Victoria
GOLD CORP

**(an exploration and development stage company)**

## Consolidated Financial Statements

## February 29, 2016 and February 28, 2015

*(Expressed in Canadian Dollars)*

June 1, 2016

## Independent Auditor's Report

**To the Shareholders of**
**Victoria Gold Corp.**

We have audited the accompanying consolidated financial statements of Victoria Gold Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at February 29, 2016 and February 28, 2015 and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

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**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Victoria Gold Corp. and its subsidiaries as at February 29, 2016 and February 28, 2015 and their financial performance and their cash flows for the years then ended in accordance with IFRS.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

## *MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION*

The accompanying consolidated financial statements and all other financial information included in this report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Financial statements include certain amounts based on estimates and judgments. When alternative methods exist, management has chosen those it deems most appropriate in the circumstances to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management maintains appropriate systems of internal control, consistent with reasonable cost, to give reasonable assurance that its assets are safeguarded, and the financial records are properly maintained.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of three Directors, all of whom are non-management and independent, meets with management to review the consolidated financial statements to satisfy itself that management is properly discharging its responsibilities to the Directors, who approve the consolidated financial statements.

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

(signed) "John McConnell"
Director, President and CEO
June 1, 2016

(signed) "Marty Rendall"
CFO
June 1, 2016

**Victoria Gold Corp.**
**Consolidated Statements of Financial Position**

| *(Expressed in Canadian Dollars)* | ***Notes*** | **February 29, 2016** | **February 28, 2015** |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | $ 13,942,137 | $ 14,751,577 |
| Marketable securities and warrants | *5* | 178,344 | 1,274,752 |
| HST and other receivables | | 44,436 | 185,032 |
| Prepaid expenses | | 142,171 | 129,724 |
| | | 14,307,088 | 16,341,085 |
| **Non-current assets** | | | |
| Restricted cash | | 1,907,417 | 1,816,686 |
| Property and equipment | *6* | 3,282,615 | 3,798,894 |
| Resource properties | *7* | 113,715,508 | 109,287,066 |
| **Total assets** | | $ 133,212,628 | $ 131,243,731 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | $ 4,144,085 | $ 4,260,449 |
| Current portion of ARO | *8* | 1,951,165 | - |
| | | 6,095,250 | 4,260,449 |
| **Non-current liabilities** | | | |
| Asset retirement obligations ("ARO") | *8* | 963,945 | 2,798,319 |
| **Total liabilities** | | 7,059,195 | 7,058,768 |
| **Shareholders' Equity** | | | |
| Share capital | *10* | 154,513,979 | 151,618,587 |
| Contributed surplus | | 14,985,513 | 13,971,128 |
| Accumulated other comprehensive loss | | (2,686,430) | (2,578,869) |
| Accumulated deficit | | (40,659,629) | (38,825,883) |
| **Total shareholder's equity** | | 126,153,433 | 124,184,963 |
| **Total liabilities and equity** | | $ 133,212,628 | $ 131,243,731 |

*See accompanying notes to the consolidated financial statements.*

**Authorized for issue by the Board of Directors on June 1st, 2016 and signed on its behalf.** **"T. Sean Harvey"** Director **"Chris Hill"** Director

**Victoria Gold Corp.**
**Consolidated Statements of Comprehensive Loss**

| *(Expressed in Canadian Dollars)* | *Notes* | For the year ended February 29, 2016 | For the year ended February 28, 2015 |
|---|---|---|---|
| **Operating expenses** | | | |
| Salaries and benefits excluding share-based payments | | $ 1,071,491 | $ 1,318,241 |
| Office and administrative | | 450,792 | 513,016 |
| Share-based payments | *11* | 700,905 | 342,196 |
| Marketing | | 294,722 | 345,269 |
| Legal and accounting | | 47,110 | 220,215 |
| Consulting | | 52,794 | 136,058 |
| Amortization | | 4,985 | 7,073 |
| Foreign exchange (gain) loss | | (547,288) | (897,092) |
| Resource property impairment and gain on optioned properties | *7* | - | 6,537,062 |
| | | 2,075,511 | 8,522,038 |
| **Finance (income) costs** | | | |
| Unwinding of present value discount: ARO | | 21,790 | 37,301 |
| Interest and bank charges | | 6,642 | 6,360 |
| Interest income | | (76,835) | (326,571) |
| Change in fair value of marketable securities and warrants | | (28,374) | (904,184) |
| | | (76,777) | (1,187,094) |
| **Loss before taxes** | | (1,998,734) | (7,334,944) |
| Current income taxes | *16* | (293,707) | (1,516,605) |
| Deferred tax provision | *16* | 458,695 | 1,398,794 |
| **Net loss** | | (1,833,746) | (7,452,755) |
| **Other Comprehensive income (loss)** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Currency translation adjustment | | (107,561) | 351,015 |
| **Total items that may be reclassified subsequently to profit or loss** | | (107,561) | 351,015 |
| **Total comprehensive loss for the year** | | $ (1,941,307) | $ (7,101,740) |
| **Loss per share - basic and diluted** | *9* | $ (0.005) | $ (0.022) |
| **Weighted average number of shares** | | | |
| Basic and diluted | | 344,799,527 | 340,073,973 |

