**GRAPHITE ONE RESOURCES INC.**

**Condensed Interim Consolidated Financial Statements**

**For the three and nine months ended June 30, 2016**

**(Unaudited)**

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3) (a), we report that the accompanying unaudited consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management. The Company’s external auditor has not performed a review of these consolidated interim financial statements.

**GRAPHITE ONE RESOURCES INC.**
**Consolidated Statements of Financial Position**
*(unaudited)*
*(Expressed in Canadian dollars)*

| As at | Note | June 30, 2016 | September 30, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 320,651 | $ 998,937 |
| Cash in trust | 5 | - | 279,225 |
| Prepayments and deposits | | 139,696 | 75,124 |
| Amounts receivable | 6 | 8,780 | 46,668 |
| **Total current assets** | | 469,127 | 1,399,954 |
| **Non-current assets** | | | |
| Equipment | | 41,646 | 56,316 |
| Exploration and evaluation property | 7 | 10,797,367 | 10,002,322 |
| **Total non-current assets** | | 10,839,013 | 10,058,638 |
| **Total assets** | | $ 11,308,140 | $ 11,458,592 |
| **EQUITY AND LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other accounts payable | | $ 298,711 | $ 806,516 |
| **Total liabilities** | | 298,711 | 806,516 |
| **Equity** | | | |
| Share capital | | 25,643,424 | 23,711,242 |
| Share option reserve | | 5,282,892 | 4,522,930 |
| Deficit | | (19,916,887) | (17,582,096) |
| **Total equity** | | 11,009,429 | 10,652,076 |
| **Total equity and liabilities** | | $ 11,308,140 | $ 11,458,592 |
| Going concern | 2 | | |

Approved by the Board of Directors:

*"Anthony Huston"*
Director

*"Douglas Smith"*
Director

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

## GRAPHITE ONE RESOURCES INC.
## Consolidated Statements of Loss and Comprehensive Loss
*(unaudited)*
*(Expressed in Canadian dollars)*

| | | For the three month period ended June 30 | | For the nine month period ended June 30 | |
|---|---|---|---|---|---|
| | | **2016** | **2015** | **2016** | **2015** |
| **Expenses** | **Note** | | | | |
| Management fees and salaries | | $ 112,119 | $ 126,976 | $ 386,947 | $ 425,204 |
| Marketing and investor relations | | 389,921 | 193,840 | 991,268 | 669,959 |
| Office and administration | | 40,255 | 45,883 | 153,849 | 178,397 |
| Professional fees | | 59,752 | 83,117 | 136,933 | 171,620 |
| Share-based payments | 8 | 22,516 | 65,001 | 680,866 | 600,673 |
| | | 624,563 | 514,817 | 2,349,863 | 2,045,853 |
| **Other income (expenses)** | | | | | |
| Foreign exchange gain/(loss) | | 342 | (1,218) | 9,429 | (16,673) |
| Interest income | | - | 1,160 | 5,643 | 8,827 |
| Write-down of investment | | - | - | - | - |
| | | 342 | (58) | 15,072 | (7,846) |
| **Net loss and comprehensive loss for the period** | | $ 624,221 | $ 514,875 | $ 2,334,791 | $ 2,053,699 |
| **Basic and diluted loss per common share** | | $ - | $ - | $ 0.01 | $ 0.01 |
| **Weighted average number of common shares oustanding** | | 209,552,731 | 169,908,916 | 203,197,031 | 167,332,979 |

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

**GRAPHITE ONE RESOURCES INC.**
**Consolidated Statements of Cash Flows**
*(unaudited)*
*(Expressed in Canadian dollars)*

