

MK2 Ventures Ltd.

Financial Statements

For the years ended June 30, 2017 and 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF MK2 VENTURES LTD.

We have audited the accompanying financial statements of MK2 Ventures Ltd., which comprise the statements of financial position as at June 30, 2017 and 2016 and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position MK2 Ventures Ltd. as at June 30, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
September 13, 2017

MK2 Ventures Ltd.
Statements of Financial Position
(Expressed in Canadian Dollars)

As at	June 30, 2017		June 30, 2016
ASSETS			
Current assets			
Cash	\$	1,007,154	\$ 4,296
Restricted cash (note 8)		-	650,000
GST receivable		959	1,042
TOTAL ASSETS	\$	1,008,113	\$ 655,338
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities (notes 6 & 14)	\$	32,861	\$ 148,631
Loans payable (notes 7 & 14)		-	44,306
TOTAL LIABILITIES		32,861	192,937
SHAREHOLDERS' EQUITY			
Share capital (note 8)		54,943,504	53,639,323
Common share subscriptions receipts (notes 8)		-	650,000
Reserves (note 9)		-	107,400
Accumulated deficit		(53,968,252)	(53,934,322)
TOTAL SHAREHOLDERS' EQUITY		975,252	462,401
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	1,008,113	\$ 655,338

These financial statements were authorized for issue by the Board of Directors on September 13, 2017. They are signed on behalf of the Board of Directors by:

"David Patterson"
Director

"Colin Watt"
Director

The accompanying notes form an integral part of these financial statements.

MK2 Ventures Ltd.
Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

For the years ended	June 30, 2017	June 30, 2016
EXPENSES		
General and administrative costs	\$ 14,031	\$ 17,890
Management fees (note 14)	60,000	60,000
Professional fees (note 14)	46,350	31,670
Shareholder information and investor relations	5,154	28,046
Transfer agent, regulatory and listing fees	21,014	17,304
	146,549	154,910
OTHER EXPENSES (INCOME)		
Foreign exchange loss	11	20
Gain on settlement of debt (notes 6 & 8)	(5,230)	(31,440)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	\$ 141,330	\$ 123,490
Basic and diluted loss per share for the year	\$ 0.01	\$ 0.09
Weighted average number of common shares outstanding	13,163,668	1,317,926

The accompanying notes form an integral part of these financial statements.

MK2 Ventures Ltd.
Statements of Cash Flows
(Expressed in Canadian Dollars)

For the years ended	June 30, 2017	June 30, 2016
Cash flows provided from (used by):		
OPERATING ACTIVITIES		
Net loss for the year	\$ (141,330)	\$ (123,490)
Adjustments for item not affecting cash:		
Gain on settlement of debt (note 8)	(5,230)	(31,440)
	(146,560)	(154,930)
Net changes in non-cash working capital items:		
Accounts receivable and prepaid expenses	83	8,200
Accounts payable and accrued liabilities (notes 6 & 14)	(96,157)	104,651
Net cash flows used in operating activities	(242,634)	(42,079)
FINANCING ACTIVITIES		
Cash received from loan	-	6,250
Cash received from related party loan	-	38,056
Repayment of loan (note 7)	(6,250)	-
Repayment of related party loan (note 7)	(38,056)	-
Proceeds on warrants exercised (note 8)	650,000	-
Share issue costs (note 8)	(10,202)	-
Share subscriptions received	-	650,000
Net cash flows provided from financing activities	595,492	694,306
Net increase in cash	352,858	652,227
Cash, beginning of year	654,296	2,069
Cash, end of year	\$ 1,007,154	\$ 654,296

Supplemental Disclosures with Respect to Cash Flows

Shares issued for share subscription received	\$ 650,000	\$ -
Shares issued for debt settlement	\$ 14,383	\$ -

The accompanying notes form an integral part of these financial statements.

