OCEANUS

RESOURCES CORPORATION

Consolidated Financial Statements
March 31, 2016 and 2015

July 29, 2016

Management's Report

The accompanying consolidated financial statements of **Oceanus Resources Corporation** (the "Company") are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements include certain amounts and assumptions that are based on management's best estimates and have been derived with careful judgment.

In fulfilling its responsibilities, management has developed and maintains a system of internal accounting controls. These controls are designed to provide reasonable assurance that the financial records are reliable for preparation of the consolidated financial statements. The Audit Committee of the Board of Directors reviewed and approved the Company's consolidated financial statements and recommended their approval by the Board of Directors.

(signed) "*Glenn Jessome*"
President and Chief Executive Officer
Halifax, Nova Scotia

(signed) "*Glenn Holmes*"
Chief Financial Officer
Halifax, Nova Scotia

July 29, 2016

Independent Auditor's Report

To the Shareholders of
Oceanus Resources Corporation

We have audited the accompanying consolidated financial statements of **Oceanus Resources Corporation** and its subsidiaries, which comprise the consolidated statements of financial position as at March 31, 2016 and March 31, 2015 and the consolidated statements of changes in equity, loss and comprehensive loss and cash flows for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Oceanus Resources Corporation and its subsidiaries as at March 31, 2016 and March 31, 2015 and their financial performance and their 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 of the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Oceanus Resources Corporation's ability to continue as a going concern.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

PricewaterhouseCoopers LLP
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
T: +1 902 491 7400, F: +1 902 422 1166, www.pwc.com/ca

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

OCEANUS RESOURCES CORPORATION

Consolidated Statements of Financial Position

As at March 31, 2016 and March 31, 2015

	2016 $	2015 $
Assets		
Current assets		
Cash and cash equivalents	876,113	228,837
Sales tax recoverable (note 2 (c))	329,981	500,915
Prepaid expenses	17,669	14,659
	1,223,763	744,411
Resource properties (notes 5 and 6)	17,126,699	7,343,814
	18,350,462	8,088,225
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 7)	648,010	402,877
Loans payable (note 8)	1,364,807	–
	2,012,817	402,877
Equity (note 12)	16,337,645	7,685,348
	18,350,462	8,088,225

Nature of operations and going concern (note 1)

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

Approved on behalf of the Board of Directors

(signed) *“Richard B. Gordon”*, Director

(signed) *“Glenn A. Holmes”*, Director

OCEANUS RESOURCES CORPORATION

Consolidated Statements of Changes in Equity

For the years ended March 31, 2016 and March 31, 2015

	Share capital $	Contributed surplus and other $	Warrants $	Deficit $	Total $
Balance – March 31, 2014	8,302,967	597,577	4,000	(3,265,277)	5,639,267
Net loss and comprehensive loss for the year	–	–	–	(1,372,574)	(1,372,574)
Shares issued for cash, net of issue costs	2,634,455	–	–	–	2,634,455
Share issued in connection with settlement of debt obligations	238,300	–	–	–	238,300
Shares issued for cash, exercise of options	28,600	(13,600)	–	–	15,000
Shares issued for cash, exercise of warrants	1,260	–	(360)	–	900
Expiration of warrants, net of tax	–	3,640	(3,640)	–	–
Warrants issued as finders' fees	(10,000)	–	10,000	–	–
Stock based compensation	–	530,000	–	–	530,000
Balance – March 31, 2015	11,195,582	1,117,617	10,000	(4,637,851)	7,685,348
Net loss and comprehensive loss for the year	–	–	–	(1,833,549)	(1,833,549)
Shares issued for cash, net of issue costs	3,768,971	–	–	–	3,768,971
Share issued in connection with resource property acquisition	6,000,000	–	–	–	6,000,000
Share issued in connection with settlement of debt obligations	146,875	–	–	–	146,875
Expiration of warrants, net of tax	–	10,000	(10,000)	–	–
Warrants issued as finders' fees	(31,000)		31,000	–	–
Stock based compensation	–	570,000	–	–	570,000
Balance – March 31, 2016	21,080,429	1,697,617	31,000	(6,471,400)	16,337,645

