GRAPHITE ONE RESOURCES INC.

Condensed Interim Consolidated Financial Statements

For the three and six months ended June 30, 2017

(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 June 30		**2017**	**2016**
ASSETS	**Note**		
Current assets			
Cash		$ 31,217	$ 320,651
Prepayments and deposits		104,558	139,696
Amounts receivable	6	7,068	8,780
Total current assets		142,843	469,127
Non-current assets			
Equipment		36,244	41,646
Exploration and evaluation property	7	12,148,283	10,797,367
Total non-current assets		12,184,527	10,839,013
Total assets		$ 12,327,370	$ 11,308,140
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable		$ 886,323	$ 298,711
Total liabilities		886,323	298,711
Equity			
Share capital		27,707,004	25,643,424
Share option reserve		5,552,558	5,282,892
Deficit		(21,818,515)	(19,916,887)
Total equity		11,441,047	11,009,429
Total equity and liabilities		$ 12,327,370	$ 11,308,140
Going concern	3		

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)

	Note	For the three month period ended June 30 2017	For the three month period ended June 30 2016	For the six month period ended June 30 2017	For the six month period ended June 30 2016
Expenses					
Management fees and salaries		$ 172,913	$ 112,119	$ 314,710	$ 245,965
Marketing, advisory and investor relations		89,298	389,921	258,914	657,473
Office and administration		31,620	40,255	87,767	113,774
Professional fees		50,234	59,752	108,880	94,172
Share-based payments	8	-	22,516	7,637	680,866
		344,065	624,563	777,908	1,792,250
Other income (expenses)					
Foreign exchange gain/(loss)		7,108	342	16,080	11,093
		7,108	342	16,080	11,093
Net loss and comprehensive loss for the period		$ 336,957	$ 624,221	$ 761,828	$ 1,781,157
Basic and diluted loss per common share		$ -	$ -	$ -	$ 0.01
Weighted average number of common shares oustanding		240,358,668	209,552,731	239,944,303	206,750,113

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 six month periodended June 30,		**2017**		**2016**
CASH DERIVED FROM (USED IN)				
OPERATING ACTIVITIES				
Loss for the period	$	(761,828)	$	(1,781,157)
Items not involving cash:				
Share-based payments		7,637		680,866
Changes in non-cash working capital items				
Amounts receivable		10,911		10,235
Prepayments and deposits		30,068		75,689
Trade and other accounts payable		309,958		161,226
		(403,254)		(853,141)
FINANCING ACTIVITIES				
Issuance of shares		-		1,310,616
Share issuance costs		(1,621)		(20,580)
Decrease in cash in trust		-		70,040
		(1,621)		1,360,076
INVESTING ACTIVITIES				
Exploration and evaluation property		(295,552)		(469,176)
Changes in non-cash working capital items				
Prepayments and deposits		8,210		53,976
		(287,342)		(415,200)
(Decrease) increase in cash		(692,217)		91,735
Cash at beginning of period		723,434		228,916
Cash at end of period	$	31,217	$	320,651
Supplemental cash flow information:				
Non-cash transactions eliminated from the consolidated statements of cash flows:				
Depreciation capitalized to exploration and evaluation property	$	(2,765)	$	5,969
Change in Accounts payable related to investing activities	$	176,422	$	(1,688)
Shares issued on purchase of claims and royalty extension	$	150,000	$	(57,692)
	$	323,657	$	(53,411)

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 $
January 1, 2016	199,855,605	24,355,773	4,535,801	(18,135,730)	10,755,844
Shares issued on private placement	7,823,230	704,091	-	-	704,091
Shares issued on warrant exercise	5,346,500	606,525	-	-	606,525
Cost of share issuance	-	(22,965)	2,385	-	(20,580)
Share-based payments	-	-	744,706	-	744,706
Net loss for the period	-	-	-	(1,781,157)	(1,781,157)
June 30, 2016	213,025,335	25,643,424	5,282,892	(19,916,887)	11,009,429
January 1, 2017	239,425,335	27,558,625	5,544,921	(21,056,687)	12,046,859
Shares issued on extension of royalty purchase option	1,666,667	150,000			150,000
Cost of share issuance		(1,621)		-	(1,621)
Share-based payments	-	-	7,637	-	7,637
Net loss for the period	-	-	-	(761,828)	(761,828)
June 30, 2017	241,092,002	27,707,004	5,552,558	(21,818,515)	11,441,047

1. NATURE OF OPERATIONS

Graphite One Resources Inc. ("Graphite One" or the "Company") was incorporated in Alberta and commenced operations on March 16, 2006 under the name Cedar Mountain Exploration Inc. ("Cedar Mountain"). 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 "Graphite Creek Project").