MK2 Ventures Ltd.
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share capital				Reserves					
	Number of shares	Amount	Subscription receipts	Options	Warrants	Total	Accumulated deficit	Total		
Balance at June 30, 2015	1,317,926	\$ 53,639,323	\$ -	\$ 1,555,123	\$ 336,131	\$ 1,891,254	\$ (55,594,686)	\$ (64,109)		
Reclassification of grant-date fair value on cancelled options	-	-	-	(1,520,723)	-	(1,520,723)	1,520,723	-		
Reclassification of grant-date fair value on expired brokers warrants	-	-	-	-	(263,131)	(263,131)	263,131	-		
Share subscriptions	-	-	650,000	-	-	-	-	650,000		
Net loss for the year	-	-	-	-	-	-	(123,490)	(123,490)		
Balance at June 30, 2016	1,317,926	53,639,323	650,000	34,400	73,000	107,400	(53,934,322)	462,401		
Reclassification of grant-date fair value on expired brokers warrants	-	-	-	-	(73,000)	(73,000)	73,000	-		
Reclassification of grant-date fair value on expired stock options	-	-	-	(34,400)	-	(34,400)	34,400	-		
Shares issued for cash – private placement	13,000,000	650,000	(650,000)	-	-	-	-	-		
Shares issued for cash – warrants exercised	13,000,000	650,000	-	-	-	-	-	650,000		
Shares issued for debt	65,377	14,383	-	-	-	-	-	14,383		
Share issuance costs	-	(10,202)	-	-	-	-	-	(10,202)		
Net loss for the year	-	-	-	-	-	-	(141,330)	(141,330)		
Balance at June 30, 2017	27,383,303	\$ 54,943,504	\$ -	\$ -	\$ -	\$ -	\$ (53,968,252)	\$ 975,252		

The accompanying notes form an integral part of these financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

MK2 Ventures Ltd. (the "Company" or "MK2") was incorporated under the provincial laws of Alberta on July 24, 1989 and continued in the province of British Columbia on March 31, 2006. The Company's registered office is located at Suite 1100 – 1111 Melville Street, Vancouver, BC, V6E 3V6. The Company is listed on the NEX Exchange, a branch of the TSX Venture Exchange (the "Exchange") and trades under the symbol "MK-H".

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operation in the foreseeable future and will be able to realize its assets and settle its liabilities in the normal course of business. At June 30, 2017, the Company had cash of \$1,007,154 (2016 - \$654,296) and working capital of \$975,252 (2016 - \$462,401). The Company currently has no active business and is not generating any revenues. It has incurred losses and negative cash flows from operations since inception and had an accumulated deficit of \$53,968,252 as at June 30, 2017 (2016 - \$53,934,322). Whether and when the Company can obtain profitability and positive cash flows from operations is uncertain. These uncertainties cast significant doubt on the ability of the Company to continue as a going concern.

The Company's ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements. While the Company has been successful in raising equity in the past, there can be no guarantee that it will be able to raise sufficient funds to fund its activities and general and administrative costs in the next twelve months and in the future. These financial statements do not give effect to the required adjustments to the carrying amounts and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of compliance

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

(b) Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss ("FVTPL"), which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The significant accounting policies, as disclosed, have been applied consistently to all periods presented in these financial statements.

(c) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar. All amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated.

(d) Significant accounting judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make certain critical accounting estimates and assumptions about the future and to exercise judgment in applying the Company's accounting policies. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. The impacts of changes to estimates are recognized in the period estimates are revised and in future periods affected. The critical judgments and assumptions made by management and other major sources of measurement uncertainty are discussed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements are as follows:

(a) Foreign currency transactions

Transactions in currencies other than the Canadian dollar ("foreign currencies"), the Company's functional currency is recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are denominated in foreign currencies and measured at other than fair value are translated using the rates of exchange at the transaction dates. Foreign exchange gains and losses are included in net loss for the period.

(b) Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party to the contractual provision of the financial instrument. On initial recognition, all financial assets and financial liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as FVTPL. The directly attributable transaction costs of financial assets and liabilities classified as FVTPL are expensed in the period in which they are incurred.

