ADVANCE GOLD CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

February 29, 2016

(Unaudited)

(Expressed in Canadian dollars)

MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements of Advance Gold Corp. as at February 29, 2016 and the nine months ended February 29, 2016 and February 28, 2015 have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT FEBRUARY 29, 2016 AND MAY 31, 2015
(Unaudited)
(Expressed in Canadian Dollars)

		February 29, 2016		May 31, 2015 (Note 13)
ASSETS				
Current Assets				
Cash	$	1,033	$	1,006
Amounts receivable		1,328		628
Prepaid expenses		4,767		3,467
		7,128		5,101
Non-Current Assets				
Exploration and evaluation assets (Statement) (Note 5)		407,330		407,149
	$	414,458	$	412,250
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities (Note 6)	$	123,297	$	171,611
Debentures (Note 8)		60,471		56,178
		183,768		227,789
EQUITY				
Share capital (Note 7)		4,801,667		4,801,667
Reserves (Note 7)		964,450		964,450
Deficit		(5,535,427)		(5,581,656)
		230,690		184,461
	$	414,458	$	412,250

Nature and Continuance of Operations (Note 1)

Commitments (Note 10)

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

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME OR LOSS
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Unaudited)

(Expressed in Canadian Dollars)

		For the Three months ended February 29, 2016	For the Three months ended February 28, 2015	For the Nine months ended February 29, 2016	For the Nine months ended February 28, 2015
Operating expenses					
Advertising and promotion	$	1,836	2,041	5,128	5,416
Interest, bank charges and foreign exchange loss		1,652	157	4,842	3,288
Management fees (Note 9)		15,000	15,000	45,000	45,000
Office and sundry		-	-	14	13
Professional fees		4,109	4,012	13,362	12,627
Rent and telephone		116	129	402	218
Stock based compensation (Note 7)		-	-	-	811
Transfer agent and filing fees		2,043	5,817	7,445	12,720
Loss for the period		(24,756)	(27,156)	(76,193)	(80,093)
Other income items:					
Gain on settlement of debt		122	195	122,422	1,302
Comprehensive income (loss) for the period	$	(24,633)	(26,961)	46,229	(78,791)
Basic And diluted income (loss) per common share	$	(0.00)	(0.00)	0.01	(0.01)
Weighted average number of common shares outstanding - basic and diluted		7,696,339	7,696,339	7,696,339	7,696,339

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

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Unaudited)
(Expressed in Canadian Dollars)

	Number Of Common Shares		Share Capital		Stock Option Reserve		Warrant Reserve		Income (Deficit)		Total Equity
Balance at May 31, 2015	7,696,339	$	4,801,667	$	445,317	$	519,133	$	(5,581,656)	$	184,461
Comprehensive income	-		-		-		-		46,229		46,229
Stock option vesting	-		-		-		-		-		-
Balance at February 29, 2016	7,696,339	$	4,801,667	$	445,317	$	519,133	$	(5,535,427)	$	230,689
Balance at May 31, 2014	38,481,696	$	4,801,667	$	444,506	$	519,133	$	(5,470,306)	$	295,000
5:1 share consolidation	(30,785,357)										
Comprehensive loss	-		-		-		-		(78,791)		(78,791)
Share issuance costs	-		(2,500)		-		-		-		(2,500)
Stock option vesting	-		-		811		-		-		811
Balance at February 28, 2015	7,696,339	$	4,799,167	$	445,317	$	519,133	$	(5,549,097)	$	214,520

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

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Unaudited)
(Expressed in Canadian Dollars)

