



ADVANCE GOLD CORP.

CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2016

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Advance Gold Corp.

We have audited the accompanying consolidated financial statements of Advance Gold Corp., which comprise the consolidated statements of financial position as at May 31, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 audit 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advance Gold Corp. as at May 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Advance Gold Corp.'s ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
September 23, 2016

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

	May 31, 2016	May 31, 2015
ASSETS		
Current Assets		
Cash	\$ 1,550	\$ 1,006
Amounts receivable	-	628
Prepaid expenses	3,467	3,467
	5,017	5,101
Non-Current Assets		
Exploration and evaluation assets (Statement) (Note 5)	407,829	407,149
	\$ 412,846	\$ 412,250
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Notes 6 and 9)	\$ 144,309	\$ 171,611
Debentures (Note 8)	61,995	56,178
	206,304	227,789
EQUITY		
Share capital (Note 7)	4,847,655	4,801,667
Reserves (Note 7)	964,450	964,450
Deficit	(5,605,563)	(5,581,656)
	206,542	184,461
	\$ 412,846	\$ 412,250
Nature and Continuance of Operations (Note 1)		
Commitments (Note 10)		
Events after the reporting period (Note 13)		

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

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	May 31, 2016	May 31, 2015
Operating expenses		
Advertising and promotion	\$ 5,388	\$ 5,635
Interest, bank charges and foreign exchange	6,560	10,316
Management fees (Note 9)	45,000	60,000
Office and sundry	12	13
Professional fees	19,416	18,343
Rent and telephone	516	343
Stock based compensation (Note 7)	-	811
Transfer agent and filing fees	10,555	17,322
	87,447	112,783
Other Income		
Gain on settlement of debt (Note 9)	(63,540)	(1,433)
Loss and Comprehensive loss for the year	\$ (23,907)	\$ (111,350)
 Basic and diluted loss per common share	 \$ (0.01)	 \$ (0.01)
Weighted average number of common shares outstanding - basic and diluted	7,744,536	7,696,339

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

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED MAY 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	Number Of Common Shares		Share Capital		Stock Option Reserve		Warrant Reserve		Deficit		Total Equity
Balance at May 31, 2015	7,696,339	\$	4,801,667	\$	445,317	\$	519,133	\$	(5,581,656)	\$	184,461
Comprehensive loss	-		-		-		-		(23,907)		(23,907)
Private placement (Note 7)	980,000		49,000		-		-		-		49,000
Share issuance costs (Note 7)	-		(3,012)		-		-		-		(3,012)
Balance at May 31, 2016	8,676,339	\$	4,847,655	\$	445,317	\$	519,133	\$	(5,605,563)	\$	206,542
Balance at May 31, 2014	7,696,339	\$	4,801,667	\$	444,506	\$	519,133	\$	(5,470,306)	\$	295,000
Comprehensive loss	-		-		-		-		(111,350)		(111,350)
Stock option vesting (Note 7)	-		-		811		-		-		811
Balance at May 31, 2015	7,696,339	\$	4,801,667	\$	445,317	\$	519,133	\$	(5,581,656)	\$	184,461

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

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	May 31, 2016	May 31, 2015
Cash Provided By (Used For):		
Operating Activities		
Net loss	\$ (23,907)	\$ (111,350)
Items not requiring cash:		
Stock based compensation	-	811
Interest on debentures	5,817	9,586
Gain on debt settlement	(63,540)	(1,433)
Change in non-cash working capital items:		
Amounts receivable	628	323
Accounts payable and accrued liabilities	36,238	100,993
Cash used in operating activities	(44,764)	(1,070)
Investing Activities		
Deferred exploration expenditures paid	(680)	(2,939)
Cash used in investing activities	(680)	(2,939)
Financing Activities		
Issuance of common shares for cash	49,000	-
Payment of share issuance costs	(3,012)	-
Cash provided by financing activities	45,988	-
Increase (Decrease) in cash	544	(4,009)
Cash , beginning of year	1,006	5,015
Cash , end of year	\$ 1,550	\$ 1,006