| For the nine month period ended June 30, | 2016 | 2015 |
|---|---|---|
| **CASH DERIVED FROM (USED IN)** | | |
| **OPERATING ACTIVITIES** | | |
| Loss for the year | $ (2,334,791) | $ (2,053,699) |
| Items not involving cash: | | |
| Share-based payments | 680,866 | 600,673 |
| Write-down of investment | - | - |
| **Changes in non-cash working capital items** | | |
| Amounts receivable | 37,888 | 35,403 |
| Prepayments and deposits | (56,165) | 177,561 |
| Trade and other accounts payable | (176,341) | (269,016) |
| | (1,848,543) | (1,509,078) |
| **FINANCING ACTIVITIES** | | |
| Issuance of shares | 1,944,777 | - |
| Share issuance costs | (63,339) | (18,360) |
| Decrease/(increase) in cash in trust | 279,225 | 671,241 |
| | 2,160,663 | 652,881 |
| **INVESTING ACTIVITIES** | | |
| Exploration and evaluation property | (978,623) | (2,047,311) |
| Purchase of equipment | (3,376) | - |
| Decrease/(increase) in cash in trust | - | 94,826 |
| **Changes in non-cash working capital items** | | |
| Prepayments and deposits | (8,407) | - |
| | (990,406) | (1,952,485) |
| **(Decrease) increase in cash** | (678,286) | (2,808,682) |
| **Cash at beginning of period** | 998,937 | 2,954,924 |
| **Cash at end of period** | $ 320,651 | $ 146,242 |
| **Supplemental cash flow information:** | | |
| **Non-cash transactions eliminated from the consolidated statements of cash flows:** | | |
| Depreciation capitalized to exploration and evaluation property | $ 18,046 | $ 30,486 |
| Change in Accounts payable related to financing activities | $ (25,506) | $ (46,831) |
| Change in Accounts payable related to investing activities | $ (239,958) | $ (127,480) |
| Non-cash share issuance costs | $ 15,256 | $ - |
| Shares issued to settle debt | $ 66,000 | $ - |
| | $ (166,162) | $ (143,825) |

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

**GRAPHITE ONE RESOURCES INC.**

**Consolidated Statements of Changes in Equity**

*(unaudited)*

*(Expressed in Canadian dollars)*

| | Common Shares | | | | |
|---|---|---|---|---|---|
| | Number | Amount $ | Share Option Reserve $ | Deficit $ | Total Equity $ |
| **October 1, 2014** | 166,875,949 | 22,217,062 | 3,861,029 | (15,154,345) | 10,923,746 |
| Shares issued on extension of royalty purchase option | 769,231 | 57,692 | - | - | 57,692 |
| Shares issued on purchase of mineral claims | 3,000,000 | 270,000 | - | - | 270,000 |
| Cost of share issuance | - | (18,360) | - | - | (18,360) |
| Share-based payments | - | - | 600,673 | - | 600,673 |
| Net loss for the period | - | - | - | (2,053,699) | (2,053,699) |
| **June 30, 2015** | 170,645,180 | 22,526,394 | 4,461,702 | (17,208,044) | 9,780,052 |
| | | | | | |
| **October 1, 2015** | 190,062,822 | 23,711,242 | 4,522,930 | (17,582,096) | 10,652,076 |
| Private placement | 16,882,679 | 1,338,252 | - | - | 1,338,252 |
| Shares issued on settlement of debt | 733,334 | 66,000 | - | - | 66,000 |
| Shares issued on warrant exercise | 5,346,500 | 606,525 | - | - | 606,525 |
| Cost of share issuance | - | (78,595) | 15,256 | - | (63,339) |
| Share-based payments | - | - | 744,706 | - | 744,706 |
| Net loss for the period | - | - | - | (2,334,791) | (2,334,791) |
| **June 30, 2016** | 213,025,335 | 25,643,424 | 5,282,892 | (19,916,887) | 11,009,429 |

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

## 1. NATURE OF OPERATIONS

Graphite One Resources Inc. ("Graphite One" or the "Company") was incorporated in Alberta under the name Cedar Mountain Exploration Inc. ("Cedar Mountain") and commenced operations on March 16, 2006. On March 23, 2012, Cedar Mountain changed its name to Graphite One and adopted the symbol GPH on the TSX-V effective March 27, 2012. The Company was continued into British Columbia on September 12, 2014. Graphite One is the parent company of its consolidated group.