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

OCEANUS RESOURCES CORPORATION

Consolidated Statements of Loss and Comprehensive Loss

For the years ended March 31, 2016 and March 31, 2015

	2016 $	2015 $
Operating expenses		
Professional fees	171,940	296,095
Consulting fees	427,245	300,400
Dues and fees	55,568	30,686
Foreign exchange (gain) loss	101,065	(55,039)
Insurance	90,494	46,705
Interest expense	51,812	–
Office and other	46,331	35,258
Shareholder communication	45,586	38,729
Travel	44,906	55,866
Stock-based compensation	533,000	413,000
Wages and benefits	267,848	219,362
	(1,835,795)	(1,381,062)
Other income		
Interest income	2,246	8,488
Net loss and comprehensive loss for the years	(1,833,549)	(1,372,574)
Loss per share – basic and diluted	(0.03)	(0.03)
Weighted average outstanding common shares – basic and diluted	68,221,216	49,235,429

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

OCEANUS RESOURCES CORPORATION

Consolidated Statements of Cash Flows

For the years ended March 31, 2016 and March 31, 2015

	2016 $	2015 $
Cash provided by (used in)		
Operating activities		
Net loss for the years	(1,833,549)	(1,372,574)
Charges to income not affecting cash		
Stock-based compensation	533,000	413,000
Interest on loans payable	46,886	–
	(1,253,663)	(959,574)
Net changes in non-cash working capital balances related to operations		
Increase in sales tax recoverable	(215,011)	(257,224)
Increase in prepaid expenses	(3,010)	(10,975)
Increase (decrease) in accounts payable and accrued liabilities	(139,986)	270,873
	(1,611,670)	(956,900)
Investing activities		
Purchase of and expenditures on resource properties	(1,510,025)	(2,641,440)
Financing activities		
Proceeds from issuance of common shares	3,850,000	2,800,000
Share issue costs paid	(81,029)	(167,245)
Proceeds from exercise of options and warrants	–	15,900
	3,768,971	2,648,655
Net change in cash and cash equivalents for the years	647,276	(949,685)
Cash and cash equivalents – Beginning of years	228,837	1,178,522
Cash and cash equivalents – End of years	876,113	228,837
Cash and cash equivalents is comprised of:		
Cash	76,113	77,637
Short-term investments	800,000	151,200
	876,113	228,837

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

1 Nature of operations and going concern

Nature of operations

Oceanus Resources Corporation (the "Company") was incorporated under the Canada Business Corporations Act on June 14, 2010 and its common shares are listed on the TSX Venture Exchange (the "Exchange") under the trading symbol OCN. The Company's registered office is located at Suite 2108, 1969 Upper Water Street, Halifax, Nova Scotia. The Company has one reportable and one geographic segment, is a mineral exploration company engaged in locating and acquiring high quality projects and exploring for gold and base metals and has not yet determined whether its exploration property interests contain mineral reserves that are economically recoverable.

Going concern

These consolidated financial statements have been prepared using generally accepted accounting principles applicable to a going concern, which assumes the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended March 31, 2016, the Company incurred a loss of $1,833,549 (2015 - $1,372,574). The Company has no income or cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities, to fund repayment of loans payable of $1,364,807 due November 13, 2016 and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient. Subsequent to year-end, the Company raised gross proceeds of $5,750,000 from the issuance of shares (see note 15). While this represents significant funding, management expects to incur significant expenditures on exploration activities over the next year.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These consolidated financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate and these adjustments could be material.

2 Basis of presentation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements as set out in the Chartered Professional Accountants of Canada Handbook – Accounting – Part 1 ("CPA Canada Handbook").

The Board of Directors approved the consolidated financial statements for issue on July 29, 2016.

2 Basis of presentation (continued)

b) Basis of measurement

These consolidated financial statements have been prepared under a historical cost basis.

c) Use of estimates and judgments

The preparation of the consolidated financial statements requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of expenses during the reporting period. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience and current and expected economic conditions. Actual results may differ from these estimates. The more significant areas requiring the use of management estimates and assumptions are discussed below.