*See accompanying notes to the consolidated financial statements.*

**Victoria Gold Corp.**
**Consolidated Statement of Changes in Shareholder's Equity**

*(Expressed in Canadian Dollars)*

| | Notes | Share capital: Number of shares | Share capital: Amount | Contributed surplus | Accumulated other comprehensive loss | Accumulated deficit | Total equity |
|---|---|---|---|---|---|---|---|
| Balance at March 1, 2014 | | 340,073,973 | $ 151,618,587 | $ 13,439,501 | $ (2,929,884) | $ (31,373,128) | $ 130,755,076 |
| **Transactions with owners:** | | | | | | | |
| Share-based payments, expensed | | | | 342,196 | | | 342,196 |
| Share-based payments, capitalized | | | | 189,431 | | | 189,431 |
| Total transactions with owners: | | - | - | 531,627 | - | - | 531,627 |
| Net loss for the year | | | | | | (7,452,755) | (7,452,755) |
| **Other comprehensive income/(loss):** | | | | | | | |
| Currency translation adjustment | | | | | 351,015 | | 351,015 |
| **Balance at February 28, 2015** | *10* | 340,073,973 | $ 151,618,587 | $ 13,971,128 | $ (2,578,869) | $ (38,825,883) | $ 124,184,963 |
| Balance at March 1, 2015 | | 340,073,973 | $ 151,618,587 | $ 13,971,128 | $ (2,578,869) | $ (38,825,883) | $ 124,184,963 |
| **Transactions with owners:** | | | | | | | |
| Proceeds from share issue | | 21,024,136 | 3,607,463 | | | | 3,607,463 |
| Share issuance costs | | | (253,376) | | | | (253,376) |
| Share-based payments, expensed | | | | 700,905 | | | 700,905 |
| Share-based payments, capitalized | | | | 313,480 | | | 313,480 |
| Premium on flow-through shares | | | (458,695) | | | | (458,695) |
| Total transactions with owners: | | 21,024,136 | 2,895,392 | 1,014,385 | - | - | 3,909,777 |
| Net loss for the year | | | | | | (1,833,746) | (1,833,746) |
| **Other comprehensive income/(loss):** | | | | | | | |
| Currency translation adjustment | | | | | (107,561) | | (107,561) |
| **Balance at February 29, 2016** | *10* | 361,098,109 | $ 154,513,979 | $ 14,985,513 | $ (2,686,430) | $ (40,659,629) | $ 126,153,433 |

*See accompanying notes to the consolidated financial statements.*

**Victoria Gold Corp.**
**Consolidated Statement of Cash Flows**

| *(Expressed in Canadian Dollars)* | *Notes* | For the year ended February 29, 2016 | For the year ended February 28, 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | | $ (1,833,746) | $ (7,452,755) |
| **Adjustments for:** | | | |
| Resource property impairments and gain on optioned properties | *7* | - | 6,537,062 |
| Share-based payments | *11* | 700,905 | 342,196 |
| Income taxes | | (54,971) | (798,065) |
| Unwinding of present value discount: ARO | *8* | 21,790 | 37,301 |
| Change in fair value of marketable securities and warrants | | (28,374) | (84,918) |
| Unwinding of present value discount: Receivables | | - | (195,403) |
| Amortization | | 4,985 | 7,073 |
| Net unrealized foreign exchange (gain) loss | | (709,227) | (892,663) |
| | | (1,898,638) | (2,500,172) |
| **Working capital adjustments:** | | | |
| (Increase) decrease in HST and other receivables | | 52,927 | 5,013,033 |
| (Increase) decrease in marketable securities | | (150) | (5,826,057) |
| (Increase) decrease in prepaid expenses | | 10,882 | (17,259) |
| Increase (decrease) in accounts payables and accrued liabilities | | (188,940) | (6,237) |
| | | (125,281) | (836,520) |
| **Net cash flows used in operating activities** | | (2,023,919) | (3,336,692) |
| **Cash flows used in investing activities** | | | |
| Resource properties | *7* | (3,366,561) | (6,944,132) |
| Cash received from disposition of securities and assets held for sale | | 1,124,932 | 10,092,482 |
| Restricted cash | | 45,063 | 314,506 |
| Purchase of property and equipment | | (46,951) | (3,415) |
| **Net cash flows (used in) provided by investing activities** | | (2,243,517) | 3,459,441 |
| **Cash flows from financing activities** | | | |
| Shares issued for cash, net of issuance cost | *10* | 3,354,087 | - |
| **Net cash flows from financing activities** | | 3,354,087 | - |
| Foreign exchange gain (loss) on cash balances | | 103,909 | 453,797 |
| **Net increase (decrease) in cash and cash equivalents** | | (809,440) | 576,546 |
| Cash and cash equivalents, beginning of the year | | 14,751,577 | 14,175,031 |
| **Cash and cash equivalents, end of the year** | | $ 13,942,137 | $ 14,751,577 |

*See accompanying notes to the consolidated financial statements. Supplementary Cash Flow information is provided in Note 15.*

*(Expressed in Canadian Dollars)*

## 1. NATURE OF OPERATIONS

Victoria Gold Corp. ("Victoria" or "the Company"), a British Columbia company, was incorporated in accordance with the Business Corporations Act (British Columbia) on September 21, 1981. The Company's common shares are listed on the TSX-V.

The Company is engaged in the acquisition, evaluation, exploration and development of mineral properties. To date, the Company has not realized any revenues from its properties and is considered to be an exploration and development stage company. The Company's registered office is located at 80 Richmond St. West, Suite 303, Toronto, Ontario, M5H 2A4, Canada.

The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing and permits to complete the development, and upon future profitable production or proceeds from disposition of these assets.

These consolidated financial statements have been prepared using IFRS applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due for the foreseeable future. The Company's future is currently dependent upon its ability to successfully complete additional financing arrangements, secure all necessary permits, its ability to fulfil its planned exploration and development programs and upon future profitable production from, or the proceeds from the disposition of, its mineral properties. The Company periodically seeks financing to continue the exploration and development of its resource properties and to meet its future administrative requirements. Although the Company has been successful in raising funds to date, there can be no assurances that the steps management is taking, and will continue to take, will be successful in future reporting periods.

At February 29, 2016, Victoria Gold Corp. ("Victoria" or "the Company") had a working capital surplus of $8,211,838 (compared with a surplus of $12,080,636 at February 28, 2015), reported a net loss of $1,833,746 (2015 net loss - $7,452,755) and accumulated deficit of $40,659,629 ($38,825,883 at February 28, 2015).

## 2. BASIS OF PRESENTATION

These consolidated financial statements include the accounts of Victoria and its wholly-owned subsidiaries including:

- Victoria Resources (U.S.) Inc., a Nevada corporation,
- Gateway Gold Corp., a British Columbia corporation,
- Gateway Gold (USA) Corp., a Nevada corporation,
- StrataGold Corporation, a British Columbia corporation,

Gateway Gold Corp. and Gateway Gold (USA) Corp. (together referred to as "Gateway") were acquired by the Company on December 18, 2008.
StrataGold Corporation ("StrataGold") was acquired by the Company on June 4, 2009.

These financial statements were approved by the Board of Directors for issue on June 1, 2016.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation and adoption of IFRS

The consolidated financial statements of the Company are prepared in accordance with IFRS, are presented in Canadian dollars and include the operating results of the Company's subsidiaries. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in *Note 4*.