Graphite One is engaged in the business of acquiring, exploring and evaluating graphitic material properties. Through its 100% owned subsidiary, Graphite One (Alaska) Inc., the Company is focussed on the Graphite Creek property near Nome, Alaska. The Company has not yet determined whether its property contains mineral reserves that are economically recoverable and the Company is presently carrying out exploration efforts and evaluation activities on its exploration and evaluation property. The recoverability of the amounts shown for exploration and evaluation property is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the property, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral property.

The Company is currently evaluating samples of the graphitic material to assess the materials performance data related to graphite concentration, milling, spheroidizing, and coating as well as establishing the electrochemistry of the coated spherical graphite finished product.

## 2. GOING CONCERN

These unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

As at June 30, 2016, the company had a cash balance of $320,651 and working capital of $170,416. Current liabilities as at June 30, 2016 totalled $298,711. The Company has incurred losses since inception and does not generate any cash inflows from operations. In the nine month period ended June 30, 2016, cash used in operating activities totalled $1,848,543.

Subsequent to June 30, 2016, the Company raised gross proceeds of $1.3 million in a private placement (see Note 8).

The Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

## 3. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and applicable to interim financial reports, including International Accounting Standard 34 ("Interim Financial Reporting"). These financial statements should be read in conjunction with the annual financial statements for the year ended September 30, 2015, which have been prepared in accordance with IFRS as issued by IASB. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended September 30, 2015.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on August 25, 2016.

### 3.1 Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian dollars unless otherwise noted.

### 3.2 Significant judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Judgments

<u>Exploration and evaluation property</u>: The Company is required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation property should be impaired.

Estimates and assumptions

<u>Share-based payments</u>: Share-based payments are determined using the Black-Scholes Option Pricing Model based on estimated fair values of all share-based awards at the date of grant and are expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black-Scholes Option Pricing Model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

*(Expressed in Canadian dollars)*

## 4. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Company's annual audited consolidated financial statements for the year ended September 30, 2015 and 2014 for a summary of significant accounting policies.

### 4.1 Changes in Accounting Standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its unaudited condensed interim consolidated financial statements.

## 5. CASH IN TRUST

The Company has $nil (September 30, 2015 - $279,225) Cash in trust. The balance at September 30, 2015 related to the share issuance in September 2015. The funds were held in a trust account at the Company's legal counsel and were released from escrow in October 2015.

## 6. AMOUNTS RECEIVABLE

| | June 30, 2016 | September 30, 2015 |
|---|---|---|
| Share subscriptions receivable | - | 35,000 |
| Government of Canada | 8,780 | 8,458 |
| State of Alaska | - | 3,210 |
| | 8,780 | 46,668 |

## 7. EXPLORATION AND EVALUATION PROPERTY

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation property:

| | |
|---|---|
| **Balance, September 30, 2014** | $ 7,387,334 |
| Acquisition | 473,272 |
| Analysis | 272,960 |
| Geological consulting | 531,593 |
| Fieldwork | 1,216,023 |
| Engineering | 121,140 |
| **Balance, September 30, 2015** | $ 10,002,322 |
| Acquisition | 61,134 |
| Analysis | 14,835 |
| Geological consulting | 196,750 |
| Fieldwork | 232,150 |
| Engineering | 290,176 |
| **Balance, June 30, 2016** | $ 10,797,367 |

## 7. EXPLORATION AND EVALUATION PROPERTY (cont'd…)

### Graphite Creek Property Summary

The Company's land position is located on the Seward Peninsula of Alaska about 59 kilometers north of the deep sea port at Nome and consists of 200 claims totaling 9,883 hectares (23,681 acres) (the "Graphite Creek Property"). The Graphite Creek Property consists of the following mining claims:

- Twenty-four federal mining claims (the "GC Option Property");
- Fifty-six Alaska state mining claims (the "GC Purchased Property"); and
- One hundred and twenty located Alaska state mining claims around the GC Option Property (the "GC Staked Property").