Subsequent measurement of financial assets and liabilities depends on the classifications of such assets and liabilities as set out below.

Financial assets

The Company classifies its financial assets into one of the following categories:

Fair value through profit or loss – Financial assets are classified as FVTPL when: (i) they are acquired or incurred principally for short-term profit-taking and/or meet the definition of a derivative; or (ii) they meet the criteria for being designated as FVTPL and have been designated as such on initial recognition. The Company's cash and restricted cash is designated as FVTPL. Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in profit or loss.

Loans and receivables – Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Financial assets classified as loans and receivables are measured at amortized cost. The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility. The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the effective interest income or interest expense over the term of the financial asset or financial liability, respectively.

Held-to-maturity – Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity are classified as held-to-maturity. Financial assets classified as held-to-maturity are measured at amortized cost using the effective interest method.

Available-for-sale – Non-derivative financial assets that are not classified as one of the above categories are classified as available-for-sale. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income.

Impairment of financial assets

At the end of each reporting period, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired.

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative losses that have been previously recognized in other comprehensive income are reclassified to net loss for the period. Impairment losses previously recognized for available-for-sale investments in equity securities are not subsequently reversed in profit or loss when the fair values of the investments increase.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial instruments (continued)

Impairment of financial assets (continued)

When there is objective evidence that an impairment loss on a financial asset measured at amortized cost has been incurred, an impairment loss is recognized in net loss for the period measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's effective interest rate at initial recognition. Individually significant loans and receivables are considered for impairment when they are past due or when there is objective evidence that a specific counterparty will default.

Objective evidence of impairment of held-to-maturity financial assets is determined by reference to external credit ratings and other relevant indicators.

Financial liabilities

The Company classifies its financial liabilities into one of the following two categories:

Fair value through profit or loss – Financial liabilities are classified as at FVTPL when: (i) they are acquired or incurred principally for short-term profit-taking and/or meet the definition of a derivative; or (ii) they meet the criteria for being designated as at FVTPL and have been designated as such on initial recognition. Financial liabilities classified as at FVTPL are measured at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities – Financial liabilities other than those classified as at FVTPL are classified as other financial liabilities. Other financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities include accounts payable and accrued liabilities and loans payable.

(c) Share capital

Common shares

Common shares issued are classified as share capital, a component of equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from share capital.

Equity units

Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated using the residual value method. Under the residual value method, proceeds are allocated to the common shares up to their fair value, determined by reference to the quoted market price of the common shares on the issuance date, and the balance, if any, to the reserve for warrants.

(d) Share options and warrants

All share options and warrants are included in reserves, a component of equity, until exercised. Upon exercise, the consideration received plus the amounts in reserves attributable to the options and/or warrants being exercised are credited to share capital. When share options and warrants expire unexercised or are cancelled, other than cancellations resulting from forfeitures when vesting conditions are not satisfied, the amounts recognized in reserves are reclassified to accumulated deficit.

(e) Share-based payments

Share-based payment arrangements whereby the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

If the fair value of the goods and services received cannot be estimated reliably, the share-based payment transaction is measured by reference to the fair value of the equity instruments issued as follows.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Share-based payments (continued)

The fair value of options granted to employees, officers, directors and consultants providing similar services that are expected to eventually vest is recognized as share-based compensation expense over the vesting period with a corresponding increase in equity. The fair value is estimated using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted and using market related inputs as of the grant date. Each tranche of options granted with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Changes to the estimated number of options that will eventually vest are accounted for prospectively at the end of each reporting date.

Equity instruments issued as consideration for the purchase of non-monetary assets are measured based on the quoted market price of the common shares on the date the shares are issued.

Share-based payments granted to non-employees that are related to the issuance of shares are accounted for as share issue costs and recorded as a deduction from share capital.

(f) Income taxes

Income tax on profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on taxable income for the period.