Recoverability of resource properties

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as the period for which the Company has the right to explore, expected renewals of exploration rights, whether substantive expenditures on further exploration and evaluation of resource properties are budgeted and results of exploration and evaluation activities on the exploration and evaluation assets.

Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. The impairment analysis requires the use of estimates and assumptions, such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value of mineral assets is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the Company does not have sufficient information about a particular mineral resource property to meaningfully estimate future cash flows, the fair value is estimated by management through the use of, where available, comparison to similar market assets and, where available, industry benchmarks. Actual results may differ materially from these estimates.

Recoverability of sales tax

Management's assumptions regarding the recoverability of Value Added Tax ("VAT") receivable in Mexico, at the end of each reporting period, is made using all relevant facts available, including past collectability, the development of VAT policies and the general economic environment of the country to determine if a write-down of the VAT is required. Collection of the amount receivable depends on processing and payment of the claims by the government in Mexico, which historically has been very slow. In the current year, the Company has reclassified its VAT receivable in the amount of $385,945 related to the La Lajita Property to resource properties. While the Company is still pursuing collection, with the delay in processing and collection, management determined that it was appropriate to reclassify this amount to the

2 Basis of presentation (continued)

c) Use of estimates and judgments (continued)

resource property to which the VAT paid related. The timing and amount of the VAT ultimately collectible could be materially different from the amount recorded in the consolidated financial statements.

Share-based payments

The Company issued equity-settled share-based payments to certain employees and third parties outside the Company. Equity-settled share-based payments are measured at fair value, excluding the effect of non-market based vesting conditions, at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities which are based on information available at the time the fair value is measured.

3 Significant accounting policies

The consolidated financial statements have been prepared in accordance with IFRS. The consolidated financial statements have been prepared within the framework of the accounting policies summarized below:

a) Consolidation

The financial statements of the Company consolidate the accounts of the Company and the following subsidiaries:

Company	**Activity**	**Country of incorporation**
El Tigre Silver Corp.	Holding company	Canada
Lunar Gold	Holding company	Canada
LGHI Holdings Incorporated	Holding company	Canada
Pacemaker Silver Mining S.A. de C.V.	Mineral exploration company	Mexico
Minera Pueblo de Oro S.A. de C.V.	Mineral exploration company	Mexico

All subsidiaries are 100% owned.

All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. There are no non-controlling interests, therefore, all loss and comprehensive loss is attributable to the shareholders of the Company.

b) Cash and cash equivalents

Cash and cash equivalents include cash on hand and short-term investments readily convertible into known amounts of cash and can be redeemed at any time without penalties.

3 Significant accounting policies (continued)

c) Financial instruments

Financial instruments are classified as follows:

Cash and cash equivalents is classified as "Loans and Receivables". After its initial fair value measurement, it is measured at amortized cost using the effective interest method, less a provision for impairment.

Accounts payable and accrued liabilities are classified as "Other Financial Liabilities". Other Financial Liabilities are initially recognized at fair value less transaction costs. Subsequent to initial recognition, Other Financial Liabilities are measured at amortized cost using the effective interest method.

d) Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss.

Financial assets carried at amortized cost: the loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

e) Resource properties

Once the Company has obtained the legal right to explore, initial acquisition costs and exploration costs related to resource properties are deferred until such time as the properties are put into commercial production, sold or abandoned or management determines that the resource properties are not economically viable, at which time the resource properties are written down to their recoverable amount. Under this method, all amounts shown as resource properties represent costs incurred to date, less amounts amortized, received from exploration partners and/or written down, and do not necessarily represent present or future values.

If any properties are put into commercial production, the carrying values of the properties will be depleted following the unit of production method.

The carrying values of resource properties, on a property-by-property basis, will be reviewed by management at least annually to determine if there are indicators of impairment. If impairment is deemed to exist, the resource properties will be written down to their recoverable amount through a charge to operations. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon obtaining the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimate of recoverability of the Company's resource property has been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of the resource property.