In May 2015, the Company executed a long-term lease agreement with Kougarok LLC, commencing effective January 1, 2014 with an initial term of twenty years, and with provisions to extend the lease for two successive twenty year periods and ultimately for as long as production continues from the property. An advance royalty in the amount of US$30,000 was paid upon execution of the agreement, with annual payments of US$30,000 due each year until January 2019, and then increasing by US$10,000 each year until production commences. The production royalties are to be calculated as follows: 5% from lands in the 4 federal claims that were originally located in 1943, 2.5% from lands within the other 20 federal claims, 5% from lands within state claims staked by the Company within the area of interest and 2.5% from state claims acquired by the Company within the area of interest. All advance royalties paid may be recouped from production royalties. The Company has the option to reduce the production royalties by up to 2% by paying US$2 million for each 1% reduction of the Graphite Creek Royalty.

On January 24, 2012, the Company purchased from a private individual (the "Seller") one half of the GC Purchased Property (28 Alaska state mining claims) for $20,000 and a 2% production royalty on future production from the GC Purchased Property. The Company had the right to purchase the production royalty for $1 million until January 24, 2015 (the "Royalty Purchase Option"). The Company and the Seller entered into an extension agreement effective January 24, 2015 (the "Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before the earlier of (i) January 24, 2017, or (ii) the date that is six (6) months after the release by the Company of a feasibility study on the Graphite Creek Property. In connection with the Extension Agreement, the Company issued to the Seller, 769,231 common shares of the Company at a fair value of $57,692.

During June 2015, the Company purchased from another private individual the balance of the GC Purchased Property (28 Alaska state mining claims covering the same lands as the 28 Alaska state mining claims acquired in January 2012) for US$50,000, the issuance of 3 million common shares of the Company at a fair value of $270,000 and a royalty interest equal to 1% of the Net Smelter Returns received by the Company on production from the claims. The Company has the right to purchase the royalty for US$500,000 at any time within 36 months following the start of mine production.

The Company located an additional 43 Alaska mining claims in 2015, bringing the total to 200 Alaska state claims, for a total area of 9,883 hectares (23,681 acres) covering the project area. The new claims include eight on Alaska select and transferred lands and 35 on unselected Alaska state land, which will require selection and transfer to be active. These new claims cover the area for potential infrastructure needs adjacent to the Graphite Creek deposit including port facilities.

## 8. SHARE CAPITAL

### 8.1 Authorized

Unlimited number of common shares with no par value.

### 8.2 Shares Issued

The following share transactions occurred during the nine months ended June 30, 2016:

On October 30, 2015, the Company completed a private placement for total gross proceeds of $634,161. Pursuant to this private placement, the Company issued a total of 9,059,449 units (the "2015-2 Units") at a price of C$0.07 per 2015-2 Unit. Each 2015-2 Unit consists of one common share and one transferable common share purchase warrant (a "2015-2 Warrant"). Each 2015-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.10 per share during the 36 months from the date of issuance. The Company paid finders' fees in the aggregate amount of $20,384 and issued 291,200 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-2 Warrants described above.

On December 1, 2015, the Company issued 733,334 common shares in settlement of debt of $66,000 at a price of $0.09 per share.

On January 18, 2016, the Company completed a private placement for total gross proceeds of $434,090. Pursuant to this private placement, the Company issued a total of 4,823,222 units (the "2016-1 Units") at a price of C$0.09 per 2016-1 Unit. Each 2016-1 Unit consists of one common share and one transferable common share purchase warrant (a "2016-1 Warrant"). Each 2016-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.12 per share during the 36 months from the date of issuance. The Company paid finders' fees in the aggregate amount of $324 and issued 3,600 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-1 Warrants described above.

On March 2, 2016, the Company completed a private placement for total gross proceeds of $270,001. Pursuant to this private placement, the Company issued a total of 3,000,008 units (the "2016-2 Units") at a price of C$0.09 per 2016-2 Unit. Each 2016-2 Unit consists of one common share and one transferable common share purchase warrant (a "2016-2 Warrant"). Each 2016-2 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.12 per share during the 36 months from the date of issuance. The Company paid finders' fees in the aggregate amount of $6,400 and issued 71,111 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-2 Warrants described above.

In April, May and June 2016, the Company raised $606,525 and issued 5,346,500 shares through the exercise of 5,346,500 warrants at exercise prices of $0.10 to $0.125 per share.

