loss rather than equity.

When an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the investment's revaluation reserve is included in profit or loss for the period.

The fair value of AFS monetary assets denominated in a foreign currency is translated at the spot rate at the statement of financial position date. The change in fair value attributable to translation differences on amortized cost of the asset is recognized in profit or loss, while other changes are recognized in equity.

***Loans and receivables***

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

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**2. Significant Accounting Policies - *continued***

**q) Financial Assets - *continued***

Loans and receivables are initially recognized at the transaction value, including transaction costs and subsequently are carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

***Fair value hierarchy***

Measurement of the fair value of financial instruments is made under a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices, unadjusted, in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

***Effective interest method***

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been impacted.

Objective evidence of impairment could include the following:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it has become probable that the borrower will enter bankruptcy or financial reorganization.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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**2. Significant Accounting Policies - *continued***

**q) Financial Assets - *continued***

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

***De-recognition of financial assets***

A financial asset is derecognized when:

- the contractual right to the asset's cash flows expire; or
- the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

**r) Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

***De-recognition of financial liabilities***

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

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**2. Significant Accounting Policies - *continued***

**s) Share Capital**

(i) Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share purchase warrants are classified as equity instruments.

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

(iii) 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 fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing price on the measurement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

**t) Flow-Through Shares**

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. Flow-through common shares are recognized in equity based on the quoted price of the existing shares on the date of the issue. The difference between the amounts recognized in common shares and the amount the investor pays for the shares is recognized as another liability which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded prospectively upon renunciation of the related tax benefits, provided it is expected the Company will incur the required eligible expenditures.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, are recognized as a recovery of deferred income taxes in net income.

**u) Share-based Payments**

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based payments with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of the goods or services received.

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**2. Significant Accounting Policies - *continued***

**u) Share-based Payments - *continued***

**Warrants issued in equity financing transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction.

The Company uses the 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 fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the share issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

From time to time in connection with private placements, the Company issues compensatory warrants to agents ("Agent Warrants") as commission for services. Awards of Agent Warrants are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to reserves when Agent Warrants are issued. Any consideration received upon exercise of Agent Warrants is credited to share capital. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility in the price of the underlying stock, and expected life of the Agent Warrants.

**v) Accounting Standards Adopted**

As of October 1, 2015, the Company adopted the new and amended IFRS pronouncements in accordance with transitional provisions outlined in the respective standards. The Company has adopted the following new standard without any significant effect on its financial statements.

*IFRS 7, Financial Instruments - Disclosure*

Amended to require additional disclosures on transition from IAS 39 to IFRS 9.

**w) New Standards Not Yet Adopted**

*IFRS 9 – Financial Instruments ("IFRS 9")*

New standard IFRS 9, Financial Instruments, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2018.

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w) **New Standards Not Yet Adopted** – *continued*

*IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”)*

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018

*IFRS 16 – Leases (“IFRS 16”)*

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This standard is effective for reporting periods beginning on or after January 1, 2019.

The Company has not early adopted these revised standards and are currently assessing the impact that these standards will have on the financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

**3. Other Receivables**

	<b>September 30, 2016</b>	September 30, 2015
HST/GST receivable	<b>\$ 2,479</b>	\$ 1,593

**4. Reclamation bond**

	<b>September 30, 2016</b>	September 30, 2015
Reclamation bond <sup>(1)</sup>	<b>\$ 1,000</b>	\$ 1,000

<sup>(1)</sup> A term deposit in the amount of \$1,000 is being held in trust as a reclamation bond for the Department of Mines of British Columbia.

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**5. Exploration and Evaluation Assets**

On September 23, 2015, the Company entered into a binding letter agreement with Global Gems International Limited (“Global Gems”) for an option to acquire 50% of the issued and outstanding shares of Global Gems (the “Option”) and thereby attain 50% of a 45% interest in the Dala project, which 50% interest shall be held by Global Gems on behalf of the Company. The Dala project is located south of Saurimo, the capital of the Lunda Sul Province in Angola. In exchange for the Option, the Company has agreed to, over a two-year period, raise an aggregate cash of US\$800,000, issue an aggregate 2,750,000 common shares of the Company to the vendors and contribute an aggregate US\$5,000,000 towards the exploration expenditures.

