
ANCONIA RESOURCES CORP.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

(Expressed in Canadian Dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Anconia Resources Corp. (the "Company") are the responsibility of management and the Board of Directors.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it with sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

/s/ Jason Brewster
President and Chief Executive Officer

/s/ Harvey McKenzie
Chief Financial Officer

Toronto, Canada
January 10, 2017

Independent Auditor's Report

To the Shareholders of Anconia Resources Corp.

We have audited the accompanying consolidated financial statements of Anconia Resources Corp. which comprise the consolidated statements of financial position as at September 30, 2016 and 2015 and the consolidated 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 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Anconia Resources Corp., 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 our opinion, we draw attention to note 1 in the consolidated financial statements which describes that the Company will require additional financing in order to fund its planned activities. This condition, along with other matters set out in note 1, indicates the existence of material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern.

Toronto, Canada
January 10, 2017

"Abraham Chan LLP"

Abraham Chan LLP
Chartered Professional Accountants
Licensed Public Accountants

ANCONIA RESOURCES CORP.

Consolidated Statements of Financial Position (Expressed in Canadian Dollars)

| | September 30, 2016 | September 30, 2015 |
|---|-----------------------|-----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 101,083 | \$ 28,339 |
| Amounts receivable and other assets (note 6) | 32,981 | 12,055 |
| Total Current assets | 134,064 | 40,394 |
| Non-Current assets | | |
| Equipment (note 7) | - | 2,307 |
| Exploration and evaluation assets (note 8) | 5,717,232 | 5,659,158 |
| Total Assets | \$ 5,851,296 | \$ 5,701,859 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 9) | \$ 572,471 | \$ 676,651 |
| Flow-through share liabilities | - | 1,600 |
| Loan from related party (note 10) | 26,880 | - |
| Total Liabilities | 599,351 | 678,251 |
| Shareholders' Equity | | |
| Share capital (note 11(b)) | 5,743,384 | 5,174,018 |
| Reserves for share-based payments (note 13(b)) | 1,112,307 | 1,112,307 |
| Reserves for warrants (note 12) | 358,128 | 217,416 |
| Other reserves | 2,516,620 | 2,475,204 |
| Accumulated deficit | (4,478,494) | (3,955,337) |
| Total Shareholders' Equity | 5,251,945 | 5,023,608 |
| Total Liabilities and Shareholders' Equity | \$ 5,851,296 | \$ 5,701,859 |

Nature of operations and going concern (note 1)

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

Approved by the Board of Directors:

Director: Jason Brewster _____

Director: Michael Florence _____

ANCONIA RESOURCES CORP.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars, except number of shares)

| | Year Ended September 30, | |
|--|-----------------------------|-------------------|
| | 2016 | 2015 |
| Expenses | | |
| General and administrative (note 17) | \$ 358,736 | \$ 406,659 |
| Reversal of flow-through share liabilities | (1,600) | (84,291) |
| Foreign exchange loss (gain) | 1,960 | (362) |
| Interest income | (118) | (419) |
| Impairment of exploration and evaluation assets (note 8) | 164,179 | 17,545 |
| Net loss and comprehensive loss for the year | \$ 523,157 | \$ 339,132 |
| Basic and diluted loss per share (note 14) | \$ 0.01 | \$ 0.00 |
| Weighted average number of shares outstanding - basic and diluted | 85,829,616 | 75,043,301 |

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

ANCONIA RESOURCES CORP.

Consolidated Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

| | Reserves | | | | | |
|---|------------------|-------------------------|------------|----------------------------------|------------------------|--------------|
| | Share capital | Share-based payments | Warrants | Other reserves ⁽¹⁾ | Accumulated deficit | Total |
| Balance, September 30, 2014 | \$ 4,983,018 | \$ 1,112,307 | \$ 679,602 | \$ 1,837,018 | \$ (3,616,205) | \$ 4,995,740 |
| Common shares and warrants issued in private placements (note 11(b)) | 176,000 | - | 176,000 | - | - | 352,000 |
| Common shares issued for exploration and evaluation assets (note 11(b)) | 15,000 | - | - | - | - | 15,000 |
| Expiry of warrants (note 12) | - | - | (638,186) | 638,186 | - | - |
| Net loss and comprehensive loss for the year | - | - | - | - | (339,132) | (339,132) |
| Balance, September 30, 2015 | \$ 5,174,018 | \$ 1,112,307 | \$ 217,416 | \$ 2,475,204 | \$ (3,955,337) | \$ 5,023,608 |
| Common shares and warrants issued in private placements (note 11(b)) | 177,468 | - | 182,128 | - | - | 359,596 |
| Common shares issued for exploration and evaluation assets (note 11(b)) | 12,000 | - | - | - | - | 12,000 |
| Common shares issued for debt (note 11(b)) | 379,898 | - | - | - | - | 379,898 |
| Expiry of warrants (note 12) | - | - | (41,416) | 41,416 | - | - |
| Net loss and comprehensive loss for the year | - | - | - | - | (523,157) | (523,157) |
| Balance, September 30, 2016 | \$ 5,743,384 | \$ 1,112,307 | \$ 358,128 | \$ 2,516,620 | \$ (4,478,494) | \$ 5,251,945 |

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

⁽¹⁾ Other reserves include the value of the warrants that had expired unexercised.

ANCONIA RESOURCES CORP.