	For the Three months ended February 29, 2016	For the Three months ended February 28, 2015	For the Nine months ended February 29, 2016	For the Nine months ended February 28, 2015
Cash Provided By (Used For):				
Operating Activities				
Net income (loss) for the period	$ (24,633)	$ (26,961)	$ 46,229	$ (78,791)
Items not requiring cash:				
Stock based compensation	-	-	-	811
Accrued interest on debentures	1,470	-	4,293	2,772
Change in non-cash working capital items:				
Amounts receivable	(139)	(101)	(700)	(623)
Prepaid expenses	(3,900)	(1,400)	(1,300)	(1,300)
Loan from related parties	3,500	52,500	22,750	52,500
Accounts payable and accrued liabilities	22,971	(12,188)	(71,065)	33,513
Cash provided by (used in) operating activities	(731)	11,850	207	8,882
Investing Activities				
Deferred exploration expenditures paid	(27)	(31)	(181)	(156)
Cash used in investing activities	(27)	(31)	(181)	(156)
Financing Activities				
Payment of share issuance costs	-	(2,500)	-	(2,500)
Cash used in financing activities	-	(2,500)	-	(2,500)
Increase (Decrease) in cash	(758)	9,319	26	6,226
Cash , beginning of period	1,792	1,922	1,006	5,015
Cash , end of period	$ 1,034	$ 11,241	$ 1,032	$ 11,241

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

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS
(Unaudited)
(Expressed in Canadian Dollars)

	May 31, 2015	Acquisition Costs	Exploration and evaluation	Impairment	February 29, 2016
Kakamega property, Kenya	$ 407,149	$ -	$ 181	$ -	$ 407,330

	May 31, 2014 (Note 14)	Acquisition Costs	Exploration and evaluation expenditures	Impairment	February 28, 2015
Kakamega property, Kenya	$ 404,210	$ -	$ 156	$ -	$ 404,366
	$ 404,210	$ -	$ 156	$ -	$ 404,366

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

ADVANCE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS
- EXPLORATION EXPENDITURES –
(Unaudited)
(Expressed in Canadian Dollars)

		February 29, 2016		February 28, 2015
Kakamega Property				
Opening balance	$	3,214	$	275
Administration		181		156
Ending balance		3,395		431
	$	3,395	$	431

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Advance Gold Corp. (the "Company") was incorporated in the Province of British Columbia on September 28, 2004 as Liberian Gold Corporation and changed its name to Africa West Minerals Corp. ("AWMC") on June 28, 2006. The Company changed its name to Advance Gold Corp. on May 3, 2010. The Company's shares are listed on the TSX-Venture Exchange (the "Exchange"). The Company is an exploration stage company engaged in the exploration and evaluation of mineral property interests. The Company's registered office is located at 530 – 355 Burrard Street, Vancouver, British Columbia V6C 2G8 and its head office is located at 432 Royal Avenue, Kamloops, British Columbia V2B 3P7.

These consolidated financial statements have been prepared on the going concerns basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred significant losses from inception and as at February 29, 2016 the Company had a deficit of $5,535,427 (February 28, 2015 - $5,549,097), and has a working capital deficiency of $176,640 as at February 29, 2016 (February 28, 2015 – deficiency of $189,846).

The ability of the Company to continue as going concern is in doubt and is dependent upon the continued financial support from its directors and its ability to continue to raise sufficient financing. Management is seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue.

2. SIGNIFICANT ACCOUNTING POLICIES

These interim consolidated financial statements for period ended February 29, 2016 were authorized for issue by the Board of Directors of the Company on April 22, 2016.

Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its controlled entities and have been prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value. All inter-company transactions and balances have been eliminated on consolidation.

Financial instruments

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

At fair value through profit or loss ("FVTPL") - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value recognized in the Company's consolidated statements of comprehensive income or loss for the year. Cash is classified as FVTPL.

Held to maturity investments – Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. The Company has no financial assets classified as held-to-maturity investments.

Available for sale investments – Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not suitable to be classified as FVTPL, loans and receivables, or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses on monetary financial assets, which are recognized in comprehensive loss. The Company has no financial assets classified as available for sale.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost less impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Amounts receivables are classified as loans and receivable.

Other financial liabilities - This category includes financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, and the debentures are classified as other financial instruments.

Foreign Currency Translation

(i) Presentation and functional currency

The Company's functional and presentation currency is the Canadian dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The Canadian dollar is the functional currency of all the Company's subsidiaries.

(ii) Foreign currency transactions

Transactions in currencies other than the functional currencies are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position.

Gains and losses arising on foreign currency translations are included in the Company's consolidated statements of comprehensive income or loss.