**8. SHARE CAPITAL (cont'd)…**

The following share transactions occurred subsequent to June 30, 2016:

On August 22, 2016, The Company issued 16,250,000 Units (the "2016-3 Units") at a price of $0.08 per 2016-3 Unit for a total of $1.3 million. Each 2016-3 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-3 Warrant"). Each 2016-3 Warrant entitles the holder to purchase one full Common Share at a purchase price of $0.12 per Common Share and will expire on the earlier of: (a) two years from the date of issuance; and (b) in the event the Common Shares trade at a volume of $0.21 or more on the TSXV Venture Exchange or the Toronto Stock Exchange for 10 consecutive trading days, the Company may, at its option, issue a press release and a notice to the 2016-3 Warrantholder for the expiry of the 2016-3 Warrants on the date that is 45 days from the press release and notice and the 2016-3 Warrantholder may exercise the 2016-3 Warrants during this 45 day period (but no later than two years from the date of issuance). . Based on the residual valuation method, negligible value was attributed to the 2016-3 Warrants. The Company paid finders' fees in the aggregate amount of $67,664 and issued 845,800 non-transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-3 Warrants described above.

The following share transactions occurred during the year ended September 30, 2015:

On September 30, 2015, the Company completed a private placement for total gross proceeds of $1,359,235. Pursuant to this private placement, the Company issued a total of 19,417,642 units (the "2015-1 Units") at a price of C$0.07 per 2015-1 Unit. Each 2015-1 Unit consists of one common share and one transferable common share purchase warrant (a "2015-1 Warrant"). Each 2015-1 Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.10 per share during the 36 months from the date of issuance. Based on the residual valuation method, negligible value was attributed to the warrants. The Company paid finders' fees in the aggregate amount of $85,710 and issued 1,224,434 transferrable broker warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2015-1 Warrants described above.

In June 2015, the Company issued 3,000,000 common shares at a fair value of $270,000 in connection with the acquisition of mining claims (see Note 7).

In February 2015, the Company issued 769,231 common shares at a fair value of $57,692 in connection with an agreement to extend the Company's right to purchase a net smelter return royalty (see Note 7).

*(Expressed in Canadian dollars)*

## 8. SHARE CAPITAL (cont`d…)

### 8.3 Share based compensation

Pursuant to a stock option plan (the "Plan") for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, and the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed, or $0.10 per share. Occasionally, the Company issues stock options to agents which do not fall under the plan.

The following table summarizes activity related to stock options:

| | Options | | Weighted Average Exercise Price |
|---|---|---|---|
| **Balance, September 30, 2014** | 10,675,000 | $ | 0.22 |
| Issued | 6,850,000 | $ | 0.13 |
| Expired | (750,000) | $ | 0.15 |
| Forfeited | (4,375,000) | $ | 0.23 |
| **Balance, September 30, 2015** | 12,400,000 | $ | 0.17 |
| Issued | 9,550,000 | $ | 0.10 |
| Expired | (800,000) | $ | 0.28 |
| Forfeited | (1,275,000) | $ | 0.23 |
| **Balance, June 30, 2016** | 19,875,000 | $ | 0.13 |

During the three months ended March 31, 2016, 9,050,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.10, expiring 5 years from the date of grant and vested immediately. With respect to these options, $658,350 in share based payments was recorded and $63,840 was capitalized to Exploration and evaluation property.

During the three months ended June 30, 2016, 500,000 options were granted to consultants of the Company. Each option has an exercise price of $0.115, expiring 5 years from the date of grant and vesting in four equal installments commencing on the date of grant. With respect to these options, $22,516 in share based payments was recorded.

During the nine months ended June 30, 2015, 6,850,000 options were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.13, expiring 5 years from the date of grant and vested immediately. With respect to these options, $535,672 in share based payments was recorded.