On March 29, 2016, the Company's letter agreement with Global Gems International Ltd. (“Global Gems”) for an option to acquire 50 per cent of the issued and outstanding shares of Global Gems has been terminated. Concurrently, the company has entered into a new agreement with Global Gems for an option to acquire 91.5 per cent of the issued and outstanding shares of Global Gems and thereby attain 91.5 per cent of a 45-per-cent interest in the Dala project. The terms of the agreement were amended to the following terms:

- Make total cash option payment of \$800,000 (USD) due as follows:
  - USD \$300,000 to be paid no later than August 31, 2016 (\$300,000 USD [\$390,100 CAD] payment made prior to August 31, 2016 during year ended September 30, 2016).
  - US \$250,000 to be paid upon the Company receiving approval from the TSX Venture Exchange and which payment shall signify that the Company exercises the Option and that the Agreement has become final (the Company has not yet obtained approval from the TSX Venture Exchange);
  - US \$250,000 to be paid on or before the 2<sup>nd</sup> anniversary of the execution of the letter of intent.
- Issue an aggregate of 5,000,000 common shares of the Company to the vendors upon receiving approval from the TSX Venture Exchange;
- Contribute an aggregate US\$4,700,000 towards the exploration expenses.

**6. Share Capital**

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

During the year ended September 30, 2016, the Company:

- i) completed the first tranche of its non-brokered private placement on May 30, 2016 through the issuance of 16,120,000 units at a price of \$0.05 per unit for gross proceeds of \$806,000. Each unit consists of one common share and one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company for a term of two years from the date of closing at a price of 15 cents per share. All of the securities issued under the private placement are subject to a four-month hold period expiring October 1, 2016. A finder's fee of \$52,750 was paid in connection with the private placement.

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**6. Share Capital – continued**

b) Issued - *continued*

- ii) completed the final tranche of its non-brokered private placement on July 22, 2016 through the issuance of 8,000,000 units at a price of \$0.05 per unit for gross proceeds of \$400,000. Each unit consists of one common share and one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company for a term of two years from the date of closing at a price of 15 cents per share. All of the securities issued under the private placement are subject to a four-month hold period expiring November 23, 2016. A finder's fee of \$7,500 was paid in connection with the private placement.

During the year ended September 30, 2015, the Company:

- i) completed a private placement on January 20, 2015, for the sale of 7,020,000 units for gross proceeds of \$351,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the company for a term of two years from the date of issuance at a price of 10 cents per share. The Company paid a finder's fee of \$32,000.
- ii) completed a private placement on March 3, 2015, for the sale of 6,000,000 units for gross proceeds of \$300,000. Each unit consisted of one common share and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company for a term of two years from the date of issuance at a price of 10 cents per share. The Company paid a finder's fee of \$13,800 and issued 127,273 common shares.
- c) Share purchase warrants

Share purchase warrants activities for the years ended September 30, 2016 and 2015 were as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining in Years
<b>Balance, September 30, 2014</b>	590,000	\$2.90	0.55
Expired	(590,000)	\$2.90	-
Issued	6,510,000	\$0.10	
<b>Balance, September 30, 2015</b>	6,510,000	\$0.10	1.36
Issued	24,120,000	\$0.15	
<b>Balance, September 30, 2016</b>	30,630,000	\$0.14	1.42

As at September 30, 2016, the following share purchase warrants were outstanding and exercisable:

Number of Warrants	Exercise Price	Expiring
3,510,000	\$0.10	January 20, 2017
3,000,000	\$0.10	March 3, 2017
16,120,000	\$0.15	May 30, 2018
8,000,000	\$0.15	July 22, 2018
<b>30,630,000</b>		

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**6. Share Capital – continued**

d) Stock Options

The Company has a stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants. The Company has implemented a rolling plan to reserve 10% of issued shares for issuance. Under the plan, the exercise price of each option is set on the date of grant at no less than the Discount Market Price of the Company's stock as determined per the TSX Venture Exchange policy. Options granted under the plan have a term not to exceed ten years and are subject to vesting provisions as determined by the board of directors.

On July 27, 2016, the Company granted a total of 2,100,000 stock options to certain director and consultants. These options are exercisable for up to three years at a price of \$0.15 per share. The company recognized a stock-based compensation of \$96,313 (2015 - \$138,244) for the stock options vested.

The Company used the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	Granted July 27, 2016
Number of options	2,100,000
Dividend rate	0%
Risk-free interest rate	0.59
Expected life	3 Years
Expected volatility	102.20%
Exercise price	\$0.15
Expiry date	July 27, 2019
Fair value per option	\$0.0459
Share-based compensation	\$96,313

On March 9, 2015 (for the year ended September 30, 2015), the Company granted a total of 1,000,000 stock options to certain director and consultants. These options are exercisable for up to three years at a price of \$0.15 per share. The company recognized a stock-based compensation of \$138,244 (2014 - \$nil) for the stock options vested.