3 Significant accounting policies (continued)

f) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, the assets recoverable amount is estimated.

g) Income taxes

Current tax assets and liabilities for the current and prior periods are measured at the amounts expected to be paid or recovered, using tax rates and laws that have been enacted or substantively enacted by the end of the year.

Deferred tax assets and liabilities are recognized for all future tax consequences attributable to the differences between the consolidated financial statement carrying amounts of assets and liabilities and their respective tax bases, except for the initial recognition of goodwill and the initial recognition of an asset or liability, which at the time of the transaction, affects neither accounting profit nor taxable profit or loss. Deferred tax assets are also recognized for unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against the deductible temporary differences, unused tax losses and unused tax credits can be utilized. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates and tax laws expected to apply when the carrying amount of the assets or liabilities are recovered or settled or the unused losses are expected to be utilized.

Current and deferred income tax expense is recognized in the statements of loss for the period, except to the extent that the income taxes related to a transaction or event which is recognized, in the same or different period, either in other comprehensive loss or directly in equity.

h) Stock-based compensation

The Company grants stock options to certain officers and directors. Stock options vest in accordance with the individual option granting contracts and expire after ten years or as determined by the Board when granted. Each tranche is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing contributed surplus based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Consideration paid by the directors and officers upon exercise of the stock options and the amount previously recognized in contributed surplus are recorded as share capital.

3 Significant accounting policies (continued)

i) Share issuance costs

Costs directly attributable to the raising of capital are charged against the related share capital. Costs related to shares not yet issued are recorded as deferred share issuance costs.

j) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year. Diluted loss per share for the periods presented is the same as basic loss per share, as the Company has incurred losses and the exercise of options and warrants would be anti-dilutive.

k) Functional and presentation currency and foreign currency translation

Items included in the consolidated financial statements are measured using the currency of the primary economic environment, in which the entity operates and the consolidated financial statements are presented in Canadian dollars.

The functional currency of all subsidiaries and the parent company is Canadian dollars. Foreign currency transactions are recorded at the foreign exchange rate in effect on the date of the transaction and gains and losses resulting from the settlement of such transactions are recorded in the statements of loss and comprehensive loss.

l) New and amended standards adopted by the Company

The following standard has been adopted by the Company for the financial year which began on April 1, 2014:

i) IFRIC 21, Levies

IFRIC 21 "Levies" ("IFRIC 21") has been amended to require entities to recognize a liability when payment is triggered under the terms of the relevant legislation. The Company adopted IFRIC 21 on January 1, 2014 on a retrospective basis. The adoption of IFRIC 21 had no impact on these consolidated financial statements.

m) Accounting Standards issued but not yet applied

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2015, and have not been applied in preparing these consolidated financial statements. Accordingly, the Company expects to adopt these standards as set forth below.

3 Significant accounting policies (continued)

n) Accounting Standards issued but not yet applied

i) IFRS 9, *Financial Instruments*

IFRS 9, “Financial instruments” (“IFRS 9”) introduces new requirements for the classification and measurement of financial assets. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement, to be measured at amortized cost or fair value in subsequent accounting periods following initial recognition. Specifically, financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods.

Requirements for classification and measurement of financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 was amended in November 2013 to: (i) include guidance on hedge accounting; (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity’s own credit risk, from financial liabilities designated under the fair value option, in other comprehensive loss, without having to adopt the remainder of IFRS 9; and (iii) remove the previous mandatory effective date for adoption of January 1, 2015, although the standard is available for early adoption.

The final version of IFRS 9 was issued in July 2014 and includes: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking expected loss impairment model; and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the new standard on its consolidated financial statements.

4 Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company. The Company considers capital to be total equity, which at March 31, 2016 totaled $16,337,645 (2015 - $7,685,348). The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business. The Company is not subject to externally imposed capital requirements.