Deferred tax is provided for using the asset and liability method of accounting, whereby deferred tax assets and liabilities are recognized for the future tax effects of differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the tax bases of the assets and liabilities (temporary differences), unused tax losses and other income tax deductions. Temporary differences on the initial recognition of assets or liabilities that affect neither accounting nor taxable profit or loss are not provided for. Deferred tax assets and liabilities are measured based on the expected manner of realization or settlement of the carrying amounts of the related assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date. Deferred tax assets are recognized for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that future taxable profits will be available against which those deductible temporary differences, unused tax losses and other income tax deductions can be utilized.

Income tax on profit or loss comprises current and deferred tax. Income tax is recognized in profit or loss, except 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 the Company intends to settle its current tax assets and liabilities on a net basis.

(g) Loss per share

Loss per share is calculated by dividing loss attributable to common shareholders of the Company by the weighted average number of shares outstanding during the period. Diluted loss per share is determined by adjusting loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The calculation of diluted loss per share excludes the effects of various conversions and exercises of options and warrants that would be anti-dilutive.

4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments

The critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements are as follows:

Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The key assumptions management has made about the future and other major sources of estimation uncertainty at the date of the statement of financial position that have significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Income taxes

The Company recognizes deferred tax assets for deductible temporary differences, unused tax losses and other income tax deductions only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and other income tax deductions can be utilized. In assessing the probability of realizing the income tax benefits of deductible temporary differences, unused tax losses and other income tax deductions, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence.

As at June 30, 2017 and 2016, the Company has not recognized any deferred tax assets for deductible temporary differences. Changes in any of the above-mentioned estimates can materially affect the amount of income tax assets recognized. In addition, where applicable tax laws and regulations are either unclear or subject to varying interpretations, changes in these estimates can occur that materially affect the amounts of income tax assets recognized. The Company reassesses unrecognized income tax assets at the end of each reporting period.

5. ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Company has reviewed the following new and amended accounting pronouncement that has been issued by the IASB, but is not yet effective.

The Company has not early-adopted these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Annual Improvements to IFRS Standards 2014-2016 Cycle – This amendment provides revisions to the following standards issued by the IASB in December 2016:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – The amendments remove some short-term exemptions for first-time adopters.
- IFRS 12 *Disclosure of Interests in Other Entities* – The amendments clarify that the disclosure requirements in the standard apply to interests in entities within the scope of
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IAS 28 *Investments in Associates and Joint Ventures* – The amendments clarify that the election available to some types of investment entities to measure investees at fair value through profit or loss at initial recognition is applied on an investment-by-investment basis. The amendments also clarify that an entity that is not an investment entity decides on an investment-by-investment basis whether to retain the fair value measurements applied by its associates and joint ventures that are investment entities.

The amendments are effective for annual periods beginning on or after July 1, 2018.

5. ACCOUNTING STANDARDS NOT YET EFFECTIVE (continued)

IFRS 9 Financial Instruments – This standard provides added guidance on the classification and measurement of financial liabilities. The standard is effective for annual periods beginning on or after July 1, 2018.

IAS 7 Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*) – These amendments require that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. These amendments are effective for reporting periods beginning on or after July 1, 2017.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At June 30, 2017 and 2016, the Company's accounts payable and accrued liabilities are comprised of the following:

	June 30, 2017	June 30, 2016
Trade payables and accrued liabilities	\$ 17,525	\$ 50,613
Due to related parties (note 14)	15,336	98,018
	\$ 32,861	\$ 148,631

During the year ended June 30, 2017, the Company settled accounts payable of \$19,613 (2016 - \$31,440), resulting in a gain of \$5,230 (2016 - \$31,440).

7. LOANS

During the year ended June 30, 2017, the Company repaid \$44,306 in loans, which were non-interest-bearing and payable on demand.