The ability of the Company to proceed with the evaluation and development of the Graphite Creek Project depends on a number of factors, the key ones including obtaining the necessary financing to complete the evaluation and development, and ultimately upon future profitable production or proceeds from disposition of the Graphite Creek Project.

2. CHANGE OF FINANCIAL YEAR END

Effective with the 2016 fiscal year, the Company changed its fiscal year end from September 30 to December 31. Accordingly, the Company's 2016 fiscal year comprises the 15 month period ended December 31, 2016. The comparative financial information for the three and six month periods ended June 30, 2017 are the three and six month periods ended June 30, 2016.

3. 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, 2017, the Company had a cash balance of $31,217 and a deficit of $743,479, with current liabilities of $886,323. The Company has incurred losses since inception and does not generate any cash inflows from operations. In the six month period ended June 30, 2017, cash used in operating activities totalled $403,254. Subsequent to June 30, 2017, the Company completed a financing, raising $678,800 (Note 8).

The Company's ability to continue to meet its obligations and carry out its planned exploration and development 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 statement of financial position 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.

4. 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 December 31, 2016, 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 December 31, 2016.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on August 28, 2017.

4.1 Basis of measurement

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

4.2 Significant judgments, estimates and assumptions

The preparation of the Company's unaudited condensed interim 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 unaudited condensed interim 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. 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)

5. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Company's annual audited consolidated financial statements for the years ended December 31, 2016 and September 30, 2015 for a summary of significant accounting policies.

5.1 Changes in Accounting Standards

The Company has reviewed the new and revised accounting pronouncements issued by the IASB relevant to the year ended December 31, 2016 and subsequently, and no were considered to have a significant impact on the Company's current operations or financial statements.

6. AMOUNTS RECEIVABLE

	June 30, 2017	June 30, 2016
Government of Canada - GST	7,068	8,780
	7,068	8,780

7. EXPLORATION AND EVALUATION PROPERTY

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

	Graphite Creek
Balance, December 31, 2015	$ 10,356,019
Acquisition	75,820
Analysis	70,277
Geological consulting	278,860
Fieldwork	352,067
Engineering	396,031
Balance, December 31, 2016	$ 11,529,074
Acquisition	196,739
Analysis	12,830
Geological consulting	201,082
Fieldwork	152,213
Engineering	56,345
Balance, June 30, 2017	$ 12,148,283
Acquisition	$ 1,167,270
Exploration and evaluation	10,361,804
Balance, December 31, 2016	$ 11,529,074
Acquisition	$ 1,364,009
Exploration and evaluation	10,784,274
Balance, June 30, 2017	$ 12,148,283

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

Graphite Creek Property Summary

The Graphite Creek Property consists of a number of Federal mining claims (the "GC Option Property"), Alaska state mining claims (the "GC Purchased Property") and 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. All required payments under the agreement have been made. 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") the GC Purchased Property 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 "2015 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 2015 Extension Agreement, the Company issued to the Seller 769,231 common shares of the Company at an issue price of $0.13 per share. In January 2017, the Company and the Seller agreed to further extend the terms of the Royalty Purchase Option and entered into an extension agreement effective January 24, 2017 (the "2017 Extension Agreement") whereby the Royalty Purchase Option may be exercised at any time on or before January 24, 2021. In connection with the 2017 Extension Agreement, the Company issued to the Seller 1,666,667 common shares of the Company at an issue price of $0.09 per share and 1,153,846 common share purchase warrants of the Company.

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.

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 six months ended June 30, 2017:

In connection with the 2017 Extension Agreement (Note 7), the Company issued 1,666,667 common shares of the Company at an issue price of $0.09 per share, and 1,153,846 common share purchase warrants of the Company.