5 Acquisition of El Tigre Silver Corp.

On September 15, 2015 the Company entered into an arrangement agreement with El Tigre Silver Corp. ("El Tigre") to combine the respective companies by way of a statutory plan of arrangement pursuant to the Business Corporations Act (British Columbia), under which the Company acquired all of the outstanding common shares of El Tigre in exchange for common shares of Oceanus on the basis of 0.2839 of one Oceanus share for every one El Tigre share (the "Transaction"). The Transaction was completed on November 13, 2015.

El Tigre holds nine Mexican Federal mining concessions, located in north-eastern Sonora State and totaling 215 square kilometers, of which eight are collectively referred to as the El Tigre Gold and Silver Property ("El Tigre Property"). The concessions are 100% held by El Tigre through its wholly owned subsidiary, Pacemaker Silver Mining SA de CV and its wholly owned subsidiary, Compãnia Minera Talaman SA de CV.

In accounting for the Transaction, El Tigre was not considered a business for accounting purposes and therefore, the transaction was considered to be an asset purchase.

The Company issued 17,856,140 common shares to the shareholders of El Tigre for which it included an amount of $6,000,000 in share capital and acquisition cost for the El Tigre property.

The following table summarizes the acquisition cost for the assets and liabilities of El Tigre:

	$
Share issuance	6,000,000
Transaction costs	566,510
Net working capital deficiency acquired	2,000,611
Resource property acquisition cost recorded	8,567,121

6 Resource properties

	La Lajita $	El Tigre $	Total $
Balance at March 31, 2014	4,389,630	–	4,389,630
Exploration costs incurred	2,655,402	–	2,655,402
Acquisition costs incurred	298,782	–	298,782
Balance at March 31, 2015	7,343,814	–	7,343,814
Exploration costs incurred	185,205	428,395	613,600
Acquisition costs incurred	216,219	8,567,121	8,783,340
Reclassification of VAT (note 2(c))	385,945	–	385,945
Year ended March 31, 2016	8,131,183	8,995,516	17,126,699

On March 13, 2013, the Company completed the acquisition of all the issued and outstanding securities of Lunar Gold Holdings Incorporated ("LGH"), a Canadian company, by way of security exchange. LGH and LGH's wholly owned Canadian subsidiary, LGHI Holdings Incorporated ("LGHI"), together own 100% of Minera Pueblo de Oro S.A. de C.V., a Mexican company, ("MPO"). MPO is a party to three option agreements under which it can earn a 100% interest in a total of 12 mining concession titles, collectively known as the La Lajita Property covering approximately 3,200 hectares in Durango State, Mexico.

6 Resource properties (continued)

Ten of the mining concessions are subject to an option agreement dated October 4, 2012, as amended August 26, 2013, that provides for annual cash option payments aggregating US$2,000,000. The remaining cash options payments are as follows:

On or before January 4, 2016 US$100,000
On or before March 4, 2016 US$100,000
On or before October 4, 2016 US$300,000
On or before October 4, 2017 US$500,000
On or before October 4, 2018 US$500,000

MPO entered into an amending agreement effective October 1, 2015 whereby the US$300,000 option payment that was originally due not later than October 4, 2015 was replaced with three separate option payments of US$100,000 due on or before October 4, 2015, January 4, 2016 and March 4, 2016 respectively. The option payments due on or before January 4, 2016 and March 4, 2016 remain outstanding as at July 29, 2016.

The option agreement also provides for minimum optional exploration expenditures of US$150,000 in each of the first four years of the agreement. To the extent that MPO incurs exploration expenditures greater than US$150,000 in a given year, the excess amount may be carried forward and applied against the required expenditure amount of the following year.

One of the mining concessions is subject to an option agreement dated October 4, 2012, as amended May 9, 2013 and December 19, 2013, that provides in the event MPO establishes mineral production on this mining concession it is obligated to pay the Optionors a 2% net smelter return if gold is valued at or less than $1,000 per ounce or a 2.5% net smelter return if gold is valued at greater than $1,000 per ounce at the time of production. MPO has the option to purchase 50% of the net smelter return for a cash payment of US$200,000.