	June 30, 2017	June 30, 2016
Due to a private corporation	\$ -	\$ 6,250
Due to related parties (note 14)	-	38,056
	\$ -	\$ 44,306

8. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

Effective August 6, 2015, the Company consolidated its issued and outstanding common shares, stock options and outstanding warrants on the basis of one post-consolidation common share for every fifteen pre-consolidation common shares.

Effective June 27, 2016, the Company further consolidated its issued and outstanding common shares, stock options and outstanding warrants on the basis of one post-consolidation common share for every two pre-consolidation common shares.

As a result of the share consolidations, the number of shares, options and warrants presented in these financial statements and the exercise price for each option and warrant, and the calculated weighted average number of common shares issued and outstanding for the purpose of loss per share calculation are based on the post-consolidation shares for all years presented.

8. SHARE CAPITAL (continued)

(b) Issued

On June 27, 2016, the Company raised \$650,000 through the distribution of 13,000,000 subscription receipts at \$0.05 per receipt. On July 4, 2016 and August 24, 2016, the Company issued 3,575,000 and 9,425,000 units, respectively, upon conversion of these subscription receipts for no additional consideration. Each unit is comprised of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.05 for a period of twelve months following the date of issuing the subscription receipts. The cash proceeds were held in trust and were classified as restricted cash as at June 30, 2016. The use of the restricted cash balance was dependent on the Company receiving Exchange approval of the private placement and a change in control resulting therefrom. During the year ended June 30, 2017, the Company received Exchange approval and the cash proceeds held in trust were no longer classified as restricted. In connection with the shares issuance, the Company incurred \$10,202 in share issue costs.

On September 22, 2016, the Company issued 65,377 common shares to settle \$19,613 of director fees payable to former directors of the Company. The fair value of the shares was measured on the date of extinguishment of debt at \$0.22 per share. A gain on settlement of debt of \$5,230 was recognized in the statement of loss and comprehensive loss.

On April 19, 2017, June 8, 2017 and June 27, 2017, the Company issued 700,000, 300,000 and 12,000,000 common shares pursuant to the exercise of warrants for total gross proceeds of \$650,000.

9. OPTIONS AND WARRANTS

(a) Options

The Company has a stock option plan whereby a maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The terms of the options granted are fixed by the Board of Directors, and are not to exceed ten years. The exercise prices of the options are determined by the Board of Directors, but shall not be less than the closing price of the Company's common shares on the day preceding the day on which the options are granted, less any discount permitted by the Exchange.

Options granted under the plan may vest immediately on grant, or over a period as determined by the Board of Directors or, in respect of options granted for investor relations services, as prescribed by Exchange policy.

A continuity schedule of the Company's outstanding stock options for the years ended June 30, 2017 and 2016 are as follows:

	June 30, 2017		June 30, 2016	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	2,168	\$ 20.09	181,234	\$ 22.90
Expired / Cancelled	(2,168)	(20.09)	(179,066)	22.94
Outstanding, end of year	-	\$ -	2,168	\$ 20.09

On July 10, 2014, the Company granted 64,833 stock options to its officers, directors and consultants with an exercise price of \$7.50 per share with a total fair value of \$372,514 on the date of grant. All the options vested immediately at the grant date. During the year ended June 30, 2016, 63,216 of these options were cancelled and was adjusted from the option reserve to accumulated deficit. During the year ended June 30, 2017, 334 options expired (2016 – 265) and 1,834 options were cancelled (2016 – 88,184) upon resignation of the officer and as a result \$34,400 (2016 - \$1,520,723) was adjusted from the option reserve to accumulated deficit.

9. OPTIONS AND WARRANTS (continued)

(a) Options (continued)

At June 30, 2017, the Company had no stock options outstanding and exercisable to acquire common shares of the Company.