Consolidated Statements of Cash Flows (Expressed in Canadian Dollars)

| | Year Ended September 30, | |
|--|-----------------------------|------------------|
| | 2016 | 2015 |
| Operating Activities | | |
| Net loss for the year | \$ (523,157) | \$ (339,132) |
| Depreciation | 2,307 | 560 |
| Reversal of flow-through share liabilities | (1,600) | (84,291) |
| Accrued interest on loan from related party (note 10) | 1,880 | - |
| Impairment of exploration and evaluation assets | 164,179 | 17,545 |
| Net change in non-cash working capital: | | |
| Amounts receivable and other assets | (20,926) | 26,796 |
| Accounts payable and accrued liabilities | 275,718 | 192,306 |
| Cash used in operating activities | (101,599) | (186,216) |
| Investing Activities | | |
| Expenditures on exploration and evaluation assets | (210,253) | (266,161) |
| Cash used in investing activities | (210,253) | (266,161) |
| Financing Activities | | |
| Issuance of common shares and warrants | 377,500 | 368,000 |
| Share issue cost | (17,904) | - |
| Proceeds from loan from related party | 25,000 | - |
| Cash provided by financing activities | 384,596 | 368,000 |
| Net change in cash and cash equivalents | 72,744 | (84,377) |
| Cash and cash equivalents, beginning of the year | 28,339 | 112,716 |
| Cash and cash equivalents, end of the year | \$ 101,083 | \$ 28,339 |
| Supplemental cash flow information: | | |
| Common shares issued for exploration and evaluation assets | \$ 12,000 | \$ 15,000 |
| Common shares issued for debt settlement | \$ 379,898 | \$ - |

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

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

1. Nature of operations and going concern

Anconia Resources Corp. ("Anconia" or the "Company") was incorporated under the Business Corporations Act (Ontario) on March 22, 1962 and its activities were directed toward locating exploration and evaluation assets. The primary office of the Company is located at 65 Front Street East, Suite 200, Toronto, Ontario, M5E 1B5, Canada.

These consolidated financial statements were prepared on a going concern basis of presentation, which assumes that the Company will continue operations for the foreseeable future and be able to realize the carrying value of its assets and discharge its liabilities and commitments in the normal course of business. To date, the Company has not earned revenue and has an accumulated deficit of \$4,478,494 as at September 30, 2016 (September 30, 2015 - \$3,955,337). As at September 30, 2016, the Company had cash and cash equivalents of \$101,083 (September 30, 2015 - \$28,339) and a working capital deficit of \$465,287 (September 30, 2015 - working capital deficit of \$637,857). The Company's ability to continue as a going concern is dependent upon its ability to obtain additional financing and or achieve profitable operations in the future. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast substantial doubt upon the Company's ability to continue as a going concern, as described in the following paragraph. These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. These adjustments could be material. Management is actively pursuing funding options, being financing and alternative funding options, required to meet the Company's requirements on an ongoing basis. To meet the challenges of the current climate in the financial markets, the Company is minimizing its expenditures.

These consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS"), which contemplates the realization of assets and the settlement of liabilities in the normal course of business for the foreseeable future as they come due. Management is of the opinion that additional funding is available and may be sourced in time to allow the Company to acquire exploration and evaluation assets. While it has been successful in the past, there can be no assurance that it will be able to raise sufficient funds in the future.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such exploration and evaluation assets, these procedures do not guarantee the Company has a perfected title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, and renegotiation of contracts.

2. Significant accounting policies

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC") of the IASB as of January 10, 2017, the date the Board of Directors approved the statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Anconia Resource Corp. and its wholly owned subsidiaries (2215107 Ontario Inc. ("221"), Bulwark Gold Mills Inc. and Cadillac Ventures (Spain) S.L.U.). All intercompany transactions, balances, income and expenses are eliminated upon consolidation.

Subsidiaries are those entities which Anconia controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Anconia controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Anconia and are de-consolidated from the date that control ceases.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(c) Foreign currency translation

The functional currency, as determined by management, of Anconia and its subsidiaries is the Canadian Dollar. For the purpose of the consolidated financial statements, the results and financial position are presented in Canadian Dollars.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statement of comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) Financial instruments

The Company's financial instruments consist of the following:

Financial assets:

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss for which transaction costs are expensed.

Financial assets are classified into the following categories: 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity', 'available-for-sale' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(i) Financial assets and liabilities at FVTPL: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the consolidated statement of comprehensive loss. Gains and losses arising from changes in fair value are presented in the consolidated statement of comprehensive loss within other gains and losses in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the reporting date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Available-for-sale investments are classified as noncurrent, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of comprehensive loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of comprehensive loss as part of other gains and losses when the Company's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from other comprehensive income to the consolidated statement of comprehensive loss and are included in other gains and losses.

(iii) Held-to-maturity: Financial assets that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and are initially recognized at fair value and subsequently at amortized cost using the effective interest rate method. Transaction costs incurred to acquire held-to-maturity financial instruments are included in the underlying balance.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less impairment, if any.

Financial liabilities:

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.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

The Company's financial instruments consist of the following:

| Financial assets: | Classification: |
|---------------------------|-----------------------------------|
| Cash and cash equivalents | Fair value through profit or loss |
| Amounts receivable | Loans and receivables |

| Financial liabilities: | Classification: |
|--|-----------------------------|
| Accounts payable and accrued liabilities | Other financial liabilities |

Impairment of financial assets:

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been negatively impacted. Examples include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amounts 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 the statements of comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of comprehensive loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

Financial instruments recorded at fair value:

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - valuation techniques based on 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 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). As of September 30, 2016 and 2015, cash and cash equivalents was the Company's only financial instrument that was recorded at fair value on the consolidated statements of financial position and is categorized as level 1 under the fair value hierarchy.

(e) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties. The Company capitalizes costs directly related to the acquisition, exploration and evaluation of mineral properties. Such costs include, but are not restricted to, geological, geophysical, drilling, trenching and sampling costs including the support costs and supplies required in relation thereto. These assets are recorded at cost as adjusted for impairments in value. Impairment is assessed when facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount. In assessing impairment, exploration and evaluation assets are grouped into Cash Generating Units, ("CGU's"), on the basis of areas of interest. Management groups mineral claims that are contiguous and specific to an area that encompasses the same prospective minerals, into one area of interest and assigns a name to this mineral property. Each named mineral property is considered an area of interest and a CGU.