One of the mining concessions is subject to an option agreement dated October 15, 2012, that is for a term of 10 years and provides for monthly cash option payments of Mexican Pesos 15,000 (approximately $1,100). In the event MPO establishes mineral production on this mining concession, the monthly cash option payment increases to Mexican Pesos 20,000 (approximately $1,600).

At year-end and during the first quarter of fiscal 2017 management was in discussions with the owners of the ten mining concessions to negotiate amended payment terms acceptable to the Company and management expected to successfully conclude these negotiations. As such, there was no indication of impairment at March 31, 2016. However, subsequent to year-end it became clear to management that it was unlikely that acceptable terms would be negotiated and the decision was taken to terminate the option agreement. An impairment charge will be recorded in fiscal 2017 for the full amount of the La Lajita resource property which was $8,131,183 at March 31, 2016.

7 Accounts payable and accrued liabilities

	2016 $	2015 $
Accounts payable	475,367	258,965
Accrued liabilities	172,643	143,912
	648,010	402,877

As at March 31, 2016, $13,750 (2015 - $135,000) of accounts payable and accrued liabilities is due to the Chief Executive Officer, Chief Financial Officer and other non-executive directors.

8 Loans payable

At the date of closing the El Tigre Transaction four former directors of El Tigre were owed a total amount of $1,317,921. This amount was comprised of loan proceeds and accrued interest thereon. The loans are unsecured, bear interest at the rate of 10% per annum and mature on November 13, 2016.

For the period November 14, 2015 to March 31, 2016 accrued interest of $46,886 was recorded.

9 Related party transactions

Legal services were provided during the year by a firm of which an officer of the Company is the sole lawyer practitioner. The cost of these legal services during the year was $116,780 (2015 - $390,505). The Company recorded $51,000 (2015 - $250,908) to professional fees expense and $65,780 (2015 - $139,598) to share issue costs.

Geological and administrative consulting services were provided during the year by a corporation owned by a non-executive director of the Company. The cost of these consulting services during the year was $66,750 (2015 - $123,700). The Company recorded $66,750 (2015 - $112,000) to resource properties and $nil (2015 - $11,700) to professional fees.

The Company incurred office rent expenses of $nil during the year (2015 - $1,500) relating to the rental of an office from a corporation owned by a non-executive director of the Company.

During the year, the Company settled $146,875 (2015 - $140,000) of accounts payable that were due to the officers and companies owned by non-executive directors through the issuance of share capital.

During the year, officers, directors and close family members subscribed to an aggregate of 2,841,250 units (2015 – 817,577 shares) issued by the Company pursuant to equity financings for aggregate subscription proceeds of $466,100 (2015 - $286,152).

10 Income taxes

a) Losses

The Company has non-capital tax losses, which include certain deductions for share issue costs, of approximately $12.4 million available for carry-forward to reduce future years' taxable income. These non-capital tax losses expire as follows:

	$
Year ending March 31, 2027	11,000
2028	198,000
2029	395,000
2030	740,000
2031	1,274,000
2032	1,960,000
2033	1,990,000
2034	2,017,000
2035	2,333,000
2036	1,440,000

b) At March 31, 2016, the Company's effective income tax rate differs from the amount that would be computed from applying the federal and provincial statutory rate of 31% (2015 – 31%) to the pre-tax net loss for the period. The reasons for the difference are as follows:

	2016 $	**2015** $
Loss before income taxes	1,833,549	1,372,574
Income tax recovery based on statutory rates	568,000	425,000
Non-deductible stock option expense	(165,000)	(128,000)
Unutilized losses	(403,000)	(297,000)
Recovery of income taxes	–	–

c) The following reflects deferred tax assets at March 31, 2016 and 2015:

	2016 $	**2015** $
Deferred tax assets		
Non-capital losses	1,550,000	1,097,000
Deductible share issuance costs	63,000	129,000
Tax value in excess of accounting value of resource properties	34,000	47,000
	1,647,000	1,273,000
Portion of deferred tax assets unrecognized	(1,647,000)	(1,273,000)
	–	–

11 Compensation of key management

Key management includes the Company's Directors, President and Chief Executive Officer and Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	2016 $	2015 $
Cash and accrued compensation and other benefits	396,750	470,269
Stock-based compensation	254,000	420,000
	650,750	890,269

Cash compensation and other benefits are included in wages and benefits on the statement of loss.