*(Expressed in Canadian dollars)*

## 8. SHARE CAPITAL (cont`d…)

| **As at June 30, 2016** | | | | **As at September 30, 2015** | | | |
|---|---|---|---|---|---|---|---|
| Number of options outstanding # | Number of vested options # | Weighted average exercise price $ | Weighted average remaining contractual life years | Number of options outstanding # | Number of vested options # | Weighted average exercise price $ | Weighted average remaining contractual life years |
| - | - | - | - | - | - | - | - |
| - | - | - | - | 200,000 | 200,000 | 0.30 | 0.2 |
| - | - | - | - | 300,000 | 300,000 | 0.28 | 0.4 |
| - | - | - | - | 300,000 | 300,000 | 0.27 | 0.6 |
| 975,000 | 975,000 | 0.28 | 0.7 | 1,575,000 | 1,575,000 | 0.28 | 1.4 |
| 100,000 | 100,000 | 0.28 | 1.0 | 100,000 | 100,000 | 0.28 | 1.7 |
| 300,000 | 300,000 | 0.20 | 1.3 | 525,000 | 525,000 | 0.20 | 2.1 |
| 600,000 | 600,000 | 0.17 | 2.2 | 1,050,000 | 1,050,000 | 0.17 | 3.0 |
| 600,000 | 600,000 | 0.18 | 2.2 | 600,000 | 600,000 | 0.18 | 3.0 |
| 600,000 | 600,000 | 0.17 | 2.3 | 600,000 | 600,000 | 0.17 | 3.0 |
| 300,000 | 300,000 | 0.17 | 2.4 | 300,000 | 300,000 | 0.17 | 3.2 |
| 5,350,000 | 5,350,000 | 0.13 | 3.4 | 5,350,000 | 5,350,000 | 0.13 | 4.1 |
| 500,000 | 500,000 | 0.13 | 3.8 | 500,000 | 500,000 | 0.13 | 4.5 |
| 1,000,000 | 1,000,000 | 0.13 | 2.0 | 1,000,000 | 1,000,000 | 0.13 | 2.7 |
| 9,050,000 | 9,050,000 | 0.10 | 4.7 | - | - | - | - |
| 500,000 | 125,000 | 0.12 | 4.9 | - | - | - | - |
| 19,875,000 | 19,500,000 | 0.13 | 3.7 | 12,400,000 | 12,400,000 | 0.17 | 3.1 |

The fair value of the share options granted in the nine month period ended June 30, 2016 and the year ended September 30, 2015 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | **Nine months ended June 30, 2016** | **Year ended ended September 30, 2015** |
|---|---|---|
| Exercise price | \$0.10 - \$0.115 | \$0.13 |
| Market price | \$0.115 - \$0.155 | \$0.12 - \$0.075 |
| Risk free interest rate | 0.77% - 0.80% | 1.52% - 0.62% |
| Expected option life | 5 years | 3-5 years |
| Expected stock price volatility | 86% - 92% | 116% - 92% |
| Dividend payments during life of option | Nil | Nil |
| Expected forfeiture rate | Nil | Nil |
| Average fair value per option | \$0.08 - \$0.12 | \$0.09 |

*(Expressed in Canadian dollars)*

## 8. SHARE CAPITAL (cont`d…)

### 8.4 Warrants

The following table summarizes activity related to warrants:

| | Warrants | Weighted Average Exercise Price | |
|---|---|---|---|
| **Balance, September 30, 2014** | 59,351,870 | $ | 0.18 |
| Issued | 19,417,642 | $ | 0.10 |
| **Balance, September 30, 2015** | 78,769,512 | $ | 0.17 |
| Issued | 16,882,679 | $ | 0.11 |
| Exercised | (5,346,500) | | 0.11 |
| **Balance, June 30, 2016** | 90,305,691 | $ | 0.16 |

| **As at June 30, 2016** | | | **As at September 30, 2015** | | |
|---|---|---|---|---|---|
| Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life years | Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life years |
| 5,704,500 | 0.13 | 0.2 | 6,004,500 | 0.13 | 0.9 |
| 8,200,500 | 0.13 | 0.2 | 10,775,500 | 0.13 | 1.0 |
| 4,285,785 | 0.30 | 1.6 | 4,285,785 | 0.30 | 2.4 |
| 15,599,160 | 0.20 | 2.2 | 15,599,160 | 0.20 | 2.9 |
| 22,686,925 | 0.20 | 2.3 | 22,686,925 | 0.20 | 3.0 |
| 16,946,142 | 0.10 | 2.3 | 19,417,642 | 0.10 | 3.0 |
| 9,059,449 | 0.10 | 2.3 | - | - | - |
| 4,823,222 | 0.12 | 2.6 | - | - | - |
| 3,000,008 | 0.12 | 2.7 | - | - | - |
| 90,305,691 | 0.16 | 1.9 | 78,769,512 | 0.17 | 2.5 |