Although not an exhaustive list, one or more of the following facts and circumstances indicate that a specific CGU should be tested for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the financial statement period or will expire in the near future and is not expected to be renewed.
- Substantive expenditures on further exploration for, and evaluation of, mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area has not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or sale.

An impairment loss may be reversed in a situation where there is a change in the circumstances that had initially dictated that impairment had occurred. An example of such a situation might include, but not be limited to, the re-commencement of exploration activity on a mineral property due to a significant change in commodity prices.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(e) Exploration and evaluation assets (continued)

Where the Company's exploration commitments for a CGU are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the CGU to the extent of costs incurred. The excess, if any, is credited to operations. Option payments made by the Company are recorded as exploration and evaluation assets. Options are exercisable entirely at the discretion of the optionee and accordingly, are recorded as exploration and evaluation assets or recoveries when the payments are made or received. The proceeds on the sale of exploration and evaluation assets are applied to the area of interest to the extent of costs incurred and the excess, if any, is credited to operations. In some circumstances option payments received by or made by the Company are made in whole or in part through the issuance of common shares. The value of these payments in shares is calculated using the fair value of the shares on the date of issue.

(f) Impairment of non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets are impaired. Where such an indication exists, the recoverable amount of the asset is estimated. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels of CGU. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use (being the present value of the expected future cash flows of the relevant CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(g) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of financial position comprise cash at banks and guaranteed investment certificates with the maturity term of 90 days or less from the date of acquisition or investment. The Company's cash is invested with major financial institutions in business accounts that are available on demand by the Company for its programs. The Company does not invest in any asset backed deposits/investments.

(h) Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the time value effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no provisions at September 30, 2016 and 2015.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(i) Share based payments

The fair value of share options granted is recognized as an expense 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, including directors of the Company.

The fair value of share-based payments to employees is measured at the grant date and recognized over the period during which the options vest. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The 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 with consideration of forfeiture rate to reflect the actual number of share options that are expected to vest. The Company has no share-based payments capitalized in exploration and evaluation assets. For those options that expire after vesting, the recorded value is retained in the reserve.

(j) Flow-through shares

Flow-through shares are a unique Canadian tax incentive. Using IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors*', the Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A flow-through share premium liability is recognized for the premium paid by the investors and is then recognized in the statement of comprehensive loss in the period expenditure requirements are met.

(k) Income taxes

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statements of comprehensive loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to taxable temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(l) Restoration, rehabilitation and environmental provisions

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by exploration and evaluation activities by the Company. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged to the statements of comprehensive loss over the economic life of the related asset, through depreciation using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged to the statements of comprehensive loss as extraction progresses.

The Company has no restoration, rehabilitation and environmental costs as at September 30, 2016 and 2015.

(m) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the net loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by dividing the net loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. As at September 30, 2016, all outstanding options and warrants were considered anti-dilutive and were therefore excluded from the diluted loss per share calculation.

(n) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, borrowing costs directly associated with the item and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recognized based on the cost of an item of equipment, less its estimated residual value, over its estimated useful life at the following rate:

| Detail | Percentage | Method |
|--------------------------------|-------------------|---------------|
| Furniture and office equipment | 10 years | Straight-line |

An asset's residual value, useful life and depreciation method are reviewed and adjusted if appropriate on an annual basis.

(o) Significant accounting judgments and estimates

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Summary of significant accounting policies (continued)

(o) Significant accounting judgments and estimates (continued)

Critical accounting estimates

Significant assumptions about the estimates that management has made that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- the recoverability of amounts receivable that are included in the statements of financial position;
- valuation and recoverability of exploration and evaluation assets. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project;
- management assessment of no material restoration, rehabilitation and environmental provisions, based on the facts and circumstances that existed during the period.;
- the valuation of share-based payments. Black-Scholes valuation model is used for the valuation of the share-based payments granted and the assumptions used for the valuation include volatility of the share price, risk-free interest rate and the life of the stock options granted. These assumptions are highly subjective and materially affect the calculated fair value; and
- the determination of deferred income tax assets and liabilities is inherently complex and requires making certain estimates and assumptions about future events and the probability that future taxable profit will be available against which deductible temporary differences can be utilized. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Critical accounting judgments

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether there are indicators of impairment. When such indicators exist, an impairment loss is recognized for the amount by which the exploration and evaluation assets carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to dispose and their value in use.

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its operations and working capital requirements as discussed in note 1.

(p) Changes in accounting policies

There were no changes in accounting policies for the year ended September 30, 2016.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

2. Significant accounting policies (continued)

(q) New accounting standards and interpretations

(i) IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 and will replace IAS 39 - Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

In October 2010, the IASB added requirements for financial liabilities to IFRS 9. These requirements were largely carried forward from the existing requirements in IAS 39, however, fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

In November 2013, the IASB amended IFRS 9 to include a new general hedge accounting model.

In July 2014, the IASB issued the final version IFRS 9 that supersedes the requirements of earlier versions of the standard. The new standard will replace both IAS 39 and IFRIC 9 - Reassessment of Embedded Derivatives. The standard will retain the classification and measurements requirements and new hedge accounting model introduced by the previous versions while introducing a single forward-looking expected credit loss impairment model. The final version of this new standard is effective for annual periods beginning on or after January 1, 2018. The Company is still in the process of assessing the impact of this pronouncement.

(ii) IFRS 11 - Joint Arrangements (“IFRS 11”) was amended in May 2014 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted. The Company is still in the process of assessing the impact of this pronouncement.