Exploration and evaluation assets

Acquired properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. All costs directly related to exploration activities are capitalized once the Company has obtained the legal right to explore. Acquisition costs include cash consideration and the fair value of common shares, issued for exploration and evaluation assets. Exploration expenditures, net of recoveries, are capitalized as incurred. After a property is determined by management to be commercially feasible, acquisition costs and their related deferred exploration expenditures on the property will be transferred to mineral properties under development. Prior to transfer the assets will be tested for impairment.

Exploration and evaluation assets acquired under an option agreement where payments are made at the sole discretion of the Company, are capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the exploration and evaluation assets until the payments are in excess of acquisition costs, at which time they are then recognized in profit or loss in the Company's consolidated statements of comprehensive income or loss. Option payments are at the discretion of the optionor and, accordingly, are accounted for when receipt is reasonably assured.

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

Decommissioning liability

The Company is required to recognize a liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its exploration and evaluation assets. As of February 29, 2016 and May 31, 2015, the Company has not incurred any such obligations.

Impairment of long-lived assets

At each reporting date, the carrying amounts of the Company's assets, including exploration and evaluation assets are reviewed to determine whether there is an indication that those assets are impaired. If such an 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a 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 consolidated statement of comprehensive loss. For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash generating units. Cash generating units are the smallest identifiable groups of assets having independent cash inflows.

An impairment loss, excluding those recognized on goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had previously been recognized.

Income or Loss per share

The Company presents basic and diluted income or loss per share data for its common shares, calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income or loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. All of the share options and share purchase warrants were anti-dilutive as of February 29, 2016 and May 31, 2015.

Stock-based compensation

Stock-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods and services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

<u>Current income tax:</u>

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Critical accounting estimates and judgments

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to make judgments aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key uncertainties related to estimates that have a significant risk of resulting in a material adjustment within the next financial year and to judgments that have the most significant effect on the amounts recognized and disclosed in the consolidated financial statements.

Impairment of non-financial assets

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 to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

Stock-based compensation

Management is required to make certain estimates when determining the fair value of share option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's consolidated statements of comprehensive income or loss.

Critical judgments used in applying accounting policies

Exploration and evaluation assets

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral properties under exploration. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at February 29, 2016 and May 31, 2015 management had determined that no reclassification of exploration and evaluation assets was required.

Income taxes

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. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Accounting standards issued but not yet effective

The following new or amended accounting standards have been issued by the International Accounting Standards Board ("IASB") for periods beginning on or after June 1, 2015. These new or amended standards are not yet effective, and the Company has not completed its assessment of their impact on its consolidated financial statements.

(i) IFRS 9 Financial Instruments;
(ii) Amendments to IAS32 Financial Instruments: Presentation.

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

3. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

In the management of capital, the Company includes the components of equity as well as its cash.

In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets.

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

The Company expects that its current capital resources will not be sufficient to carry out its exploration and evaluation plans and operations through its next fiscal year. The Company is planning to use equity financing to support ongoing operations; however there is no assurance that additional funding and/or suitable joint venture agreements will be obtained.

There were no changes in the Company's approach to capital management during the year.

The Company has no externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

Fair Value

Fair value estimates are made at the reporting period end date, based on relevant market information. Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 2 or Level 3 financial instruments at February 29, 2016 and May 31, 2015, and there have been no transfers between levels.

The following is an analysis of the Company's financial assets measured at fair value as at February 29, 2016 and May 31, 2015:

		February 29, 2016				
		Level 1		Level 2		Level 3
Cash	$	1,033	$	-	$	-

		May 31, 2015 (Note 13)				
		Level 1		Level 2		Level 3
Cash	$	1,006	$	-	$	-

Financial Risk Management

The Company's financial instruments potentially expose it to a variety of risks, including credit risk, foreign exchange risk (currency), liquidity and interest rate risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The Company deposits the majority of its cash with high credit quality financial institutions in Canada reducing the credit risk. Amounts receivables consist of refundable tax credits and therefore the credit risk is minimal.

Currency risk

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. Certain assets and liabilities of the Company are denominated in U.S. dollars, and are therefore subject to fluctuation against the Canadian dollar. Currency risk is considered to be minimal.