The following share transactions occurred subsequent to June 30, 2017:

On August 22, 2017, the Company issued 9,697,143 Units (the "2017-1 Units") at a price of $0.07 per 2017-1 Unit for a total gross proceeds of $678,800. Each 2017-1 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2017-1 Warrant"). Each 2017-1 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) five 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 2017-1 Warrant holder for the expiry of the 2017-1 Warrants on the date that is 45 days from the press release and notice and the 2017-1 Warrant holder may exercise the 2017-1 Warrants during this 45 day period (but no later than five years from the date of issuance). Based on the residual valuation method, negligible value was attributed to the 2017-1 Warrants.

The following share transactions occurred during the year ended December 31, 2016:

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. Based on the residual valuation method, no value was attributed to the 2016-1 Warrants. The Company paid finders' fees in the aggregate amount of $324 and issued 3,600 transferrable broker warrants valued at $159, 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.

8. SHARE CAPITAL (cont'd)…

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. Based on the residual valuation method, no value was attributed to the 20156-2 Warrants. The Company paid finders' fees in the aggregate amount of $6,400 and issued 71,111 transferrable broker warrants valued at $2,226, 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.

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 Warrant holder 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 Warrant holder 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, no 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 valued at $15,732, 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.

On November 8, 2016, the Company issued 10,150,000 Units (the "2016-4 Units") at a price of $0.08 per 2016-4 Unit for a total gross proceeds of $812,000. Each 2016-4 Unit consists of one common share (a "Common Share") and one transferable common share purchase warrant (a "2016-4 Warrant"). Each 2016-4 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 2016-4 Warrant holder for the expiry of the 2016-4 Warrants on the date that is 45 days from the press release and notice and the 2016-4 Warrant holder may exercise the 2016-4 Warrants during this 45 day period (but no later than two years from the date of issuance). Based on the residual valuation method, no value was attributed to the 2016-4 Warrants. The Company paid finders' fees in the aggregate amount of $48,000 and issued 600,000 non-transferrable broker warrants valued at $16,200, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the 2016-4 Warrants described above.

(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, December 31, 2015	12,200,000	$	0.17
Issued	13,600,000	$	0.10
Expired	(600,000)	$	0.28
Forfeited	(1,275,000)	$	0.23
Balance, December 31, 2016	23,925,000	$	0.12
Issued	-	$	-
Expired	(1,075,000)	$	0.28
Forfeited	-	$	-
Balance, June 30, 2017	22,850,000	$	0.12

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont'd)…

As at June 30, 2017				As at December 31, 2016			
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
-	-	-	-	975,000	975,000	0.28	0.2
-	-	-	-	100,000	100,000	0.28	0.5
300,000	300,000	0.20	0.3	300,000	300,000	0.20	0.8
600,000	600,000	0.17	1.2	600,000	600,000	0.17	1.7
600,000	600,000	0.18	1.2	600,000	600,000	0.18	1.7
600,000	600,000	0.17	1.3	600,000	600,000	0.17	1.8
300,000	300,000	0.17	1.4	300,000	300,000	0.17	1.9
5,350,000	5,350,000	0.13	2.4	5,350,000	5,350,000	0.13	2.9
500,000	500,000	0.13	2.8	500,000	500,000	0.13	3.3
1,000,000	1,000,000	0.13	1.0	1,000,000	1,000,000	0.13	1.5
9,050,000	9,050,000	0.10	3.7	9,050,000	9,050,000	0.10	4.2
500,000	500,000	0.12	3.9	500,000	375,000	0.12	4.4
4,050,000	4,050,000	0.10	4.4	4,050,000	4,050,000	0.10	4.9
22,850,000	22,850,000	0.12	3.1	23,925,000	23,800,000	0.12	3.4

No share options were granted in the six month period ended June 30, 2017. The fair value of the share options granted in the year ended December 31, 2016 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended December 31, 2016
Exercise price	\$0.10 - \$0.115
Market price	\$0.08 - \$0.155
Risk free interest rate	0.75% - 0.80%
Expected option life	5 years
Expected stock price volatility	85% - 92%
Dividend payments during life of option	Nil
Expected forfeiture rate	Nil
Average fair value per option	\$0.05 - \$0.12

(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, December 31, 2015	87,828,961	$ 0.15
Issued	34,223,230	$ 0.12
Exercised	(5,346,500)	0.11
Expired	(13,905,000)	0.13
Balance, December 31, 2016	102,800,691	$ 0.15
Issued	1,153,846	$ 0.13
Balance, June 30, 2017	103,954,537	$ 0.15