### (b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of certain financial instruments to fair value.

### (c) Consolidation

Subsidiaries are entities over which the Company has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The Company has control when it has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date on which control ceases. Accounting policies of the subsidiaries are consistent with those of the Company. All inter-company balances and transactions have been eliminated.

### (d) Share-based payments

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

### (e) Current and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized through earnings, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### (f) Property and equipment

Property and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss. Where an item of property and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company provides for amortization of its property and equipment at the following annual rates:

| | |
|---|---|
| Field and Automotive equipment | -from 20%-30% declining balance basis |
| Buildings and structures | -straight line over the useful life (ranging three to twelve years) |
| Leasehold improvements | -straight line over the term of the lease (five years) |
| Other assets | -from 20%-30% declining balance basis |

Assets under construction are capitalized as a separate component of property and equipment. On completion, the cost of construction is transferred to the appropriate category. Assets under construction are not amortized. Amortization commences on the date when the assets are available for use.

### (g) Resource properties and deferred exploration and evaluation costs

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the loss for the year.

Capitalized costs, including certain operating expenses, are only allocated to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are reviewed for impairment at each cash-generating unit ("CGU") level. The Company defines CGU on a property by property basis.

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

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

**(h) Flow-through shares**

Under Canadian income tax legislation, the Company is permitted to issue flow-through shares whereby the Company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. The Company has adopted a policy to (i) allocate the proceeds between the offering of the shares and the sale of tax benefits when the shares are offered and (ii) recognize an income tax provision upon filing of appropriate renunciation forms with the Canadian taxation authorities for qualifying expenditures previously incurred.

The allocation of the proceeds is made based on the difference between the quoted price of the shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. The liability is reduced and the reduction of premium liability is recorded in other income upon filing of appropriate renunciation forms with the Canadian taxation authorities for qualifying expenditures previously incurred.

**(i) Impairment on Assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at lower of carrying amount and fair value less costs of disposal.

**(j) Impairment of non-financial assets**

At each financial position reporting date, the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For the purposes of impairment testing, exploration and evaluation assets are allocated to CGU's to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately through operations income.

**(k) Foreign currencies**

**Functional and presentational currency**

All amounts in these financial statements are presented in Canadian Dollars unless otherwise stated.

The functional currency of the Company is the Canadian Dollar and the functional currency of the significant operating subsidiaries is either the Canadian Dollar or the US Dollar. The functional currency for the Company and its' subsidiaries is determined as the currency of the primary economic environment in which they operate.

**Foreign currency translation**

Transactions in currencies other than the functional currency are translated to the functional currency at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the statement of financial position date. Exchange gains and losses on settlement of transactions, and the translation of monetary assets and liabilities other than in functional currency are recorded in income.

**Translation from functional to presentational currency**

The results and financial position of all of the Company's subsidiaries that have a functional currency different from the presentational currency are translated into the presentational currency as follows:

- Assets and liabilities are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of comprehensive loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions).
- All resulting exchange differences are recognized in other comprehensive income or loss and as a separate component of equity.

**(l) Financial assets and liabilities**

Financial assets held are cash and cash equivalents, restricted cash, marketable securities and accounts receivable. Financial liabilities are accounts payable and accrued liabilities.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. These are classified into the following specified categories: available-for-sale ("AFS"), financial assets at fair value through profit and loss, loans and receivables or other liabilities. The classification depends on the nature and purpose of the financial assets or liabilities and is determined at the time of initial recognition. The AFS category included non-derivatives that are either designated in this AFS category or not classified in any of the other categories. Marketable securities held by the Company for trading in an active market are classified as being financial assets at fair value through profit and loss and are stated at fair value. Gains and losses arising from changes in fair value are recognized directly in loss.

Amounts receivable that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate. Other financial liabilities are measured at amortized cost.

The Company has classified its financial instruments as follows:

| | | |
|---|---|---|
| Cash and cash equivalents | - | Loans and receivables |
| Term deposits, restricted cash | - | Loans and receivables |
| Investment in marketable securities | - | Financial assets at fair value through profit and loss |
| Other receivables | - | Loans and receivables |
| Accounts payable and accrued liabilities | - | Other financial liabilities |

Financial instruments recorded at fair value on the consolidated statement 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);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**Impairment of financial assets:**

Financial assets other than those at fair value through profit and loss are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Objective evidence of impairment could include:
- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the 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 amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. The Company does not have any derivative financial instruments or interest calculated using the effective interest method.

**(m) Cash and cash equivalents**

Cash and cash equivalents consist of cash deposits in banks, certificates of deposit and short-term investments with remaining maturities of three months or less at time of acquisition. The Company does not hold any asset backed commercial paper.

**(n) Restricted cash**

Restricted cash includes reclamation bonds held by the Nevada Bureau of Land Management, Newmont Mining Corporation and a major bank in the United States. The cash will be returned to the Company upon successful completion of reclamation at the Company’s properties in Nevada. The Company is not expecting to receive this cash within the next twelve months.

**(o) Asset retirement obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising for 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 value of the asset, as soon as the obligation to incur such costs arises. Risk-free discount rates using pre-tax rates that reflect the time value of money are used to calculate the net present value. The Company records a provision for environmental rehabilitation in the financial statements when it is incurred and capitalizes this amount as an increase in the carrying amount of the related asset. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. 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 which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

**(p) Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

**(q) Expenses**

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**(r) Earnings (Loss) per share**

Basic earnings/loss per common share is calculated by dividing the earnings/loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period.

**(s) Segment reporting**

A segment is a component of the Company that is distinguishable by economic activity (operating segment), and/or by its geographical location (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company reports separately three operating segments, corporate segment and mineral exploration and development in two geographical segments, Canada and the United States.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker which consists of review of total assets and net income/(loss). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive committee that makes strategic decisions.

The accounting policies adopted are consistent with those of the previous financial year, except those noted below:

The Company has adopted the following new and revised standards, along with any consequential amendments, effective March 1, 2015. These changes were made in accordance with the applicable transitional provisions:

(i) Amendment to IAS 32, *Financial Instruments: Presentation, on assets and liabilities offsetting*. These amendments are to the application guidance in IAS 32, '*Financial instruments: Presentation*', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

(ii) Amendments to IAS 36, *Impairment of assets,* on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in IAS 35 by the issue of IFRS 13.
(iii) IFRIC 21, *Levies*. This is an interpretation of IAS 37, *Provisions, contingent liabilities and contingent assets*. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The adoption of the above standards did not have any impacts upon the Corporation's financial statements. Other standards, amendments and interpretations which are effective for the financial year beginning March, 1, 2015 are not material to the Company.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated financial statements requires management to make estimates 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. The consolidated financial statements include estimates which, 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 the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, 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:

***Impairment of assets***
Determining whether facts and circumstances indicate that the Company's assets may be impaired and require the recognition of an impairment loss, or conversely whether a reversal of an impairment loss recognized in a prior period may be required, is a subjective process involving judgment and a number of estimates and interpretations.