The Canadian dollar equivalent of financial instruments denominated in U.S. dollars as at February 26, 2016 and May 31, 2015 is as follows:

		February 29, 2016		**May 31, 2015 (Note 13)**
Cash	$	815	$	31
Accounts payable		-		(6)
	$	815	$	25

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature, maturity and fixed interest rate on debentures.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances. The Company's expected source of cash flow in the upcoming year is anticipated to be through equity financing and future loan facilities, and potential joint venture agreements. Cash on hand at February 29, 2016 is insufficient to fund the Company's operational needs for the next 12 months.

5. EXPLORATION AND EVALUATION ASSETS

Kakamega Properties, Kenya:

The Company has applied for and was granted an Exclusive Prospecting License ("EPL") to cover the former Rosterman Mine and surrounding areas in Kenya. In addition, the Company has two other licenses in the immediate area. The licenses are currently in good standing until October 1, 2016.

In order to maintain the licenses the Company is required to incur a minimum of Kenya Shillings ("KES") 5,000,000 (Canadian $60,000) in exploration expenditures per year for each license. The Company is also obligated to pay KES 10,000 (Canadian $120) for all areas operated under pilot mining.

On April 20, 2011, the Company entered into an option and joint venture agreement with Aviva Corporation Ltd. ("Aviva").

On July 23, 2012, it was announced that African Barrick Gold plc ("ABG"), a subsidiary of Barrick Gold Corporation, purchased all of Aviva's Kenyan gold and base metals assets, which includes the option and joint venture agreement with the Company. The purchase required the approval of Aviva's shareholders and the Kenyan Competition authority, which was obtained.

On November 27, 2014, ABG announced that it had changed its name to Acacia Mining plc. ("Acacia").

Under the terms of the agreement, Acacia has the right to earn at least a 75% interest in the Kakamega Properties. The agreement is subject to due diligence and the Company obtaining approval of the agreement from the Commissioner of Mines and Geology of Kenya. The agreement became effective on July 21, 2011, when these two conditions had been fulfilled (the "Effective Date").

To earn a 51% interest in the properties, Acacia must:

- Incur a minimum of US$100,000 in exploration expenditures on the properties within 12 months of the effective date (completed);
- Make a US$100,000 cash payment to the Company within 15 days of date that the initial US$100,000 exploration expenditures are ratified (received June 30, 2012); and
- Incur a further US$500,000 in exploration expenditures on the properties within 24 months of date that the initial US$100,000 exploration expenditures are ratified.

Once Acacia has exercised their option to earn a 51% interest in the Kakamega Properties, a joint venture may be formed at the discretion of the parties who will hold the licenses. Should this election be adopted, all revenues, costs, assets and liabilities arising from the joint venture will be shared by the Company and Acacia in accordance with their percentage interests in the properties.

Should the 51% election be earned, to earn an additional 24% interest in the Kakamega Properties, Acacia must:

- Incur an additional US$1,000,000 in exploration expenditures on the properties within 24 months of earning a 51% interest (incurred).

Once Acacia has obtained a 75% interest, the Company may elect to participate as to its 25% share of all revenues, costs, assets and liabilities arising from the election to joint venture or, alternatively, elect to dilute their interest to 10% after which Acacia may convert the Company's interest in the property to a 3% net smelter royalty.

To February 29, 2016, Acacia has exercised its option to earn a 75% interest in the Kakamega Properties.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are comprised of the following:

		February 29, 2015		May 31, 2015 (Note 13)
Trade payables	$	10,412	$	2,814
Accrued liabilities		8,885		12,797
Due to related parties (Note 9)		104,000		156,000
	$	123,297	$	171,611

7. SHARE CAPITAL

(a) Authorized Share Capital

Unlimited number of common shares without par value.

Unlimited number of preferred shares at no par value.

On December 1, 2014, pursuant to a resolution passed by the shareholders of the Company, the Company consolidated its common shares on a basis of five old shares for one new share. All share and per share references in these financial statements are presented on a post-consolidation basis.