### 8.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

| | Warrants | Weighted Average Exercise Price | |
|---|---|---|---|
| **Balance, September 30, 2014** | 4,024,922 | $ | 0.16 |
| Issued | 1,224,434 | $ | 0.10 |
| Expired | (1,804,820) | | 0.10 |
| **Balance, September 30, 2015** | 3,444,536 | $ | 0.16 |
| Issued | 365,911 | $ | 0.10 |
| **Balance, June 30, 2016** | 3,810,447 | $ | 0.16 |

*(Expressed in Canadian dollars)*

## 8. SHARE CAPITAL (cont`d…)

| As at June 30, 2016 | | | As at September 30, 2015 | | |
|---|---|---|---|---|---|
| Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life years | Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life years |
| 929,902 | 0.20 | 2.2 | 929,902 | 0.20 | 2.9 |
| 1,290,200 | 0.20 | 2.3 | 1,290,200 | 0.20 | 3.0 |
| 1,224,434 | 0.10 | 2.3 | 1,224,434 | 0.10 | 3.1 |
| 291,200 | 0.10 | 2.3 | - | - | - |
| 3,600 | 0.10 | 2.6 | - | - | - |
| 71,111 | 0.10 | 2.7 | - | - | - |
| 3,810,447 | 0.16 | 2.2 | 3,444,536 | 0.16 | 3.0 |

The fair value of the Broker Warrants granted in the nine month period ended June 30, 2016 and the year ended September 30, 2015 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

| | Nine months ended June 30, 2016 | Year ended September 30, 2015 |
|---|---|---|
| Strike price | \$0.10 - \$0.12 | \$0.10 |
| Market price | \$0.075 - \$0.09 | \$0.08 |
| Risk free interest rate | 0.32% - 0.60% | 0.54% |
| Expected warrant life | 3 years | 3 years |
| Expected stock price volatility | 80% - 103% | 104% |
| Dividend payments during life of warrant | nil | nil |
| Expected forfeiture rate | nil | nil |
| Fair value per warrant | \$0.03 - \$0.04 | \$0.05 |

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

## 9. RELATED PARTY TRANSACTIONS AND BALANCES

| **Relationships** | **Nature of the relationship** |
|---|---|
| Huston Financial Corp. ("Huston") | Huston Financial Corp. is a private company controlled by Anthony Huston, an officer and director of the Company. Huston provides management services and investor relations consulting to the Company. |
| DH Smith Resource Advisory Corp. ("Smith") | Smith is a private company controlled by Doug Smith, a director of the Company. Smith provides management services to the Company. |
| Ahlgren Consulting Inc. ("Ahlgren") | Ahlgren is a private company controlled by Alan Ahlgren, an officer of the Company. Ahlgren provides management services to the Company. |
| Anacortes Management Ltd. ("Anacortes") | Anacortes is a private company controlled by James Currie, a director of the Company which provides director services to the Company. |
| Rockford Resources, LLC ("Rockford") | Rockford is a private company controlled by Pat Smith, a director of the Company which provides director services to the Company. |
| 0897877 BC Ltd. ("0897877 BC") | 0897877 BC is a private company controlled by Brian Budd, a director of the Company which provides director services to the Company. |
| 878160 Alberta Ltd. ("878160") | 878160 is a private company controlled by Dean Besserer, a former officer and director of the Company. 878160 provided geological services to the Company. |