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs of disposal.

In testing an individual asset or CGU for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the CGU. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change as new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ from amounts recognized in the Company's financial statements, and significant adjustments to the carrying values of the Company's assets and reported earnings may occur during subsequent accounting periods.

No impairment indicators of non-financial assets have been noted for the years ended February 29, 2016 and February 28, 2015 other than the impairment of Santa Fe property *(Note 7)*.

***Asset Retirement Obligation (ARO)***
The determination of provisions for environmental rehabilitation and reclamation obligations arising from the Company's evaluation and exploration activities requires the use of estimates and management judgment. Future reclamation costs in relation to changes in estimates are accrued based on management's best estimate at the end of each period of the discounted cash costs expected to be incurred. Accounting for

reclamation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation work required to comply with existing laws and regulations. These estimates are dependent upon labor and materials costs, known environmental impacts, the effectiveness of rehabilitation measures, inflation rates, and pre-tax interest rates that reflect a current market assessment of time value for money and the risk specific to the obligation. The Company also estimates the timing of the outlays, which is subject to change depending on continued exploitation and newly discovered mineral resources.

Actual reclamation costs incurred may differ from those amounts estimated by management. Moreover, future changes to environmental laws and regulations could increase the extent of reclamation work required to be performed by the Company, therefore increasing future costs.

***Stock-based compensation***
Management is required to make certain estimates when determining the fair value of stock options awards and the number of awards that are expected to vest. These estimates affect the amount recognized as stock based payments in the consolidated statements of loss and comprehensive loss based on estimates of forfeiture, stock price volatility and expected lives of the underlying stock options.

***Income taxes and recovery of deferred tax assets***
The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. Management did not recognize deferred tax assets as future taxable profits are not expected until the Company reaches technical feasibility and commercial viability of the extraction of the mineral resources, the timing of which is uncertain as the Company is still in the exploration and evaluation stage.

**Accounting standards and interpretations issued but not yet effective**

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. Management has yet to assess the impact of these standards and amendments or determined whether it will early adopt them.

IFRS 9, “Financial Instruments” (“IFRS 9”)

In July 2014, the IASB issued IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company continues to monitor and assess IFRS 9’s full impact.

IFRS 16, “Leases” (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 “Leases”, which establishes the principles that an entity should use to determine the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). IFRS 16 replaces the previous leases Standard, (“IAS 17”), Leases, and related Interpretations. IFRS 16 is effective from January 1, 2019 though a company can choose to apply IFRS 16 before that date but only in conjunction with IFRS 15 Revenue from Contracts with Customers. The Company is currently assessing the impact of this standard.
There are no other IFRS or IFRS Interpretation Committee (“IFRIC”) interpretations that are not yet effective that would be expected to have a material impact on the Company.

*(Expressed in Canadian Dollars)*

## 5. MARKETABLE SECURITIES AND WARRANTS

| | February 29, 2016 | February 28, 2015 |
|---|---|---|
| **Current investments** | | |
| Opening balance | $ 1,274,752 | $ 179,837 |
| Additions | - | 5,002,523 |
| Disposals | (1,124,932) | (4,816,061) |
| Change in fair value | 28,524 | 908,453 |
| Financial assets at fair value through profit and loss | $ 178,344 | $ 1,274,752 |

## 6. PROPERTY AND EQUIPMENT

| | Other assets | Buildings/ structure | Field & automotive equipment | Leasehold improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| **March 1, 2014** | $ 582,213 | $ 6,063,280 | $ 173,650 | $ 309,529 | $ 7,128,672 |
| Additions | 3,415 | - | - | - | 3,415 |
| **February 28, 2015** | 585,628 | 6,063,280 | 173,650 | 309,529 | 7,132,087 |
| Additions | 6,951 | - | 40,000 | - | 46,951 |
| Disposals | - | - | - | (130,726) | (130,726) |
| **February 29, 2016** | $ 592,579 | $ 6,063,280 | $ 213,650 | $ 178,803 | $ 7,048,312 |
| **Accumulated amortization** | | | | | |
| **March 1, 2014** | $ 333,944 | $ 2,084,822 | $ 99,198 | $ 120,766 | $ 2,638,730 |
| Charge | 74,793 | 541,093 | 16,672 | 61,905 | 694,463 |
| **February 28, 2015** | 408,737 | 2,625,915 | 115,870 | 182,671 | 3,333,193 |
| Charge | 44,091 | 435,744 | 21,491 | 61,904 | 563,230 |
| Disposals | - | - | - | (130,726) | (130,726) |
| **February 29, 2016** | $ 452,828 | $ 3,061,659 | $ 137,361 | $ 113,849 | $ 3,765,697 |
| **Net book value** | | | | | |
| **March 1, 2014** | $ 248,269 | $ 3,978,458 | $ 74,452 | $ 188,763 | $ 4,489,942 |
| **February 28, 2015** | $ 176,891 | $ 3,437,365 | $ 57,780 | $ 126,858 | $ 3,798,894 |
| **February 29, 2016** | $ 139,751 | $ 3,001,621 | $ 76,289 | $ 64,954 | $ 3,282,615 |

During the year ended February 29, 2016, the Company capitalized amortization related to resource properties of $558,245 ($687,390 – 2015).