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

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS
FOR THE YEARS ENDED MAY 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	May 31, 2015	Acquisition Costs	Exploration and evaluation expenditures	Impairment	May 31, 2016
Kakamega property, Kenya	\$ 407,149	\$ -	\$ 680	\$ -	\$ 407,829

	May 31, 2014	Acquisition Costs	Exploration and evaluation expenditures	Impairment	May 31, 2015
Kakamega property, Kenya	\$ 404,210	\$ -	\$ 2,939	\$ -	\$ 407,149

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

ADVANCE GOLD CORP.
CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS
- EXPLORATION EXPENDITURES –
FOR THE YEARS ENDED MAY 31, 2016 AND 2015
(Expressed in Canadian Dollars)

	May 31, 2016	May 31, 2015
Kakamega Property		
Opening balance	\$ 3,215	\$ 276
Administration	680	2,939
Ending balance	\$ 3,895	\$ 3,215

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

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2016
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Advance Gold Corp. (the "Company") was incorporated in the Province of British Columbia on September 28, 2004. 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 May 31, 2016 the Company had a deficit of \$5,605,563 (May 31, 2015 - \$5,581,656), and has a working capital deficiency of \$201,287 as at May 31, 2016 (2015 – \$222,688).

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 as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements for the year ended May 31, 2016 were authorized for issue by the Board of Directors of the Company on September 22, 2106.

Statement of compliance

These consolidated 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 statement of comprehensive 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.

ADVANCE GOLD CORP.
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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.

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 the debentures are classified as other financial liabilities.

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.

Gain and losses arising on foreign currency translations are included in the Company's consolidated statement of comprehensive 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 loss. Option payments are at the discretion of the optionor and, accordingly, are accounted for when receipt is reasonably assured.

The Company has farm-out arrangements with a third party on its exploration property. The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangement but predesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

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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 May 31, 2016 and 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 May 31, 2016 and May 31, 2015.

Stock-based compensation

Share-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 or 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 services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Income taxes

Current income tax:

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 amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

ADVANCE GOLD CORP.
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Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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 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 May 31, 2016 and 2015 management had determined that no reclassification of exploration and evaluation assets was required.

ADVANCE GOLD CORP.
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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 IASB for periods beginning on or after June 1, 2016. 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; and
- (ii) IFRS 15 Revenue from Contracts with Customers.

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 May 31, 2016 and May 31, 2015 and there have been no transfers between levels.

ADVANCE GOLD CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2016
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The following is an analysis of the Company's financial assets measured at fair value as at May 31, 2016 and 2015:

		May 31, 2016			
		Level 1	Level 2	Level 3	
Cash	\$	1,550	\$ -	\$ -	

		May 31, 2015			
		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 receivable consist of refundable tax credits and therefore 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 Kenyan Shilling, 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 foreign currencies as at May 31, 2016 and 2015 is as follows:

		May 31, 2016	May 31, 2015
Cash	\$	768	\$ 956
Accounts payable		(6)	(6)
	\$	762	\$ 950

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 May 31, 2016 is insufficient to fund the Company's operational needs for the next 12 months. Liquidity risk is assessed as high.

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5. EXPLORATION AND EVALUATION ASSETS

Kakamega Property, 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 Property. 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 (completed).

Once Acacia has exercised its 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 (completed).

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.

On April 18, 2016, the Company elected to dilute their participation interest to 15% under the Option and Joint Venture agreement, giving Acacia Mining an 85% interest in the Kakamega Properties.

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6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	May 31, 2016	May 31, 2015
Trade payables	\$ 3,036	\$ 2,814
Accrued liabilities	15,323	12,797
Goods and services tax	450	-
Due to related parties (Note 9)	125,500	156,000
	\$ 144,309	\$ 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

Share Issuances:

On May 13, 2016, the Company closed a non-brokered private placement of 980,000 shares at \$0.05 per share for gross proceeds of \$49,000 to a director of the Company. The Company incurred share issue costs of \$3,012 in connection with this financing.

(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.

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On September 18, 2013, the Company granted 170,000 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 31, 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 year ended May 31, 2016 was \$Nil (2015 - \$811).