(iii) IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted. The Company is still in the process of assessing the impact of this pronouncement.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

3. Capital risk management

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions of exploration and evaluation assets; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, which comprises share capital, reserves and deficit. As at September 30, 2016, the Company's capital resources amounted to an equity of \$5,251,945 (September 30, 2015 - \$5,023,608).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its exploration and evaluation assets. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended September 30, 2016.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSX-V which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of September 30, 2016, the Company is not compliant with Policy 2.5. The impact of this violation is not known and is ultimately dependent on the discretion of the TSX-V.

4. Financial risk management

Financial risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate risk, foreign currency risk and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

4. Financial risk management (continued)

(i) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfil its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and amounts receivable. Cash and cash equivalents are held with select major Canadian chartered banks. The amounts receivable consists of sale tax recoverable that are due from Government of Canada, from which management believes the risk of loss to be minimal.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. The Company prepares annual capital expenditure budgets, which are monitored and updated as required. In addition, the Company requires authorization from the Board of Directors for expenditures on projects to assist with the management of capital. The Company's financial liabilities comprise accounts payable and accrued liabilities, which are due within 12 months. As at September 30, 2016, the Company has a working capital deficit of \$465,287 (September 30, 2015 - \$637,857).

(iii) Market risk

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

(a) Interest rate risk

The Company currently does not have any short-term or long-term debt that is interest bearing and, as such, the Company's current exposure to interest rate risk is minimal.

(b) Foreign currency risk

The Company's functional and presentation currency is the Canadian dollar and the Company holds certain cash balances and accounts payable and accrued liabilities in Euros, which are subject to foreign exchange risk. The Company has not entered into any foreign currency contracts to mitigate this risk.

(c) Commodity and equity price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to precious and base metals and other minerals, and the stock market to determine the appropriate course of action to be taken by the Company.

Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability of development depend upon the world market price of precious and base metals and other minerals. Precious and base metals and other mineral prices have fluctuated widely in recent years. There is no assurance that, even if commercial quantities of precious and base metals and other minerals are produced in the future, a profitable market will exist for them. As of September 30, 2016, the Company was not a precious mineral, base metals and other minerals producer. Even so, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

5. Categories of financial instruments

| | September 30, 2016 | September 30, 2015 |
|--|-----------------------|-----------------------|
| Financial assets: | | |
| Fair value through profit or loss | | |
| Cash and cash equivalents | \$ 101,083 | \$ 28,339 |
| Loans and receivables | | |
| Amounts receivable | \$ 29,261 | \$ 6,012 |
| Financial liabilities: | | |
| Other financial liabilities | | |
| Accounts payable and accrued liabilities | \$ 572,471 | \$ 676,651 |
| Loan from related party | 26,880 | - |

The carrying amounts of the short-term receivable and payable amounts are a reasonable approximation of their fair values.

6. Amounts receivable and other assets

| | September 30, 2016 | September 30, 2015 |
|--------------------------|-----------------------|-----------------------|
| Sales tax receivable (i) | \$ 29,261 | \$ 6,012 |
| Prepaid expenses | 3,720 | 6,043 |
| | \$ 32,981 | \$ 12,055 |

(i) Sales tax receivable is not past due.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

7. Equipment

| Cost | Furniture and office equipment |
|--|-----------------------------------|
| Balance, September 30, 2014, September 30, 2015 and September 30, 2016 | \$ 5,594 |
| Accumulated depreciation | |
| Balance, September 30, 2014 | \$ 2,727 |
| Depreciation | 560 |
| Balance, September 30, 2015 | 3,287 |
| Depreciation | 2,307 |
| Balance, September 30, 2016 | \$ 5,594 |
| Carrying amount | |
| Balance, September 30, 2015 | \$ 2,307 |
| Balance, September 30, 2016 | \$ - |

8. Exploration and evaluation assets

| | Acquisition | Exploration | Total |
|-----------------------------|-------------|--------------|--------------|
| Balance, September 30, 2014 | \$ 200,745 | \$ 5,095,420 | \$ 5,296,165 |
| Additions | 15,000 | 365,538 | 380,538 |
| Impairment | (17,545) | - | (17,545) |
| Balance, September 30, 2015 | 198,200 | 5,460,958 | 5,659,158 |
| Additions | 57,000 | 165,253 | 222,253 |
| Impairment | (13,154) | (151,025) | (164,179) |
| Balance, September 30, 2016 | \$ 242,046 | \$ 5,475,186 | \$ 5,717,232 |

(a) Nunavut Properties

Nunavut - Atlas

On October 22, 2010 the Company entered into an option agreement whereas:

- A. Hauseux and Surmacz (as "Optionors") are the recorded and/or beneficial owners of a 100% undivided interest in certain mining claims located in the Territory of Nunavut, (the "Nunavut Property").
- B. Pursuant to a letter of intent dated June 11, 2009 (the "Letter of Intent"), the Optionors agreed to grant to Elen Enterprises (Ontario) Inc. ("Elen") and Nominex Ltd. ("Nominex") (as "Optionees") an option to acquire a 100% undivided interest in the Nunavut Property.
- C. On October 22, 2010, the Company entered into an assignment agreement (the "Nunavut Agreement"). Pursuant to the Nunavut Agreement, the Optionees (the "Assignors") assigned the option to the Company (the "Assignee"). For consideration the Assignors shall retain a two percent net smelter return royalty from the Assignee. The Assignee shall have the right to purchase from the Assignors the additional royalty, at a price equal to one million dollars for each 0.5% of royalty.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

8. Exploration and evaluation assets (continued)

(a) Nunavut Properties (continued)

The terms of the agreement are as follows:

- A. The Optionors granted to the Optionees an exclusive and irrevocable right and option (the "Option") to acquire a 100% undivided interest in the Nunavut Property by paying to the Optionors, in aggregate, two hundred and fifty thousand dollars (\$250,000), to be satisfied as follows:
- (i) a cash payment of \$10,000 within 30 days of signing the Letter of Intent. This obligation has been paid;
 - (ii) a cash payment of \$10,000 within 60 days of signing the Letter of Intent. This obligation has been paid;
 - (iii) \$20,000 on or before December 11, 2010; This obligation was paid in October 2010;
 - (iv) \$30,000 on or before the first anniversary of the Nunavut Agreement (paid);
 - (v) \$40,000 on or before the second anniversary of the Nunavut Agreement (paid);
 - (vi) \$60,000 on or before the third anniversary of the Nunavut Agreement (paid);
 - (vii) \$80,000 on or before the fourth anniversary of the Nunavut Agreement (extended to 2016).
- B. In lieu of up to 50% of each of the payments listed above, the Optionees are entitled, at their sole election, to satisfy such payments by way of common shares of a company listed on the Exchange, which shares shall be valued at a price per share equal to the average closing price of the Company's common shares on the Exchange for the five trading days ending two trading days before the applicable payment date (or at such greater price per share as may be required by the Exchange).
- C. The Optionees can elect to accelerate and pay any and all of the above amounts at any time before the applicable payment deadline and upon satisfaction of all payment amounts, the Optionees shall have exercised the Option and shall have acquired a 100% undivided interest in the Property.

Nunavut - RB and Arni

The Company owned four staked claims known as the RB property that was previously held by Noble Peak Resources and which was subsequently abandoned by Noble Peak Resources. The property is a potential Gold prospect and over the years the Company has incurred \$131,037 of exploration and evaluation work on this property.

The Arni property is a Copper Nickel prospect on the Baker Lake region. The Company has incurred a total of \$33,142 on the property.

During the year ended September 30, 2016, management decided that future financing pertaining to the Nunavut properties will only be spent on the Atlas property and that the Company decided that they will not be renewing any claims pertaining to the RB and Arni properties when they expire in the near future. Hence, Management decided to impair all of the costs incurred in the RB and the Arni properties in amount of \$131,037 and \$33,142 respectively.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

8. Exploration and evaluation assets (continued)

(b) Grenfell Property

On September 2, 2014, the Company entered into an option agreement (the "Agreement") with Cadillac Ventures Inc. ("Cadillac") whereby the Company will have the option to acquire up to a 100% interest in Cadillac's Grenfell Property (the "Property") in the Kirkland Lake area.

Under the terms of the agreement, Anconia can acquire a 60% interest (the "Option") upon (i) incurring expenditures on the Property of at least \$275,000 by September 1, 2016, and (ii) issuing 2,000,000 common shares of Anconia to Cadillac (1,000,000 common shares issued as of September 30, 2014 at a fair value of \$60,000 and 1,000,000 common shares were issued on June 17, 2015 at a fair value of \$15,000).

Upon acquisition of the 60% interest, Anconia will have the option to acquire the remaining 40% interest in the Property for (i) \$300,000 (\$200,000 of which shall be paid in cash and \$100,000 of which shall be paid by the issuance of common shares of Anconia at a deemed price of the average of the 20 days closing price prior to the day upon which Cadillac is notified the interest is to be earned), and (ii) Cadillac retaining a 2% net smelter return royalty ("NSR") in the Property, 1% of the NSR can be purchased by Anconia for a period of up to 2 years after achieving commercial production for the sum of \$1,000,000.

(c) Sault Ste. Marie

On July 18, 2016, the Company entered into an option agreement (the "Agreement") with three individuals (the "Owners") whereby Anconia will have the option to acquire up to a 100% interest in certain claims in the Sault Ste. Marie area (the "SSM Property"). The Agreement was approved by the TSX Venture Exchange on August 15, 2016.

Under the terms of the Agreement the Company can acquire a 100% interest (the "Option") upon: (i) making cash payments of \$210,000 (\$15,000 has been paid as of September 30, 2016), and (ii) issuing 1,200,000 common shares of the Company (200,000 common shares have been issued as of September 30, 2016) to the Owners over the next three years. The Owners retain a 3% net smelter returns royalty on the Property, of which Anconia is entitled to purchase 1.5% at any time, for \$1,500,000. In the event that the Company files a technical report on or prior to the issuance of a feasibility study in respect of the Property, which delineates at least 1,500,000 ounces of gold in the "measured" category, pursuant to National Instrument 43-101, the Owners shall be entitled to a bonus payment of \$1,000,000 in cash or common shares of the Company. The form of payment of any bonus, as between cash or shares shall be at the Company's option.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

8. Exploration and evaluation assets (continued)

Exploration activities for the year ended September 30, 2016 are as follows:

| | Grenfell Property | Sault Ste. Marie | Nunavut RB and Arni | Nunavut Atlas | Total |
|-------------------|------------------------------|-----------------------------|--------------------------------|--------------------------|------------------|
| Geology | \$ 13,708 | \$ 51,546 | \$ - | \$ - | \$ 65,254 |
| Drilling | 50,000 | - | - | - | 50,000 |
| Others | 48,000 | 1,000 | - | 1,000 | 50,000 |
| Acquisition costs | - | 27,000 | - | 30,000 | 57,000 |
| Impairment | - | - | (164,179) | - | (164,179) |
| | \$ 111,708 | \$ 79,546 | \$ (164,179) | \$ 31,000 | \$ 58,075 |

Exploration activities for the year ended September 30, 2015 are as follows:

| | Grenfell Property | Spanish Subsidiary | Nunavut Atlas | Total |
|-------------------|------------------------------|-------------------------------|--------------------------|-------------------|
| Geology | \$ 229,441 | \$ - | \$ 3,450 | \$ 232,891 |
| Drilling | 62,163 | - | - | 62,163 |
| Mining claims | - | - | - | - |
| Others | 65,999 | - | 4,485 | 70,484 |
| Acquisition costs | 15,000 | - | - | 15,000 |
| Impairment | - | (17,545) | - | (17,545) |
| | \$ 372,603 | \$ (17,545) | \$ 7,935 | \$ 362,993 |