12 Shareholders' equity

i) Capital stock

Authorized

Unlimited number of common shares, without nominal or par value

	Number of shares	Amount $
Balance – March 31, 2014	43,146,362	8,302,967
Shares issued for cash, net of issue costs	8,000,000	2,634,455
Shares issued for cash, exercise of options	75,000	28,600
Shares issued for cash, exercise of warrants	3,000	1,260
Warrants issued as finders fees	-	(10,000)
Shares issued in settlement of liabilities, net of issue costs	727,271	238,300
Balance – March 31, 2015	51,951,633	11,195,582
Shares issued for cash, net of issue costs	22,500,000	3,768,971
Shares issued in settlement of liabilities, net of issue costs	812,500	146,875
Shares issued pursuant to resource property acquisition (Note 4)	17,856,140	6,000,000
Warrants issued as finders fees	–	(31,000)
Balance – March 31, 2016	93,120,273	21,080,428

a) Private placements

During the year ended March 31, 2016, the Company issued 6,250,000 units at $0.20 per unit for gross proceeds of $1,250,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share of the Company for $0.30 for a period of 18 months from the closing date of the offering. The closing date of the private placement was June 19, 2015 and the capital stock value of the common shares issued as at March 31, 2016 is net of share issue costs of $60,154.

12 Shareholders' equity (continued)

i) Capital stock (continued)

During the year ended March 31, 2016, the Company issued 16,250,000 units at $0.16 per unit for gross proceeds of $2,600,000. Each unit consists of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share of the Company for $0.24 for a period of 36 months from the closing date of the offering. The closing date of the private placement was December 23, 2015 and the capital stock value of the common shares issued as at March 31, 2016 is net of share issue costs of $20,875.

During the year ended March 31, 2015, the Company issued 8,000,000 common shares at $0.35 per for gross proceeds of $2,800,000. The capital stock value of the 8,000,000 shares issued is net of share issue costs of $165,545.

b) Shares for debt

During the year ended March 31, 2016, the Company issued 812,500 (2015 -727,271) common shares to settle accounts payable aggregating $146,875 (2015 -$240,000) and incurred issuance costs of $nil (2014 - $1,700). These are non-cash transactions and accordingly have been excluded from the statement of cash flows.

ii) Stock options and other

The Company has a common share purchase option plan (the "Plan") for directors, officers, employees and consultants. The total number of options issued and outstanding at any time cannot exceed 10% of the issued and outstanding common shares of the Company unless shareholder and regulatory approvals are obtained. Options granted under the Plan have a ten-year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the Exchange at the time of the grant. In determining the stock-based compensation expense, the fair value of options issued is estimated using the Black-Scholes option pricing model. Expected volatility is based on actual volatility of similar companies.

The following weighted average assumptions were used in the Black-Scholes option pricing model for the years ended March 31, 2016 and March 31, 2015:

	2016	2015
Risk-free interest rate	1.5%	1.5%
Expected volatility	150%	150%
Expected dividend yield	–	–
Expected life	5 years	5 years

12 Shareholders' equity (continued)

ii) Stock options and other (continued)

The following table summarizes the changes in the Company's stock options and agent options during the years ended March 31, 2016 and 2015:

	Weighted average exercise price $	Number of Options	Weighted average remaining life (years)	Expiry date
Balance – March 31, 2014	0.18	3,485,000	6.4	
Granted during the year	0.43	700,000	8.2	May 30, 2024
Granted during the year	0.44	50,000	3.2	June 9, 2019
Granted during the year	0.40	650,000	8.6	November 3, 2024
Exercised during the year	0.20	(75,000)		
Balance – March 31, 2015	0.25	4,810,000		
Granted during the year	0.21	385,000	9.2	June 1, 2025
Granted during the year	0.17	4,015,000	9.7	December 22, 2025
Balance – March 31, 2016	0.21	9,210,000	8.2	