Warrants outstanding:

As at June 30, 2017			As at December 31, 2016		
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
4,285,785	0.30	0.6	4,285,785	0.30	1.1
15,599,160	0.20	1.2	15,599,160	0.20	1.7
22,686,925	0.20	1.3	22,686,925	0.20	1.7
16,946,142	0.10	1.3	16,946,142	0.10	1.7
9,059,449	0.10	1.3	9,059,449	0.10	1.8
4,823,222	0.12	1.6	4,823,222	0.12	2.0
3,000,008	0.12	1.7	3,000,008	0.12	2.2
16,250,000	0.12	1.1	16,250,000	0.12	1.6
10,150,000	0.12	1.4	10,150,000	0.12	1.9
1,153,846	0.13	3.6	-	-	-
103,954,537	0.15	1.3	102,800,691	0.15	1.7

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont`d…)

8.5 Broker Warrants

The following table summarizes activity related to Broker Warrants:

	Warrants	Weighted Average Exercise Price
Balance, December 31, 2015	3,735,736	$ 0.16
Issued	1,520,511	$ 0.12
Balance, December 31, 2016	5,256,247	$ 0.15
Balance, June 30, 2017	5,256,247	$ 0.15

Broker warrants outstanding:

As at June 30, 2017			As at December 31, 2016		
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	1.2	929,902	0.20	1.7
1,290,200	0.20	1.3	1,290,200	0.20	1.7
1,224,434	0.10	1.3	1,224,434	0.10	1.7
291,200	0.10	1.3	291,200	0.10	1.8
3,600	0.12	1.6	3,600	0.12	2.0
71,111	0.12	1.7	71,111	0.12	2.2
845,800	0.12	1.1	845,800	0.12	1.6
600,000	0.12	1.4	600,000	0.12	1.9
5,256,247	0.15	1.2	5,256,247	0.15	1.7

No broker warrants were issued in the six month period ended June 30, 2017. The fair value of the Broker Warrants granted in the year ended December 31, 2016 of $34,317 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year ended December 31, 2016
Strike price	$0.12
Market price	$0.075 - $0.085
Risk free interest rate	0.32% - 0.62%
Expected warrant life	2 - 3 years
Expected stock price volatility	64% - 103%
Dividend payments during life of warrant	nil
Expected forfeiture rate	nil
Fair value per warrant	$0.02 - $0.04

(Expressed in Canadian dollars)

8. SHARE CAPITAL (cont`d…)

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. and Huston and Huston Holdings Corp. ("Huston")	Huston Financial Corp. and Huston and Huston Holdings Corp. are private companies controlled by an officer and director of the Company which provides management services and IR Consulting to the Company.
Anacortes Management Ltd. ("Anacortes")	Anacortes is a private company controlled by James Currie, a former director of the Company which provided 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.

9.1 Related party transactions

	Management Consulting and Directors' Fees	Management Consulting and Directors' Fees
For the three months ended June 30		
Huston Financial Corp./Huston & Huston Holdings Corp.	$ 62,500	$ 62,500
Anacortes Management Ltd.	6,000	6,000
Rockford Resources, LLC	6,000	6,000
0897877 BC Ltd.	6,000	6,000
For the six months ended June 30	**2017**	**2016**
Huston Financial Corp./Huston & Huston Holdings Corp.	$ 125,000	$ 125,000
Anacortes Management Ltd.	12,000	12,000
Rockford Resources, LLC	12,000	12,000
0897877 BC Ltd.	12,000	18,000

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

(Expressed in Canadian dollars)

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

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, 2017, the Company owed $147,087 (2016 - $50,000) to related parties.

9.2 Key management compensation

For the six months ended June 30,		2017		2016
Consulting and directors' fees	$	161,000	$	167,000
Salaries and benefits		385,905		256,930
Stock-based compensation		-		458,850
	$	546,905	$	882,780

For the three months ended June 30,		2017		2016
Consulting and directors' fees	$	80,500	$	80,500
Salaries and benefits		243,193		121,827
	$	323,693	$	202,327

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.

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

10. 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 as 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, 2017, the Company had a deficit of $743,479, 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. 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 $31,217 in cash at June 30, 2017 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, 2017, 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 $22,000 in the Company's net loss.

11.2 Fair Values

The carrying values of cash, 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.