*(Expressed in Canadian dollars)*

## 9. RELATED PARTY TRANSACTIONS AND BALANCES (cont`d…)

### 9.1 Related party transactions

| | Management Consulting and Directors' Fees | Management Consulting and Directors' Fees | Geological Services |
|---|---|---|---|
| **For the three months ended June 30,** | **2016** | **2015** | |
| Ahlgren Consulting Inc. | - | $ 24,000 | $ - |
| DH Smith Resource Advisory Corp. | - | 49,998 | - |
| Huston Financial Corp. | 62,500 | 62,499 | - |
| Anacortes Management Ltd. | 6,000 | 7,500 | - |
| Rockford Resources, LLC | 6,000 | 7,500 | - |
| 0897877 BC Ltd. | 6,000 | - | - |
| 878160 Alberta Ltd. | - | - | - |
| **For the nine months ended June 30,** | **2016** | **2015** | |
| Ahlgren Consulting Inc. | $ 57,033 | $ 81,000 | $ - |
| DH Smith Resource Advisory Corp. | 49,999 | 149,994 | - |
| Huston Financial Corp. | 187,500 | 187,497 | - |
| Anacortes Management Ltd. | 18,500 | 22,500 | - |
| Rockford Resources, LLC | 18,500 | 24,205 | - |
| 0897877 BC Ltd. | 18,000 | - | - |
| 878160 Alberta Ltd. | - | - | 25,000 |

The above transactions relate to consulting fees incurred by the Company. Management consulting fees are included in Management fees and salaries and Marketing and investor relations expenses in the consolidated statements of financial position.

Geological services are capitalized to Exploration and evaluation properties in the consolidated statements of financial position.

The Company pays a company with a common director for monthly office rent and general operating costs for an office in one of the Company's locations. The office rental and operating costs are shared between several companies, and the Company only pays its pro rata share of the total cost of the office rental and related costs. The Company's share of office rent and basic operating costs was $5,752 for the three and nine months ended June 30, 2016 (2015 - $7,620).

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At June 30, 2016, the Company owed $50,000 (September 30, 2015 - $161,181) to related parties.

*(Expressed in Canadian dollars)*

## 9. RELATED PARTY TRANSACTIONS AND BALANCES (cont`d…)

### 9.2 Key management compensation

| For the nine months ended June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| Consulting and directors' fees | $ | 349,532 | $ | 490,196 |
| Salaries and benefits | | 298,912 | | 190,692 |
| Stock-based compensation | | 458,850 | | 365,000 |
| | $ | 1,107,294 | $ | 1,045,889 |

| For the three months ended June 30, | | 2016 | | 2015 |
|---|---|---|---|---|
| Consulting and directors' fees | $ | 80,500 | $ | 151,497 |
| Salaries and benefits | | 121,827 | | 52,994 |
| Stock-based compensation | | - | | 25,000 |
| | $ | 202,327 | $ | 229,491 |

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the Executive Chairman, President & Chief Executive Officer, Directors, Chief Financial Officer, and General Manager Operations.

## 10. COMMITMENTS

On March 8, 2016 the Company entered into a sixteen month agreement for marketing services for $128,000 of which the balance owing of $108,000 will be paid upon the closing of the Company's next financing totalling $200,000 or more. In addition, the Company has entered into marketing consulting agreements that will require payments of approximately $295,000 over the next twelve months.

## 11. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as equity.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the future.

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements. There have not been any changes to the Company's capital management policy during the period.

## 11. RISK MANAGEMENT

### 11.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

**a. Credit risk**

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

**b. Liquidity risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at June 30, 2016, the Company had working capital of $170,416, and it does not have any long term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2016, the Company had cash of $320,651 to settle current liabilities of $298,711. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

**c. Interest rate risk**

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had $320,651 in cash at June 30, 2016, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

**d. Foreign currency risk**

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian dollars. A portion of the Company's funds are held in US dollars and are therefore subject to fluctuations in foreign exchange rates.

At June 30, 2016, the Company has certain monetary items denominated in United States dollars. Based on these net exposures, a 10% appreciation or depreciation of the Canadian dollar against the United States dollar would result in an increase or decrease of $6,200 in the Company's net loss.

### 11.2 Fair Values

The carrying values of cash, cash in trust, refundable deposits and other receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash.

## 12. SUBSEQUENT EVENT

Subsequent to June 30, 2016, the Company has received approval to change the year end from September 30$^{th}$ to December 31$^{st}$.