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

8. Exploration and evaluation assets (continued)

Exploration and acquisition activities and impairment from inception to September 30, 2016 are as follows:

| | Grenfell Property | Properties written off | Spanish Subsidiary | Sault Ste. Marie | Nunavut RB and Arni | Nunavut Atlas | Total |
|-------------------|----------------------|---------------------------|-----------------------|---------------------|------------------------|------------------|--------------|
| Geology | \$ 279,066 | \$ 93,977 | \$ - | \$ 51,546 | \$ 148,740 | \$ 2,244,837 | \$ 2,818,166 |
| Drilling | 112,163 | - | - | - | - | 2,252,012 | 2,364,175 |
| Planning | - | 1,100 | - | - | - | 73,956 | 75,056 |
| Drafting | - | 14,588 | - | - | 2,286 | 24,658 | 41,532 |
| Mining claims | - | 140,700 | - | 1,000 | - | 278,282 | 419,982 |
| Others | 123,999 | 841 | - | - | 13,153 | 143,713 | 281,706 |
| Acquisition costs | 75,000 | - | 17,545 | 27,000 | - | 30,000 | 149,545 |
| Impairment | - | (251,206) | (17,545) | - | (164,179) | - | (432,930) |
| | \$ 590,228 | \$ - | \$ - | \$ 79,546 | \$ - | \$ 5,047,458 | \$ 5,717,232 |

9. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities of the Company are principally comprised of amounts outstanding for purchases relating to exploration costs on exploration and evaluation assets, general operating activities and amounts payable for professional fees activities.

| | September 30, 2016 | September 30, 2015 |
|--|-----------------------|-----------------------|
| Accounts payable | \$ 385,121 | \$ 510,100 |
| Accrued liabilities | 187,350 | 166,551 |
| Total accounts payable and accrued liabilities | \$ 572,471 | \$ 676,651 |

10. Loan from related party

On March 31, 2016, the Company received a loan of \$25,000 from Dr. Bernard Sherman, a shareholder of the Company. The loan bears an annual interest rate of 15% and matures on or before March 31, 2017. As at September 30, 2016, \$1,880 of interest expense had been accrued on the loan.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

11. Share capital

(a) Authorized

Unlimited number of common shares without par value

(b) Common shares issued

| | Number of common shares | Stated value |
|--|----------------------------|-----------------|
| Balance, September 30, 2014 | 64,299,739 | \$ 4,983,018 |
| Common shares issued in private placements (1) | 18,400,000 | 368,000 |
| Common shares issued for exploration (2) | 1,000,000 | 15,000 |
| Transaction costs (1) | - | (16,000) |
| Valuation of warrants issued (1) | - | (176,000) |
| Balance, September 30, 2015 | 83,699,739 | \$ 5,174,018 |
| Common shares issued in private placements (3) (4) (5) | 7,550,000 | 359,596 |
| Common shares issued for exploration and evaluation assets (6) | 200,000 | 12,000 |
| Common shares issued for debt (7) | 7,597,970 | 379,898 |
| Valuation of warrants issued (3) (4) (5) | - | (182,128) |
| Balance, September 30, 2016 | 99,047,709 | \$ 5,743,384 |

(1) On March 5, 2015, the Company closed the first tranche of a private placement offering (the "Offering") with gross proceeds of \$300,000, issuing 15,000,000 units ("Offering Units"). The Offering Units were issued at \$0.02 per Offering Unit. Each Offering Unit consists of one common share of Anconia and one common share purchase warrant (an "Offering Warrant"). Each Offering Warrant entitles the holder to purchase one common share of Anconia at a price of \$0.05 for a period of 36 months following the date of issuance. The fair value of the Offering Warrants was determined to be \$150,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 176% based on the Company's historical volatility, risk-free interest rate of 0.61% and an expected life of 36 months. The Company incurred \$13,043 transaction costs related to this tranche of which \$6,522 was allocated to the Offering Warrants.

On March 19, 2015, the Company closed the second and final tranche of the Offering with gross proceeds of \$68,000, issuing 3,400,000 Offering Units ("Unit"). The fair value of the Offering Warrants was determined to be \$34,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 182% based on the Company's historical volatility, risk-free interest rate of 0.47% and an expected life of 36 months. The Company incurred \$2,957 transaction costs related to this tranche of which \$1,478 was allocated to the Offering Warrants.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

11. Share capital (continued)

(b) Common shares issued (continued)

(2) On June 17, 2015, the Company issued 1,000,000 common shares of the Company for acquiring the remaining interest in the Grenfell Property. The shares were valued for \$15,000 with \$0.015 per share based on the fair market value of the Company's shares on the date of issuance (note 8).

(3) On July 4, 2016, the Company closed a non-brokered private placement offering with gross proceeds of \$100,000, issuing 2,000,000 units. The units were issued at \$0.05 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Anconia at a price of \$0.07 for a period of 36 months following the date of issuance. The fair value of the warrants was determined to be \$48,148 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 210.9% based on the Company's historical volatility, risk-free interest rate of 0.52% and an expected life of 36 months.

(4) On July 27, 2016, the Company closed a non-brokered private placement offering with gross proceeds of \$215,000, issuing 4,300,000 units. The units were issued at \$0.05 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Anconia at a price of \$0.07 for a period of 36 months following the date of issuance. The fair value of the warrants was determined to be \$104,032 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 211.3% based on the Company's historical volatility, risk-free interest rate of 0.58% and an expected life of 36 months.

(5) On August 3, 2016, the Company closed a non-brokered private placement offering with gross proceeds of \$62,500, issuing 1,250,000 units. The units were issued at \$0.05 per unit. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Anconia at a price of \$0.07 for a period of 36 months following the date of issuance. The fair value of the warrants was determined to be \$29,948 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 212.2% based on the Company's historical volatility, risk-free interest rate of 0.56% and an expected life of 36 months.