The Company used the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	Granted March 9, 2015
Number of options	1,000,000
Dividend rate	0%
Risk-free interest rate	0.46
Expected life	3 Years
Expected volatility	289.40%
Exercise price	\$0.15
Expiry date	March 9, 2018
Fair value per option	\$0.1382
Share-based compensation	\$138,244

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**6. Share Capital - *continued***

d) Stock Options – *continued*

As at September 30, 2016, the following stock options were outstanding and exercisable:

	Number of Options	Exercise Price	Expiring
	1,000,000	\$0.15	March 9, 2018
	2,100,000	\$0.15	July 27, 2019
	3,100,000		

**7. Financial Instruments and Risk Management**

The Company's financial instruments include cash, accounts payable and accrued liabilities and due to related parties. The carrying values of these financial instruments approximate their fair value due to their short-term maturity. Cash is the only financial asset that is measured at fair value subsequent to initial recognition, which is measured based on level 1 input of the fair value hierarchy.

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

a) *Credit Risk*

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's cash is held in a major Canadian financial institution which is considered to have high creditability. The Company's amounts receivable are from a government agency thus the collection is considered assured. Management believes that the Company have no significant credit risk.

b) *Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with its financial liabilities as they fall due. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short-term business requirements for a minimum of twelve months. The Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures.

As of September 30, 2016, the Company does not have sufficient cash and highly liquid investments on hand to meet current liabilities and its expected administrative requirements for the coming year. As at September 30, 2016, the Company had cash of \$26,364 (September 30, 2015: \$11,169) and total liabilities of \$37,418 (September 30, 2015: \$70,519).

The liabilities mature as follow:

- Accounts payable and accrued liabilities of \$37,418 due within three months

To execute its planned exploration program for the next twelve months, the Company will need to raise additional funds through the issuance of equity or debt instruments or the sale of assets. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and cash equivalents, short term investments and expected exercise of stock options and share purchase warrants.

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**7. Financial Instruments and Risk Management - continued**

*c) Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency and other price risk.

*i - Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balance and periodically short term investments. Due to the short-term nature of these financial instruments, Management believes that risks related to interest rates are not significant to the Company at this time.

*ii - Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has mineral property interests in Tanzania and is exposed to foreign currency risk to the extent it will incur mineral exploration expenditures and certain operating costs in US dollars. The Company does not presently manage currency risks through hedging or other currency management tools.

**8. Related Party Transactions**

The following is a summary of related party transactions that occurred during the year ended September 30, 2016:

- a) Office rent of \$18,000 (2015 - \$18,000) and accounting fees of \$36,000 (2015 - \$36,000) were incurred by the Company and as at September 30, 2016, \$nil (2015: \$Nil) remained payable to a company related to the former CEO of the Company;
- b) Incurred consulting fees of \$60,000 (2015 - \$60,000) and as at September 30, 2016, \$nil (2015 - \$10,000) remained payable to a company owned by a director of the Company;
- c) Incurred consulting fees of \$15,000 (2015 - \$nil) and as at September 30, 2016, \$nil (2015 - \$nil) remained payable to a company owned by a director of the Company;
- d) Consulting fees of \$1,500 (2015 - \$6,000) were incurred and as at September 30, 2016, \$6,000 (2015 - \$4,500) remained payable to a director of the Company;
- e) Consulting fees of \$6,000 (2015 - \$6,000) were incurred and as at September 30, 2016, \$2,500 (2015 - \$4,500) remained payable to a director of the Company;
- f) Accrued accounting fees of \$10,000 (2015 - \$10,000) for accounting services provided by an officer of the Company and as at September 30, 2016, \$2,500 (2015: \$2,500) remained payable.
- g) During the year ended September 30, 2015, related party payables of \$129,465 due to a company related to the CEO, \$14,000 due to a director and \$21,175 due to an officer of the Company, were assigned to and paid to a non-related company.

The above transactions with related parties, occurring in the normal course of operations, were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

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**8. Related Party Transactions - continued**

Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation disclosed above comprised the follow:

	<b>September 30, 2016</b>	September 30, 2015
Key management personnel:		
CEO	<b>\$ 60,000</b>	\$ 60,000
CFO	<b>10,000</b>	10,000
Directors	<b>22,500</b>	12,000
	<b>\$ 92,500</b>	\$ 82,000

**9. Income Taxes**

A reconciliation of income tax provision at statutory rates to the reported income tax provision is as follows:

	<b>2016</b>			2015
	<b>Canada</b>	<b>Tanzania</b>	<b>Consolidated</b>	Consolidated
Loss for the year	<b>\$ (594,446)</b>	<b>\$ -</b>	<b>\$ (594,446)</b>	\$ (504,870)
Income tax (recovery at statutory rates):				
(2016 – 26.0%; 2015 – 26.0%)	<b>(154,555)</b>	-	<b>(154,555)</b>	(131,266)
Deductibles expenses, net	<b>19,443</b>	-	<b>19,443</b>	25,335
Unrecognized benefits of non-capital losses	<b>135,112</b>	-	<b>135,112</b>	105,931
Total income taxes	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	\$ -