*(Expressed in Canadian Dollars)*

## 7. RESOURCE PROPERTIES

| | Santa Fe (Nevada) | Dublin Gulch (Yukon) | Other properties ** | Total |
|---|---|---|---|---|
| **Balance February 28, 2015** | $ 6,311,124 | $ 101,626,743 | $ 1,349,199 | $ 109,287,066 |
| Acquisition | - | - | - | - |
| Salaries and benefits | 91,007 | 1,186,641 | - | 1,277,648 |
| Amortization | - | 558,245 | - | 558,245 |
| Office and administration | 37,165 | 676,172 | - | 713,337 |
| Land claims and royalties | 67,018 | 18,299 | 73,250 | 158,567 |
| Environmental and permitting | 171,534 | 260,801 | - | 432,335 |
| Government and community relations | - | 381,128 | - | 381,128 |
| Site operations | - | 84,100 | - | 84,100 |
| Engineering and design | - | 72,424 | - | 72,424 |
| Assaying | - | - | - | - |
| Drilling and indirects | - | - | - | - |
| Other exploration | - | 219,785 | 9,638 | 229,423 |
| Asset retirement obligation adjustment | (28,906) | (52,888) | - | (81,794) |
| Exploration and development costs for the period | 337,818 | 3,404,707 | 82,888 | 3,825,413 |
| Currency translation | 603,029 | - | - | 603,029 |
| **Balance February 29, 2016** | $ 7,251,971 | $ 105,031,450 | $ 1,432,087 | $ 113,715,508 |

** Other properties include interests in Donjek, Aurex, Canalask and Clear Creek in Yukon Territory and Island Mountain in Nevada.

As of February 29, 2016, of the $3.6M raised through the flow-through offering (*Note 11*), $3.5 million is remaining to be spent on qualifying expenditures.

*(Expressed in Canadian Dollars)*

| | Santa Fe (Nevada) | Dublin Gulch (Yukon) | Other properties ** | Total |
|---|---|---|---|---|
| **Balance February 28, 2014** | $ 11,926,333 | $ 93,848,244 | $ 710,760 | $ 106,485,337 |
| Acquisition | - | - | (50,886) | (50,886) |
| Salaries and benefits | 94,950 | 1,377,491 | - | 1,472,441 |
| Amortization | - | 687,390 | - | 687,390 |
| Office and administration | 21,070 | 685,717 | - | 706,787 |
| Land claims and royalties | 57,759 | 40,610 | 63,059 | 161,428 |
| Environmental and permitting | 81,613 | 865,035 | - | 946,648 |
| Government and community relations | - | 436,294 | - | 436,294 |
| Site operations | - | 112,186 | - | 112,186 |
| Engineering and design | - | 151,241 | - | 151,241 |
| Assaying | - | 295,040 | - | 295,040 |
| Drilling and indirects | - | 2,301,885 | - | 2,301,885 |
| Other exploration | - | 711,957 | - | 711,957 |
| Asset retirement obligation adjustment | (10,131) | 113,653 | | 103,522 |
| Exploration and development costs for the period | 245,261 | 7,778,499 | 63,059 | 8,086,819 |
| Currency translation | 1,302,859 | - | - | 1,302,859 |
| Gain (loss) on optioned properties | - | - | 626,266 | 626,266 |
| Impairment of mineral interests | (7,163,329) | - | - | (7,163,329) |
| **Balance February 28, 2015** | $ 6,311,124 | $ 101,626,743 | $ 1,349,199 | $ 109,287,066 |

** Other properties include interests in Donjek, Aurex, Canalask and Clear Creek in Yukon Territory and Island Mountain in Nevada.

During the year ended February 28, 2015, the company recorded net gains from optioning off certain non-core properties.

During the year ended February 28, 2015, the Company completed an impairment analysis on its Santa Fe, NV property and determined that an indicator of impairment existed for its long-term non-core asset Santa Fe. The impairment indicator was that the property's estimated market value was less than the book value. Valuation techniques require management's judgment when considering qualitative and quantitative factors specific to the Santa Fe property.

Santa Fe's recoverable amount was determined to be lower than its carrying amount, and as a result, the Company recorded an impairment charge of $7,163,329 to adjust the carrying amount to its estimated recoverable amount of $6,311,124 as at February 28, 2015.

*(Expressed in Canadian Dollars)*

## 8. ASSET RETIREMENT OBLIGATIONS

Reclamation and closure costs have been estimated based on the Company's interpretation of current regulatory requirements and measured with the most reliable information available. Management's estimate is determined based on the net present value of estimated future cash expenditures for reclamation and closure activities. Reclamation and closure costs are capitalized into Resource properties dependent on the nature of the asset related to the obligation and amortized over the life of the related asset. Future changes to those regulations and standards, as well as changes resulting from operations may result in actual reclamation costs differing from the estimate.

The Company's asset retirement obligations arise from its obligations to undertake site reclamation and remediation in connection with the Santa Fe and Dublin Gulch properties. The estimated costs of reclamation are based on current regulatory requirements and the estimated reclamation costs at the reporting date using the following assumptions:

a) total undiscounted amount of inflation adjusted future reclamation costs was determined to be $744,988 for Dublin Gulch and $2,296,222 for Santa Fe;
b) weighted average risk-free interest rate at 1.1% and a long-term inflation rate of 2.0%; and
c) expected timing of risk adjusted cash outflows required to settle the obligation will be incurred over the period through 2029 for Dublin Gulch and through 2016 for Santa Fe.

The following is an analysis of the Company's asset retirement obligation:

| | February 29, 2016 | February 28, 2015 |
|---|---|---|
| Balance, beginning of year | $ 2,798,319 | $ 2,408,772 |
| Unwinding of discount: ARO | 21,790 | 37,301 |
| Currency translation | 175,995 | 248,724 |
| ARO change due to change in estimates | (80,994) | 103,522 |
| Balance, end of year | 2,915,110 | 2,798,319 |
| Less: Current portion | (1,951,165) | - |
| Long-term liability | $ 963,945 | $ 2,798,319 |

*(Expressed in Canadian Dollars)*

## 9. LOSS PER SHARE

(a) Basic

Basic earnings (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of ordinary shares in issue during the year.

| | For the years ended | |
|---|---|---|
| | February 29, 2016 | February 28, 2015 |
| Net income (loss) | $ (1,833,746) | $ (7,452,755) |
| Weighted average number of common shares issued | 344,799,527 | 340,073,973 |
| Basic earnings (loss) per share | $ (0.005) | $ (0.022) |

(b) Diluted

The effect of potential issuances of shares under options would be anti-dilutive, and accordingly basic and diluted loss per share are the same.

## 10. SHARE CAPITAL AND OTHER EQUITY

*Authorized, issued and outstanding common shares*
Common shares, no par value, authorized unlimited number of shares, issued and outstanding were 361,098,109 as at February 29, 2016 and 340,073,973 shares as at February 28, 2015.