(6) On August 19, 2016, the Company issued 200,000 common shares of the Company for acquiring the Sault Ste. Marie Property. The shares were valued for \$12,000 with \$0.06 per share based on the fair market value of the Company's shares on the date of issuance (note 8).

(7) On August 29, 2016, the Company issued 7,597,970 common shares to settle outstanding debt for CDN\$379,898. The shares were valued for \$379,898 with \$0.05 per share based on the fair market value of the Company's shares on the date of issuance.

During the year ended September 30, 2016, \$1,600 (year ended September 30, 2015 - \$84,291) of the flow-through premiums from the issuance of shares in prior periods on flow-through basis was reversed and recognized in the consolidated statement of loss and comprehensive loss as expenditure requirements were met.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

12. Warrants

| | Number of warrants | Fair value |
|------------------------------------|-----------------------|------------|
| Balance, September 30, 2014 | 10,192,024 | \$ 679,602 |
| Expired (i) | (8,429,524) | (638,186) |
| Issued (note 11(b)(1)) | 18,400,000 | 176,000 |
| Balance, September 30, 2015 | 20,162,500 | \$ 217,416 |
| Expired (i) | (1,762,500) | (41,416) |
| Issued (note 11(b)(3)(4)(5)) | 7,550,000 | 182,128 |
| Balance, September 30, 2016 | 25,950,000 | \$ 358,128 |

(i) Value of expired warrants is transferred to the other reserves.

Details of the warrants outstanding at September 30, 2016 are as follows:

| Number of warrants | Amount (\$) | Exercise price (\$) | Expiry date |
|-----------------------|----------------|------------------------|----------------|
| 15,000,000 | 143,478 | 0.05 | March 5, 2018 |
| 3,400,000 | 32,522 | 0.05 | March 19, 2018 |
| 2,000,000 | 48,148 | 0.07 | July 4, 2019 |
| 4,300,000 | 104,032 | 0.07 | July 27, 2019 |
| 1,250,000 | 29,948 | 0.07 | August 3, 2019 |
| 25,950,000 | 358,128 | 0.06 | |

13. Share-based payments

(a) Stock options

| | Number of stock options | Weighted average exercise price |
|---|----------------------------|------------------------------------|
| Balance, September 30, 2014 and September 30, 2015 | 5,500,000 | \$ 0.22 |
| Expired | (2,350,000) | 0.40 |
| Balance, September 30, 2016 | 3,150,000 | \$ 0.08 |

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

13. Share-based payments (continued)

(a) Stock options (continued)

Details of the stock options outstanding at September 30, 2016 are as follows:

| Fair value (\$) | Weighted average remaining contractual life (years) | Exercisable options | Number of options | Weighted average exercise price (\$) | Expiry date |
|-----------------|---|---------------------|-------------------|--------------------------------------|-----------------|
| 120,700 | 0.80 | 850,000 | 850,000 | 0.15 | July 20, 2017 |
| 106,687 | 2.88 | 2,300,000 | 2,300,000 | 0.05 | August 18, 2019 |
| 227,387 | 2.32 | 3,150,000 | 3,150,000 | 0.08 | |

(b) Reserves for share-based payments

Reserves for share-based payments include the accumulated fair value of vested options. The reserve for share-based payments records items recognized as share-based payments in the form of stock option grants and vesting of such options until such time that these stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded will stay in the share-based payment reserve.

14. Loss per share

The calculation of basic and diluted loss per share for the year ended September 30, 2016 was based on the loss attributable to common shareholders of \$523,157 (year ended September 30, 2015 - \$339,132) and the weighted average number of common shares outstanding of 85,829,616 (year ended September 30, 2015 - 75,043,301). Diluted loss per share did not include the effect of 3,150,000 options (year ended September 30, 2015 - 5,500,000 options) and 25,950,000 warrants and broker warrants (year ended September 30, 2015 - 20,162,500 warrants and broker warrants) as they are anti-dilutive.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

15. Income taxes

The income tax allowance differs from the amount resulting from the application of the combined Canadian income tax rate as follows:

| | 2016 | 2015 |
|---|--------------|--------------|
| Loss before income taxes | \$ (523,157) | \$ (339,132) |
| Combined statutory income tax rate | 26.5% | 26.5% |
| Income tax benefit at the combined Canadian statutory income tax rate | (138,637) | (89,870) |
| Share issue cost through equity | (21,419) | (37,280) |
| Non-deductible expenses | 1,130 | 52 |
| Impairment of exploration and evaluation assets | 43,507 | - |
| Flow-through premium recognized | (424) | (22,337) |
| Tax benefits not recognized | 115,843 | 149,435 |
| Actual income tax expense | \$ - | \$ - |

| | 2016 | 2015 |
|--|------------------------|--------------------------|
| Deferred income tax assets: | | |
| Non-capital loss carry forward | \$ 1,627,971 | \$ 1,512,129 |
| Share issue costs | 12,270 | 30,509 |
| Others | 17,406 | 16,794 |
| Applied against deferred tax liabilities from exploration and evaluation | 1,657,647 (997,777) | 1,559,432 (1,039,496) |
| Unrecognized deductible temporary differences and unused tax losses | 659,870 | 519,936 |

| | 2016 | 2015 |
|---|--------------|----------------|
| Deferred income tax liabilities: | | |
| Exploration and evaluation | \$ (997,777) | \$ (1,039,496) |
| Applied against deferred tax assets | 997,777 | 1,039,496 |
| Net deferred income tax liabilities | \$ - | \$ - |