(b) Issued Share Capital

2014 Share Issuances:

On September 10, 2013, the Company closed a non-brokered private placement of 120,000 units at $0.25 per unit for gross proceeds of $30,000. Each unit is comprised of one common shares and one share purchase warrant. Each warrant was exercisable at $0.50 per share until September 10, 2015, subject to accelerated expiry in certain circumstances. Of the $30,000 proceeds, $8,012 was allocated to the warrants, being their estimated issue date fair value. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: an expected life of two years; a volatility of 135.2%; a risk-free interest rate of 1.32%; and an expected dividend yield rate of $nil. The Company incurred share issue costs of $6,193 in connection with this financing. As at February 29, 2016 there are no warrants outstanding (May 31, 2015 – 120,000).

On March 10, 2014, the Company closed a $50,000 debenture financing (Note 8). A term of the debenture required the Company to issue 40,000 of its common shares, which were issued in March 2014 with a fair value of $6,000.

(c) Stock Options

The Company has a stock option plan ("the Plan") whereby the aggregate number of common shares reserved for issuance pursuant to the Plan and any other share compensation arrangement granted or made available by the Company from time to time shall not exceed in aggregate 1,539,268 common shares (the "Option Plan Shares"), which represents 20% of the Company's common shares issued and outstanding on the date of adoption of the 2008 Plan by the Board of Directors, after the five old for one new share consolidation which was effective on December 1, 2014. The number of Option Plan Shares shall be increased or decreased from time to time as required if more or less Option Plan Shares are required to be issued due to any reorganization of the share capital of the Company. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years, but so long as the Company remains a "Tier 2" issuer under the policies of the Exchange, options may not exceed a term of five years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

Any options granted pursuant to the Plan will terminate within 30 days of the option holder ceasing to act as an Eligible Person pursuant to and as defined in the Plan, unless such cessation is on account of death, disability or termination of employment with cause. If such cessation is on account of disability or death, the options terminate on the first anniversary of such cessation, and if it is on account of termination of employment with cause, the options terminate immediately. The Plan also provides for adjustments to outstanding options in the event of any consolidation, subdivision, conversion or exchange of the Company's shares.

On September 18, 2013, the Company granted 170,000 post-consolidation stock options to directors, officers, and consultants, which are exercisable at $0.25 per share and expire on September 18, 2018. The options vest one quarter on each of December 18, 2013, March 18, 2014, June 18, 2014, and September 18, 2014. The grant date fair value of the options was determined to be $21,441, of which $20,631 has been recognized as stock based compensation for the year ended May 30, 2014, and a further $811 has been recognized for the year ended May 31, 2015. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: expected life of 5 years; a volatility of 135%; a risk free interest rate of 2.04%; and a dividend yield of 0%.

Total stock based compensation expense for the nine months ended February 29, 2016 is $Nil (May 31, 2015 - $811).

A summary of stock option activity for the nine months ended February 29, 2016 and year ended May 31, 2015 is as follows:

	February 29, 2016		May 31, 2015 (Note 14)	
	Number Outstanding	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
Outstanding, beginning	625,000	$ 0.39	625,000	$ 0.43
Granted	-	-	-	
Cancelled/Expired	-	-	-	-
Outstanding, ending	625,000	$ 0.39	625,000	$ 0.43

As at February 29, 2016, the Company had stock options outstanding to acquire common shares of the Company as follows:

Expiry Date	**Options Outstanding**	**Options Exercisable**	**Exercise Price**	**Remaining Contractual Life(In Years)**
March 1, 2017	50,000	50,000	$ 0.50	1.00
August 15, 2017	405,000	405,000	0.50	1.46
September 18, 2018	170,000	170,000	0.25	2.55
	625,000	625,000		

(d) Warrants

A continuity schedule of outstanding common share purchase warrants for the nine months ended February 29, 2016 and the year ended May 31, 2015 is as follows:

	February 29, 2016		May 31, 2015 (Note 14)	
	Number Outstanding	**Weighted Average Exercise Price**	**Number Outstanding**	**Weighted Average Exercise Price**
Outstanding, beginning	120,000	$ 0.50	220,000	$ 0.50
Expired	(120,000)	0.50	(100,000)	0.50
Outstanding, ending	-	$ -	120,000	$ 0.50

(e) Reserves

Stock option reserve

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

8. DEBENTURE

On March 6, 2014, the Company closed a $50,000 debenture financing with two parties, one being a director of the Company. The debentures bear interest at 10% per annum and were intended to be paid on their maturity, being March 6, 2015. As part of the agreements, the Company issued 40,000 bonus common shares. The fair value of the bonus shares of $6,000 was recognized as a deferred financing cost and amortized over the term of the loan.