On November 26, 2015, the Company closed a non-brokered private placement flow-through offering (the "Offering") raising gross proceeds of approximately $1.8 million, representing the issuance of 10,329,164 common shares priced at $0.17 per share. Finders' fees and other issuance costs totaling $118,184 were paid in conjunction with the Offering. The flow-through shares were subject to a four-month hold period.

On December 23, 2015, the Company closed another non-brokered private placement flow-through offering (the "Offering") raising gross proceeds of approximately $1.8 million, representing the issuance of 7,358,972 common shares priced at $0.17 per share and 3,336,000 common shares priced at $0.18 per share. Finders' fees and other issuance costs totaling $135,192 were paid in conjunction with the Offering. The flow-through shares were subject to a four-month hold period.

## 11. SHARE - BASED PAYMENTS – EMPLOYEE SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. One-eighth of options granted under the plan vest immediately; a further one-eighth vest after each three month period thereafter, with the final one-quarter vesting eighteen months from the date of grant. At February 29, 2016, 1,625,314 (5,358,647 as at February 28, 2015) additional stock options were available for grant under the Company's stock option plan.

A summary of the status of the Plan as at February 29, 2016 and as at February 28, 2015, and changes during the periods ended on those dates is presented below:

*(Expressed in Canadian Dollars)*

| | February 29, 2016 | | | | February 28, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of stock options | | Weighted average exercise price | Fair Value Assigned | Number of stock options | | Weighted average exercise price | Fair Value Assigned |
| Outstanding, beginning of the year | 28,648,750 | $ | 0.26 | $4,070,102 | 25,840,000 | $ | 0.34 | $5,153,088 |
| Granted | 7,000,000 | $ | 0.15 | 622,410 | 8,625,000 | $ | 0.16 | 630,488 |
| Exercised | - | $ | - | - | - | $ | - | - |
| Expired | (2,153,750) | $ | 0.86 | (1,125,303) | (5,520,000) | $ | 0.51 | (1,691,357) |
| Forfeited | (80,000) | $ | 0.15 | (2,361) | (296,250) | $ | 0.14 | (22,117) |
| Outstanding, end of the year | 33,415,000 | $ | 0.20 | $3,564,847 | 28,648,750 | $ | 0.26 | $4,070,102 |

As at February 29, 2016, the Company had stock options issued to directors, officers, employees and contractors of the Company outstanding as follows:

| Date of grant | Number of options outstanding | Number of options exercisable | | Exercise price | Expiry date |
|---|---|---|---|---|---|
| May 18, 2011 | 110,000 | 110,000 | $ | 0.74 | May 18, 2016 |
| August 22, 2011 | 300,000 | 300,000 | $ | 0.65 | August 22, 2016 |
| January 20, 2012 | 3,890,000 | 3,890,000 | $ | 0.40 | January 20, 2017 |
| May 28, 2012 | 130,000 | 130,000 | $ | 0.27 | May 28, 2017 |
| September 3, 2012 | 30,000 | 30,000 | $ | 0.22 | September 3, 2017 |
| January 11, 2013 | 5,300,000 | 5,300,000 | $ | 0.25 | January 11, 2018 |
| January 10, 2014 | 8,080,000 | 8,080,000 | $ | 0.12 | January 10, 2019 |
| January 14, 2015 | 8,575,000 | 5,378,125 | $ | 0.16 | January 14, 2018 |
| December 15, 2015 | 7,000,000 | 7,000,000 | $ | 0.15 | December 15, 2020 |
| | 33,415,000 | 30,218,125 | | | |

The fair value of each option is accounted for in the statement of comprehensive loss or capitalized to resource properties over the vesting period of the options, and the related credit is included in contributed surplus.

On December 15, 2015, the Company granted 7,000,000 incentive stock options with an exercise price of $0.15 per option to directors, officers, employees and consultants of the Company. The stock options have a term of five years and expire on December 15, 2020 and the Board approved immediate vesting upon grant. The fair value of these options totalling $622,410 has been fully recognized ($437,621 expensed and $184,789 capitalized to resource properties) as at February 29, 2016. The fair value of these options was calculated based on a risk-free annual interest rate of 1.0%, an expected life of 4.4 years, an expected volatility of 79% and a dividend yield rate of nil. This results in an estimated value of $0.09 per option at the grant date using the Black-Scholes option-pricing model.

On January 14, 2015, the Company granted 8,625,000 incentive stock options with an exercise price of $0.16 per option to directors, officers, employees and consultants of the Company. 50,000 of these options were forfeited as at February 29, 2016. The stock options have a term of three years and expire on January 14, 2018. The fair value of these options totalling $626,833 will be recognized ($421,235 expensed and $205,598 capitalized to resource properties) over the vesting periods, of which $569,843 has been recognized ($381,900 expensed and $187,943 capitalized) as at February 29, 2016. The fair value of these options was calculated based on a risk-free annual interest rate of 1.0%, an expected life of 2.9 years, an expected volatility of 80% and a dividend yield rate of nil. This results in an estimated value of $0.07 per option at the grant date using the Black-Scholes option-pricing model.

*(Expressed in Canadian Dollars)*

On January 10, 2014, the Company granted 8,430,000 incentive stock options with an exercise price of $0.12 per option to directors, officers, employees and consultants of the Company. 270,000 of these options were forfeited as at February 29, 2016. The stock options have a term of five years and expire on January 10, 2019. The fair value of these options totalling $482,365 has been fully recognized ($309,839 expensed and $172,526 capitalized to resource properties) as at February 29, 2016. The fair value of these options was calculated based on a risk-free annual interest rate of 1.10%, an expected life of 4.3 years, an expected volatility of 72% and a dividend yield rate of nil. This results in an estimated value of $0.06 per option at the grant date using the Black-Scholes option-pricing model.

Option pricing models require the input of highly subjective assumptions. Changes in assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options at the grant date. The Company uses a forfeiture rate of 8.86%.

## 12. RELATED PARTIES

Related parties include key management personnel, the Board of Directors, close family members and enterprises which are controlled by these individuals as well as certain persons performing similar functions.

The remuneration of directors and key management of the Company who are not independent for the years ended February 29, 2016 and February 28, 2015 was as follows:

| | 2016 | 2015 |
|---|---|---|
| Salaries and other short term employment benefits | $ 979,471 | $ 1,007,606 |
| Share based compensation | $ 424,086 | $ 240,284 |

The amounts above have been awarded solely to officers of the Company for work performed in their full-time capacity for the Company.