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

15. Income taxes (continued)

The Company has consolidated Canadian capital losses of approximately \$48,482 (2015 - \$48,482) and consolidated Canadian non-capital losses of approximately \$6,143,544 (2015 - \$5,706,405) available to apply against the future taxable income, and these expire in various years from 2026 to 2036 as follows:

| Year | Amount |
|-------|---------------------|
| 2026 | \$ 662,700 |
| 2027 | 94,700 |
| 2028 | 606,700 |
| 2029 | 372,400 |
| 2030 | 178,700 |
| 2031 | 615,800 |
| 2032 | 1,030,000 |
| 2033 | 882,800 |
| 2034 | 698,700 |
| 2035 | 563,905 |
| 2036 | <u>437,139</u> |
| Total | <u>\$ 6,143,544</u> |

16. Related party disclosures

Related parties include the Board of Directors, officers, close family members and entities which are controlled by these individuals as well as certain persons performing similar functions. In accordance with International Accounting Standards 24 - Related Party Disclosure, key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company.

The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, to similar transactions to non-key management personnel related entities on an arm's length basis.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

16. Related party disclosures (continued)

The Company entered into the following transactions with related parties:

The President and Chief Executive Officer, Mr. Jason Brewster, ("CEO") of the Company is the President of 2181038 Ontario Inc. ("218 Inc."), and 218 Inc. (and by extension the CEO and President) has a contract with the Company. Fees and outstanding amounts due to 218 Inc. relating to consulting services as expensed and capitalized as exploration and evaluation assets are detailed in the table below.

One of the directors, Denis Clement, of the Company provides business advisory services from (time to time) and as such is compensated for these services when provided. For details of the fees and outstanding amounts due relating to business advisory services provided, re Mr. Clement, see table below.

The Chief Financial Officer, Mr. Harvey McKenzie, ("CFO") has a service contract and is entitled to fees based on this contract relating to consulting services in the normal course of business.

| | Year Ended September 30, | |
|---|-----------------------------|-------------------|
| | 2016 | 2015 |
| 2181038 Ontario Inc. (Jason Brewster) | | |
| Expensed as consulting fees | \$ 48,000 | \$ 47,000 |
| Capitalized as exploration assets | 48,000 | 49,000 |
| 2181038 Ontario Inc. (Jason Brewster) | \$ 96,000 | \$ 96,000 |
| CFO consulting fees - Harvey McKenzie | 57,600 | 57,600 |
| Business advisory fees - Denis Clement | - | 31,000 |
| Directors fees | 50,000 | 50,000 |
| Total related party transactions | \$ 203,600 | \$ 234,600 |

| Related party payables | As at September 30, 2016 | | As at September 30, 2015 | |
|---------------------------------------|---------------------------------|----------------|---------------------------------|----------------|
| 2181038 Ontario Inc. (Jason Brewster) | \$ | 125,560 | \$ | 148,480 |
| CFO Harvey McKenzie | | 54,760 | | 93,888 |
| Denis Clement | | 31,630 | | 66,630 |
| Directors | | 17,500 | | 65,000 |
| Total Related party payables | \$ | 229,450 | \$ | 373,998 |

To the knowledge of the directors and senior officers of the Company, as at September 30, 2016, no person or corporation beneficially owns or exercises control or direction over common shares of the Company carrying more than 10% of the voting rights attached to all common shares of the Company other than Dr. Bernard Sherman, a major shareholder who owns 37.32% of all the issued and outstanding shares of the Company. The remaining 62.68% of the shares are widely held. These holdings can change at any time at the discretion of the owners.

None of the Company's major shareholders have different voting rights other than holders of the Company's common shares.

The Company is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Company. To the knowledge of the Company, it is not directly or indirectly owned or controlled by another corporation, by any government or by any natural or legal person severally or jointly.

ANCONIA RESOURCES CORP.

Notes to Consolidated Financial Statements

September 30, 2016 and 2015

(Expressed in Canadian Dollars)

17. General and administrative

| | Year Ended September 30, | |
|------------------------------------|-----------------------------|------------|
| | 2016 | 2015 |
| Salaries and benefits (note 16) | \$ 50,000 | \$ 50,000 |
| Professional fees | 93,305 | 84,687 |
| Consulting fees (note 16) | 101,600 | 139,600 |
| Shareholder and investor relations | 2,883 | 12,883 |
| Reporting issuer costs | 42,031 | 39,181 |
| Depreciation | 2,307 | 560 |
| Administrative expense | 66,610 | 79,748 |
| | \$ 358,736 | \$ 406,659 |

18. Segmented information

As at September 30, 2016, the Company has one reportable segment. The Company's operations are substantially related to exploration and evaluation of its mineral properties. As such, substantially all of the Company's operating expenses are derived or located in Canada and Spain. Segmented information on a geographic basis is as follows:

| September 30, 2016 | Spain | Canada | Total |
|---------------------|-----------|--------------|--------------|
| Current assets | \$ - | \$ 134,064 | \$ 134,064 |
| Non-current assets | \$ - | \$ 5,717,232 | \$ 5,717,232 |
| Current liabilities | \$ 34,814 | \$ 564,537 | \$ 599,351 |

| September 30, 2015 | Spain | Canada | Total |
|---------------------|-----------|--------------|--------------|
| Current assets | \$ - | \$ 40,394 | \$ 40,394 |
| Non-current assets | \$ - | \$ 5,661,465 | \$ 5,661,465 |
| Current liabilities | \$ 32,853 | \$ 645,398 | \$ 678,251 |

19. Events after the reporting period

On December 29, 2016 the Company announced that it has closed a non-brokered private placement offering. The Company issued 808,980 units at a price per unit of \$0.05 for gross proceeds of \$40,449. Each unit consists of one common share of Anconia and one common share purchase warrant. Each warrant entitles the holder to purchase one common share of Anconia at a price of \$0.07 per share for a period of 36 months following the date of issuance. The Company paid a finder's fee of \$3,240.