A summary of stock option activity for the years ended May 31, 2016 and 2015 is as follows:

	May 31, 2016		May 31, 2015	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, beginning	625,000	\$ 0.43	625,000	\$ 0.43
Granted	-	-	-	-
Cancelled/Expired	-	-	-	-
Outstanding, ending	625,000	\$ 0.43	625,000	\$ 0.43

As at May 31, 2016, the Company had stock options outstanding to acquire common shares of the Company as follows:

Expiry Date	Options Outstanding	Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life(In Years)
March 1, 2017	50,000	50,000	\$ 0.50	0.75
August 15, 2017	405,000	405,000	0.50	1.21
September 18, 2018	170,000	170,000	0.25	2.30
	625,000	625,000	\$ 0.43	

(d) Warrants

A continuity schedule of outstanding common share purchase warrants for the years ended May 31, 2016 and 2015 is as follows:

	May 31, 2016		May 31, 2015	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, beginning	120,000	\$ 0.50	220,000	\$ 0.50
Issued	-	-	-	-
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.

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Warrant Reserve

The warrant reserve records the proceeds allocated to warrants on the issuance of units in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

8. DEBENTURES

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 repaid on their maturity, being March 6, 2015. As part of the debenture 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 was amortized over the term of the debenture.

The debentures bear interest at 10% per annum and were intended to be paid on their maturity, being March 6, 2015.

	May 31, 2016	May 31, 2015
Opening balance	\$ 56,178	\$ 46,592
Accretion of deferred financing cost	-	4,586
Accrued interest	5,817	5,000
	\$ 61,995	\$ 56,178

9. RELATED PARTY TRANSACTIONS

(a) Related party balances

Accounts payables and accrued liabilities includes \$125,500 (May 31, 2015 - \$156,000) payable to a director of the Company and a company controlled by a director of the Company. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the year ended May 31, 2016, \$63,540 of account payable was forgiven by CEO of the Company.

(b) Related party transactions

Transactions with related parties during the years ended May 31, 2016 and 2015 were as follows:

	May 31, 2016	May 31, 2015
Management fees paid to a company controlled by a director of the Company	\$ 45,000	\$ 60,000

(c) Compensation to key management during the years ended May 31, 2016 and 2015 were:

	May 31, 2016	May 31, 2015
Stock-based compensation	\$ -	\$ 811
Management fees paid to a company controlled by a director of the Company	45,000	60,000
	\$ 45,000	\$ 60,811

10. COMMITMENTS

The Company had a management services agreement with a company controlled by a director of the Company requiring payments of \$5,000 per month. In accordance with the provisions of the agreement, this agreement was terminated effective March 1, 2016.

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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:

	May 31, 2016	May 31, 2015
Statutory tax rate	26%	26%
Loss for the year	\$ (23,907)	\$ (111,350)
Expected income tax recovery	(6,216)	(28,951)
Non-deductible expenses and other	276	(18,747)
Non-capital losses expired	-	12,118
Share issuance cost	(783)	-
Effect of foreign tax rates and tax rate changes	(249)	(28,780)
Effect of deductible temporary differences not recognized	6,972	64,360
Income tax recovery	\$ -	\$ -

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

	May 31, 2016	May 31, 2015
Deferred income tax assets :		
Equipment	\$ 22	\$ 28
Exploration and evaluation assets	322,837	354,052
Non-capital losses carry forwards	1,141,256	1,102,471
Share-issue costs	1,672	2,264
	1,465,787	1,458,815
Unrecognized deferred income tax assets	(1,465,787)	(1,458,815)
Deferred income tax assets	\$ -	\$ -

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As at May 31, 2016, the Company has Canadian non-capital losses of \$2,261,909 which expire in various years to 2036, 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	149,171
	<hr/>
	\$ 2,261,909

The Company has Canadian cumulative foreign resource expenditures of \$1,079,573 available to reduce future taxable income. These expenses have no expiration date.

13. Events After The Reporting Period

- a) The Company received loans of \$11,000 and \$2,000 from a director of the Company. These loans have no specific terms and are due on demand.
- b) The Company elected to dilute its participation interest in the Kakamega Properties to 14.1% (Note 5).