At June 30, 2016, the Company had stock options outstanding and exercisable to acquire common shares of the Company as follows:

Expiry date	Options outstanding	Options exercisable	Exercise price	Weighted average remaining contractual life (in years)
December 6, 2016	334	334	\$ 63.00	0.44
July 18, 2017	167	167	\$ 60.00	1.05
July 10, 2019	1,667	1,667	\$ 7.50	3.03
	2,168	2,168		2.48

(b) Warrants

A continuity schedule of the Company's outstanding common share purchase warrants for the years ended June 30, 2017 and 2016 is as follows:

	June 30, 2017		June 30, 2016	
	Number outstanding	Weighted average exercise price	Number outstanding	Weighted average exercise price
Outstanding, beginning of year	60,833	\$ 8.40	546,683	\$ 10.00
Issued	13,000,000	0.05	-	-
Exercised	(13,000,000)	(0.05)	-	-
Expired	(60,833)	(8.40)	(485,850)	10.18
Outstanding, end of year	-	\$ -	60,833	\$ 8.40

During the year ended June 30, 2017, 60,833 (2016 – 485,850) warrants expired, and as a result \$73,000 (2016 - \$263,131) was adjusted from the warrant reserve to accumulated deficit.

At June 30, 2017, the Company had no outstanding common share purchase warrants.

At June 30, 2016, the Company had outstanding common share purchase warrants exercisable to acquire common shares of the Company as follows:

Expiry date	Warrants outstanding	Exercise price	Weighted average remaining contractual life (in years)
August 26, 2016	60,833	\$ 8.40	0.16

10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to continue its business and maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. The Company's capital includes the components of its shareholders' equity (deficiency).

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash. In order to preserve cash, the Company does not pay any dividends.

The Company's investment policy is to invest its cash in highly liquid investments, which are readily convertible into known amounts of cash with maturities of one year or less from the original date of acquisition or when it is needed, and selected with regard to the expected timing of expenditures from continuing operations.

The Company is not subject to any externally imposed capital requirements. The Company did not change their capital management approach during the year ended June 30, 2017.

The Company's ability to continue its operations is dependent on its success in raising equity through share issuances, suitable debt financing and/or other financing arrangements.

11. INCOME TAXES

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

	June 30, 2017	June 30, 2016
Net loss for the year	\$ (141,330)	\$ (123,490)
Canadian federal and provincial statutory income tax rate	26.00%	26.00%
Income tax benefit based on Canadian statutory income tax rates	(36,746)	(32,107)
Effects of the following:		
Over provided in prior years	-	2,165,762
Non-deductible expenditures	140	-
Changes in unrecognized deferred tax assets	40,899	(2,125,485)
Changes in timing differences	(4,293)	(8,170)
Income tax benefit	\$ -	\$ -

At June 30, 2017 and 2016, the Company had deductible temporary differences and unused tax losses for which no deferred tax assets have been recognized as follows:

	June 30, 2017	June 30, 2016
Non-capital loss carry-forwards	\$ 9,081,945	\$ 9,652,900
Deductible temporary differences relating to:		
Mineral property, plant and equipment	4,210,841	4,210,841
Share issue cost	117,086	214,923
Capital losses	16,484,660	3,183,585
Other	221	108
	\$ 29,894,753	\$ 17,262,357

11. INCOME TAXES (continued)

The Canadian non-capital losses at June 30, 2017 expire as follows:

Expiry date	Amount
2026	\$ 759,200
2027	1,165,500
2028	55,700
2029	1,046,800
2031	1,111,900
2032	1,530,000
2033	811,800
2034	1,056,800
2035	940,600
2036	348,700
2037	255,000
	\$ 9,082,000

12. FINANCIAL INSTRUMENTS

(a) Classifications

The Company's financial assets and liabilities are classified as follows:

	June 30, 2017	June 30, 2016
Financial assets:		
<i>Fair value through profit and loss</i>		
Cash	\$ 1,007,154	\$ 654,296
Financial liabilities:		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	\$ 32,861	\$ 148,631
Loans payable	-	6,250
Loan from related party	-	38,056
	\$ 32,861	\$ 192,937

The amount of accounts receivable and accounts payable and accrued liabilities includes amounts due to and from related parties and excludes sales tax receivable.