The continuity schedule for the debentures activity for the nine months ended February 29, 2016 and the year ended May 31, 2015 is as follows:

		Feb 29, 2016	May 31, 2015 (Note 13)
Opening balance	$	56,178	46,592
Accretion of deferred financing cost		-	4,586
Accrued interest		4,293	5,000
	$	60,471	56,178

9. RELATED PARTY TRANSACTIONS

(a) Related party balances

Trade payables and accrued liabilities includes $104,000 (May 31, 2015 - $156,000) payable to a director of the Company and a company controlled by the director of the Company. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

(b) Related party transactions

Transactions with related parties during the nine months ended February 29, 2016 and February 28, 2015 were as follows:

		February 29, 2016		February 28, 2015
Management fees paid to a company controlled by a director of the Company	$	45,000	$	45,000

(c) Compensation to key management during the nine months ended February 29, 2016 and February 28, 2015 are:

		February 29, 2016		February 28, 2015
Management fees paid to a company controlled by a director of the Company	$	45,000	$	45,000

10. COMMITMENTS

The Company has a management services agreement with a company controlled by a director of the Company requiring payments of $5,000 per month. The agreement is in effect until February 28, 2019 unless terminated earlier in accordance with the provisions of the agreement.

The Company shares its premise with other companies controlled by a director of the Company, and is allocated its proportion of the annual rent.

11. SEGMENTED INFORMATION

The Company's operations are all conducted in one industry segment, the exploration and development of exploration and evaluation assets. The Company's exploration and evaluation assets are located in Kenya.

12. INCOME TAXES

A reconciliation of the statutory tax rate to the effective rate for the Company is as follows:

		February 29, 2016		**May 31, 2015 (Note 13)**
Statutory tax rate		26%		26%
Income (loss) and comprehensive income (loss) for the period	$	46,231	$	(111,350)
Expected income tax recovery		12,020		(28,951)
Non-deductible expenses and other		-		(18,747)
Non-capital losses expired		-		12,118
Effect of foreign tax rates and tax rate changes		-		(28,780)
Effect of deductible temporary differences not recognized		(12,020)		64,360
Income tax recovery	$	-	$	-

Significant components of the Company's deferred tax assets as of February 29, 2016 and May 31, 2015 are as follows:

		February 29,2016		**May 31, 2015 (Note 14)**
Deferred income tax assets :				
Equipment	$	26	$	28
Exploration and evaluation assets		288,370		354,052
Non-capital losses carry forwards		585,567		1,102,471
Share-issue costs		1,490		2,264
Deferred income tax assets		875,453		1,458,815
Unrecognized deferred income tax assets		(875,453)		(1,458,815)
Deferred income tax assets	$	-	$	-

As at February 29, 2016, the Company has Canadian non-capital losses of $2,097,580, which expire in various years to 2035, as follows:

Expiry Date		Amount
2026	$	61,087
2027		170,664
2028		148,223
2029		301,527
2030		284,640
2031		189,826
2032		246,562
2033		185,008
2034		276,045
2035		249,156
2036		46,985
	$	2,1579,723

The Company has Canadian cumulative foreign resource expenditures of $1,109,114 available to reduce future taxable income. These expenses have no expiration date.

13. COMPARATIVE FIGURES

The comparative figures disclosed as at May 31, 2015 in these interim unaudited financial statements were subject to an audit engagement.

14. SUBSEQUENT EVENT

A director of the Company loaned $5,500 to the Company on March 4, 2016. The loan is non-interest bearing and due on demand.

On April 18, 2016 Advance Gold elected to dilute their participation interest to 14.1% under the Option and Joint Venture agreement, giving Acacia Mining an 85.9% interest in the Kakamega project.