## 13. COMMITMENTS AND CONTINGENCIES

### Operating Leases

At February 29, 2016, the Company has future minimum annual operating lease commitments for vehicles and office premises in: (1) Vancouver, BC, (2) Toronto, Ontario and (3) Whitehorse, Yukon, as follows:

| | | |
|---|---|---|
| to February 28, 2017 | $ | 303,725 |
| to February 28, 2018 | | 205,184 |
| to February 29, 2019 | | 91,006 |
| to February 28, 2020 | | 64,871 |
| to February 29, 2021 and thereafter | | 37,842 |
| Total | $ | 702,628 |

## 14. SEGMENTED INFORMATION

The Company's principal activity is the exploration and development of mineral properties. The Company reports separately three operating segments, corporate segment and mineral exploration and development in two geographical segments, Canada and the United States. A breakdown of mineral properties by geographic expenditures is disclosed in *Note 7.*

| **In millions of Cdn $** | **Canada** | **USA** | **Corporate** | **Total** |
|---|---|---|---|---|
| **As at February 29, 2016** | | | | |
| Property and equipment | 3.3 | - | - | 3.3 |
| Resource properties | 106.4 | 7.3 | - | 113.7 |
| HST and other receivables | - | - | - | - |
| Total Assets | 113.6 | 9.1 | 10.5 | 133.2 |
| Net loss/(income) | 0.1 | 0.3 | 1.4 | 1.8 |
| **As at February 28, 2015** | | | | |
| Property and equipment | 3.8 | - | - | 3.8 |
| Resource properties | 103.0 | 6.3 | - | 109.3 |
| HST and other receivables | - | 0.2 | - | 0.2 |
| Total Assets | 107.1 | 8.1 | 16.0 | 131.2 |
| Net loss/(income) | (0.3) | 6.9 | 0.9 | 7.5 |

## 15. SUPPLEMENTARY CASH FLOW INFORMATION

| | **February 29, 2016** | February 28, 2015 |
|---|---|---|
| Non-cash investing and financing activities: | | |
| Accounts payable and accrued liabilities relating to resource property expenditures | **$ 114,308** | $ 443,286 |
| Stock-based compensation, capitalized to resource properties *(Note 11)* | **$ 313,480** | $ 189,431 |
| Income taxes paid | **$ -** | $ 735,649 |
| Interest paid | **$ -** | $ - |

*(Expressed in Canadian Dollars)*

## 16. INCOME TAXES

| | Year ended February 29, 2016 | Year ended February 28, 2015 |
|---|---|---|
| Current income tax: | | |
| Based on taxable income for the period | $ **(136,841)** | $ (1,162,461) |
| Prior period (under) over provision | **(156,867)** | (354,144) |
| | **(293,707)** | (1,516,605) |
| Deferred income tax: | | |
| Origination/reversal of temporary differences | $ **458,695** | $ 1,398,794 |
| Tax benefit-previously unrecognized tax assets | **-** | - |
| | **458,695** | 1,398,794 |
| Income tax recovery/(expense) | $ **164,988** | $ (117,811) |

The reconciliation of the combined Canadian federal and provincial statutory income tax rate on the net loss for the years ended February is as follows:

| | Year ended February 29, 2016 | Year ended February 28, 2015 |
|---|---|---|
| Net (Income) Loss before recovery of income taxes | $ **1,998,734** | $ 7,334,944 |
| Expected income tax (expense) recovery | 529,665 | 1,943,760 |
| Increase (decrease) resulting from: | | |
| Change in tax benefits not recognized | 92,172 | (1,625,018) |
| Under (over) provided in prior periods | (156,867) | (354,144) |
| Tax rate changes and other adjustments | - | - |
| Non-deductible (non-taxable) permanent items | (299,982) | (82,409) |
| Income tax recovery/(expense) | $ **164,988** | $ (117,811) |
| The Company's income tax is allocated as follows: | | |
| Current tax recovery / (expense) | (293,707) | (1,516,605) |
| Deferred tax recovery/(expense) | 458,695 | 1,398,794 |
| | **164,988** | (117,811) |

The 2016 statutory tax rate of 26.5% did not change from the 2015 statutory tax rate.

The deferred income tax liability continuity summary is as follows:

| | 2016 | 2015 |
|---|---|---|
| Opening Balance | $ - | $ (1,375,120) |
| Foreign exchange impact recognized in equity | - | - |
| Recognized in net income (loss) | | 1,375,120 |
| Ending Balance | $ **-** | $ - |

*(Expressed in Canadian Dollars)*

Management believes that it is not probable that sufficient taxable profit will be available in future years to allow the benefit of the deferred tax assets arising from the following deductible temporary differences to be utilized:

| | 2016 | 2015 |
|---|---|---|
| Non-capital losses | | |
| Canada | $ 26,145,663 | $ 31,803,721 |
| U.S. | $ 35,121,597 | $ 32,579,982 |
| Capital loss - Canada | $ 3,365,815 | $ 3,718,085 |
| Resource related deductions | $ 14,386,666 | $ 9,055,483 |
| Share issue costs | $ 202,701 | $ 437,719 |
| Intangible assets | $ 323,798 | $ 323,798 |
| Property plant and equipment | $ 4,271,939 | $ 3,705,294 |
| Marketable Securities | $ 436,867 | $ 347,633 |
| Other | $ 38,476 | - |

The Canadian and United Stated non-capital income tax losses expire from 2026 to 2036; intangible assets, mineral property and exploration expenses, property plant and equipment and marketable securities have no expiry date. Share issue cost is deductible between 2017 to 2020. Capital losses can be carried forward indefinitely but may only be applied against capital gains income.

As a February 29, 2016, $nil (2015 - $nil) was recognized as a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and the investments are not held for resale and are expected to be recouped by continued use of these operations by the subsidiaries. The amount of temporary differences not booked for these unremitted earnings at February 29, 2016 is $nil (2015 - $nil).

## 17. CAPITAL RISK MANAGEMENT

The Company considers its capital structure to consist of capital stock, contributed surplus and accumulated deficit. The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its resource properties and maximize shareholder returns. The Company satisfies its capital requirements through management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at February 29, 2016, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no significant changes in the Company's approach to capital management during the year ended February 29, 2016. The Company is not subject to externally imposed capital requirements.