(b) Fair value information

The fair values of the Company's cash, restricted cash, and accounts payable and accrued liabilities and loans payable approximate their carrying amounts due to the short-term nature of these instruments.

IFRS 7 *Financial Instruments: Disclosures* establishes a fair value hierarchy that reflects the significance of inputs used in measuring fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs)

At June 30, 2017 and 2016, the Company had no financial assets measured and recognized on the statement of financial position at fair value belonging in Level 2 or Level 3 of the fair value hierarchy.

12. FINANCIAL INSTRUMENTS (continued)

(c) Financial instrument risk exposure

The Company's financial instruments expose the Company to certain financial risks, including credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risk.

(i) 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. At June 30, 2017, the Company's cash exposes the Company to credit risk.

The Company's cash is held with high credit quality financial institutions in Canada. At June 30, 2017, management considers its exposure to credit risk with respect to receivables to be low.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk by maintaining adequate cash and managing its capital (note 10). At June 30, 2017, the Company had cash of \$1,007,154 (2016 - \$654,296), a loan payable of \$nil (2016 - \$44,306), and accounts payable and accrued liabilities of \$32,861 (2016 - \$148,631) with contractual maturities of less than one year.

(iii) Market risk

Market risk consists of interest rate risk, foreign currency risk and other price risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and

(ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate cash flow risk due to their short-term nature and maturity.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that it has monetary assets and liabilities denominated in foreign currencies. As at June 30, 2017, the Company is not exposed to currency risk as all balances are denominated in Canadian dollars.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. As at June 30, 2017, the Company is not exposed to significant other price risk.

13. SEGMENTED INFORMATION

As at June 30, 2017 and 2016, the Company did not have any reportable operating segments.

14. RELATED PARTY TRANSACTIONS

The Company's related parties consist of its key management personnel, including its directors; officers and the following companies with common directors or officers:

Related party	Nature of transactions
Elysian Enterprises Ltd.	Management fees
Fehr & Associates	Bookkeeping and professional services
Owen Bird Law Corporation	Legal and professional services

During the normal course of business, the Company enters into transactions with its related parties that are considered to be arm's length transactions and made at normal market prices and on normal commercial terms.

(a) Key management compensation for the years ended June 30, 2017 and 2016 were as follows:

	For the years ended	
	June 30, 2017	June 30, 2016
Short-term benefits	\$ 65,106	\$ 71,971

- (b) During the year ended June 30, 2017, the Company incurred \$4,311 (2016 - \$7,845) for bookkeeping services and \$5,106 (2016 - \$11,971) for professional services provided by Fehr & Associates, an entity controlled by the Company's former Chief Financial Officer. Amounts owing to this entity at June 30, 2016 was \$12,505 and is included in accounts payable and accrued liabilities. As at June 30, 2017, this entity is no longer a related party.
- (c) During the year ended June 30, 2017, the Company incurred \$60,000 (2016 - \$60,000) for management fees provided by Elysian Enterprises Ltd., an entity controlled by the Company's Chief Executive Officer. Amounts owing to this entity at June 30, 2017 is \$15,000 (2016 - \$63,000) and is included in accounts payable and accrued liabilities.
- (d) During the year ended June 30, 2017, the Company incurred \$23,877 (2016 - \$nil) for legal fees and \$14,333 (2016 - \$nil) for other professional services provided by Owen Bird Law Corporation, an entity in which a director of the Company is a shareholder. Amounts owing to this entity at June 30, 2017 is \$336 (2016 - \$nil) and is included in accounts payable and accrued liabilities. Additionally, amounts held in trust by this entity at June 30, 2017 is \$nil (2016 - \$653,536).
- (e) At June 30, 2017, the Company had loans payable to related parties of \$nil (2016 - \$38,056).
- (f) At June 30, 2017, the Company had \$nil (2016 - \$22,513) in fees owing to former directors and is included in accounts payable and accrued liabilities.