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	<b>2016</b>			2015
	<b>Canada</b>	<b>Tanzania</b>	<b>Consolidated</b>	Consolidated
Non-capital losses carried forward	<b>\$ 1,362,000</b>	<b>\$ -</b>	<b>\$ 1,362,000</b>	\$ 1,440,000
Mineral properties	<b>3,373,000</b>	-	<b>3,373,000</b>	3,230,000
Equipment	<b>23,000</b>	-	<b>23,000</b>	23,000
	<b>4,758,000</b>	-	<b>4,758,000</b>	4,693,000
Valuation allowance	<b>(4,758,000)</b>	-	<b>(4,758,000)</b>	(4,693,000)
Net deferred income tax assets	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	\$ -

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**9. Income Taxes - *continued***

Deferred tax benefits, which may arise as a result of these losses and other tax assets, have not been recognized in these consolidated financial statements due to the uncertainty of their realization.

At September 30, 2016, the Company had approximately \$5,239,000 of accumulated non-capital losses which can be applied to reduce future taxable income. Unless utilized, these losses will expire between tax years 2016 and 2036. In addition, the Company has discretionary deduction pools for resource related expenditures and equipment balances with a tax basis exceeding net book value. The possible future benefit to the Company of utilizing these losses and deductions has not been recognized in these consolidated financial statements. The non-capital losses expire as follows:

<u>Year of Expiry</u>		<u>Amount</u>
2016	\$	410,000
2027		778,000
2028		516,000
2029		492,000
2030		622,000
2031		646,000
2032		411,000
2033		229,000
2034		208,000
2035		407,000
2036		<u>520,000</u>
		<u>\$ 5,239,000</u>

**10. Capital Disclosures**

The Company's objectives when managing capital are to raise the necessary equity financing to fund its exploration projects and to manage the equity funds raised which best optimizes its exploration programs and the interests of its equity shareholders at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity.

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 raise additional equity funds and acquire new exploration properties as circumstances dictate.

There were no changes in the Company's approach to capital management during the year ended September 30, 2016. The Company is not subject to externally imposed capital requirements.

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**11. Events after the Reporting Date**

Subject to regulatory approval, on January 23, 2017, the Company entered into an agreement (the “Amendment Agreement”) with Global Gems International Limited (“Global Gems”) to amend its existing arrangement (see Note 5) for the earn-in of an interest in the Dala diamond exploration Project in the Lunda Sul Province in Angola.

Under the Amendment Agreement the Company may acquire 88% of Global Gems’s 45% interest in the restructured Dala Project by paying to Global Gems the amounts of US\$300,000 on or before each of the 3<sup>rd</sup> and 4<sup>th</sup> anniversaries of TSX Venture approval and US\$400,000 on or before the 5<sup>th</sup> anniversary of such approval. The Company would also be required to incur US\$13,000,000 in exploration and development expenditures over 5 years (US\$3,000,000 for each of year 1 (which must be raised and paid by May 31, 2017) and year 2, US\$2,000,000 for year 3, and US\$2,500,000 for each of years 4 and 5). The US\$300,000 already provided to Global Gems as start-up capital would be credited against year 1 expenditures. The Company shall be entitled to a share of any revenues generated from saleable products, if any, from the property prorated to the proportion of expenditures spent to the total expenditures to be spent under the Amendment Agreement.

The Company will also be required issue to the principals of Global Gems 30,000,000 shares (10,000,000 shares on each of the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> anniversaries of TSX Venture approval). After completing the private placement of not less than CDN\$500,000, the Company will pay to Global Gems the amount of US\$150,000 (the “Payment”), which also will be credited against year 1 expenditures.

Accordingly, the Company intends to carry out a private placement (the “Financing”) to raise proceeds of up to CDN\$500,000 from the sale of up to 10,000,000 units at a price of CDN\$0.05 per unit. Each unit will consist of one common share and one non-transferable share purchase warrant for the purchase of one further common share of the Company within two years of the date of grant at the price of \$0.15 per such common share.

The funds raised will be used for Company working capital, the Payment, and the preparation of legal documents and regulatory approval costs related to the closing of the Amending Agreement. The Financing is subject to regulatory approval and customary resale restrictions. A maximum allowable finder’s fee for funds raised may be payable in cash, shares or warrants in accordance with the policies of the TSX Venture Exchange.