## 18. FINANCIAL RISK MANAGEMENT

### (a) Credit risk management

Certain of the Company's financial assets are exposed to a degree of credit risk. The Company endeavours to manage credit risk by holding its cash and cash equivalents as cash deposits and short-term government treasury funds with major commercial banks.

Credit risk relating to accounts receivable and restricted cash arises from the possibility that any counterparty to an instrument fails to perform. The Company's accounts receivable relate to recoveries of HST. Restricted cash includes reclamation bonds. Reclamation bonds reflect non-interest bearing cash deposits held with governmental agencies representing the state of Nevada, Newmont Mining Corporation and interest bearing certificates of deposit held by Wells Fargo. The Company does not feel there is significant counterparty risk that could have an impact on the fair value of cash and cash equivalents, restricted cash and receivables. The maximum exposure is limited to amounts of cash and cash equivalents, restricted cash and receivables on the statement of financial position.

**(b) Liquidity risk**

The Company has in place a planning and budgeting process to help determine the funds required to support the Company's normal operating requirements on an ongoing basis and its capital, development and exploration expenditures. The Company ensures that there are sufficient funds to meet its short-term requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

As of February 29, 2016, the Company had a cash balance of $13,942,137 (2015 - $14, 751,577) to settle current accounts payable and accrued liabilities of $4,144,085 (2015 - $4,260,449).

**(c) Market risk**

The Company's financial assets and liabilities are exposed to price risk with respect to commodity prices and prices of the Company's equity investments, however the risk is limited due to the nature and low balance of the Company's holdings.

**(d) Foreign exchange risk**

The Company incurs exploration expenditures in the United States and holds its restricted cash and a portion of its cash and cash equivalents in US dollars. This gives rise to a risk that its US dollar expenditures and US dollar cash holdings may be adversely impacted by fluctuations in foreign exchange. The Company does not undertake currency hedging activities.

**(e) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk of investing cash equivalents into fixed interest rate investments is mitigated by the short terms in which the investments mature. The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is limited as these investments, although available for sale, renew daily. The short-term investments included in cash and cash equivalents earn interest at prevailing rates. This allows the Company to adapt its investment strategy in the event of any large fluctuations in the prevailing market rates.

*(Expressed in Canadian Dollars)*

**Sensitivity analysis**

The following table summarizes the sensitivity of the Company's cash, cash equivalents and restricted cash to changes in interest rates and foreign exchange rates over the twelve month reporting period ended February 29, 2016.

| | Carrying amount | Interest rate change (1) + 1% | Interest rate change (1) - 1% | Foreign currency change (2) + 10% | Foreign currency change (2) - 10% |
|---|---|---|---|---|---|
| **Cash and cash equivalents (Cdn $)** | | | | | |
| Cash - Cdn$ denominated | 3,641,812 | 36,418 | (36,418) | - | - |
| Cash - US$ denominated | 1,384,394 | 13,844 | (13,844) | 138,439 | (138,439) |
| Treasury funds – Canadian denominated | 8,915,931 | 89,159 | (89,159) | - | - |
| **Total cash and cash equivalents** | 13,942,137 | 139,421 | (139,421) | 138,439 | (138,439) |
| Reclamation bonds - US$ denominated (non-interest bearing) | 1,808,417 | - | - | 180,842 | (180,842) |
| Reclamation bonds - Cdn$ denominated (non-interest bearing) | 99,000 | - | - | - | - |
| **Total amount or impact - cash and deposits** | 15,849,554 | 139,421 | (139,421) | 319,281 | (319,281) |

1) Interest earned on the Company's interest bearing cash accounts, treasury funds and certificates of deposit is at prevailing rates that fluctuate with changes in banking interest rates and Government t-bill rates. Management believes that a plus or minus 1% annual change in rates is a reasonable estimate of variability over a twelve month period.

2) The Company's US dollar cash balance, US dollar reclamation bonds and US dollar based certificates of deposit are subject to foreign exchange risk. Management has shown a sensitivity analysis of a plus or minus change of 10%.

The sensitivity of the Company's foreign currency (US$) intercompany loan which is eliminated in the consolidated financial statements, to changes in foreign exchange rates as of February 29, 2016 is Cdn$ 362,541 for a plus 10% change and Cdn$ (362,541) for a minus 10% change.

**(f) Fair value of financial assets and liabilities**

The book values of the cash, restricted cash, accounts receivable, accounts payable and accrued liabilities, approximate their respective fair values.

The fair values together with the carrying amounts shown in the statements of financial position are as follows:

| | *Classification* | February 29, 2016 Carrying amount | February 29, 2016 Fair value | February 28, 2015 Carrying amount | February 28, 2015 Fair value |
|---|---|---|---|---|---|
| Cash and cash equivalents | *Level 1* | $13,942,137 | $13,942,137 | $14,751,577 | $14,751,577 |
| Restricted cash | *Level 1* | 1,907,417 | 1,907,417 | 1,816,686 | $ 1,816,686 |
| Marketable securities | *Level 1* | 178,344 | 178,344 | 1,274,752 | $ 1,274,752 |
| Other receivables | *Level 1* | 44,436 | 44,436 | 185,032 | $ 185,032 |
| Accounts payable and accrued liabilities | *Level 1* | (4,144,085) | (4,144,085) | (4,260,449) | $ (4,260,449) |

**(g) Estimation of fair values**

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table:

*Securities in listed entities (financial assets at fair value through profit and loss)*
Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

*Trade and other receivables/payables*
For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

## 19. SUBSEQUENT EVENT

On May 10, 2016, the Company closed a non-brokered private placement for gross proceeds of C$24,000,000 (the "Offering"). Electrum Strategic Opportunities Fund L.P. ("Electrum") and Sun Valley Gold LLC ("Sun Valley") were the only subscribers to the Offering. The Units were issued at a price of C$0.30 per Unit. Each Unit consisted of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share of the Company at a price of C$0.40 for a period of 3 years following the closing of the Offering. Electrum subscribed for 60,000,000 Units, while Sun Valley subscribed for 20,000,000 Units. Upon closing of the private placement, Electrum owned approximately 13.6% of the issued and outstanding shares of the Company while Sun Valley's ownership of the outstanding common shares of the Company increased to approximately 18.0%. All securities issued pursuant to the Offering are subject to a statutory four month hold period expiring September 11, 2016.