As at March 31, 2016, 102,027 options remained available for future grants under the Plan. Options vested and exercisable at March 31, 2016 totaled 9,210,000 with an average exercise price of $0.21 per share. The weighted average grant-date fair value per option was $0.13 for the stock options granted during the year (2015 - $0.38). The Company capitalized $37,000 (2015 - $117,000) in non-cash share-based compensation expense to resource properties with the balance of $533,000 (2015 - $413,000) charged to operations.

iii) Contributed surplus and other

	$
Balance – March 31, 2014	597,577
Expiration of warrants	3,640
Exercise of options	(13,600)
Stock-based compensation	530,000
Balance – March 31, 2015	1,117,617
Expiration of warrants	10,000
Stock-based compensation	570,000
Balance – March 31, 2016	1,697,617

12 Shareholders' equity (continued)

iv) Warrants

The following table summarizes the changes in the Company's warrants for the years ended March 31, 2016 and 2015:

	Expiry date	Exercise price $	Number	Ascribed value $
Balance – March 31, 2014		0.30	33,370	4,000
Exercised during the year		0.30	(3,000)	(360)
Expired during the year		0.30	(30,370)	(3,640)
Warrants issued pursuant to July 2014 private placement financing	July 25, 2015	0.40	42,861	10,000
Balance – March 31, 2015		0.40	42,861	10,000
Warrants issued pursuant to June 2015 private placement financing	December 19, 2016	0.30	3,125,000	–
Finder's warrants issued pursuant to June 2015 private placement financing	June 19, 2016	0.30	30,000	2,000
Expired during the period		0.40	(42,861)	(10,000)
Warrants issued pursuant to December 2015 private placement financing	December 22, 2018	0.24	16,250,000	–
Finder's warrants issued pursuant to December 2015 private placement financing	December 22, 2017	0.24	381,750	29,000
Balance – March 31, 2016			19,786,750	31,000

The fair values of warrants issued pursuant to the June 2015 and December 2015 private placement financings have been estimated at the issue date using the residual method of valuation. Given the market price of the Company's common shares on the date of closing of the private placements was in excess of the unit offering price, the residual value assigned to the warrants is $nil.

The fair value of the finder's warrants recognized has been estimated at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for warrants issued are as follows:

	2016	2015
Risk-free interest rate	1.5%	1.5%
Expected volatility	150%	150%
Expected dividend yield	–	–
Expected life	1.9 years	1 year

13 Supplemental cash flow information

During the year ended March 31, 2016, the Company incurred expenditures on resource properties of $158,013 (2015 - $204,572) which were recorded as accounts payable.

14 Financial instruments and other

Credit risk

The Company manages credit risk by holding its cash and cash equivalents with high quality financial institutions in Canada, where management believes the risk of loss to be low. The Company also has $424,491 of Mexican VAT receivable at March 31, 2016 (2015 - $411,693). In the current year, the Company has reclassified its VAT receivable in the amount of $385,945 related to the La Lajita Property to resource properties. While the Company is still pursuing collection, with the delay in processing and collection, management determined that it was appropriate to reclassify this amount to the resource property to which the VAT paid related. The timing and amount of the VAT ultimately collectible could be materially different from the amount recorded in the consolidated financial statements.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. The Company does not have sufficient working capital to carry out all budgeted programs in fiscal 2016 and must obtain financing during fiscal 2016 to avoid disruption in planned expenditures (see notes 1 and 15).

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest rate risk

The Company has no interest-bearing debt and is not exposed to any significant interest rate risk.

b) Foreign currency risk

The Company operates in Mexico, giving rise to foreign currency risk. To limit the Company's exposure to this risk, cash is primarily held with high quality financial institutions in Canada. In the future, based on the timing of the Company's exploration programs, foreign currencies may be purchased in advance of expenditures to lock in exchange rates in line with the Company's budgets, otherwise the Company does not use any form of hedging against fluctuations in foreign exchange.

As at March 31, 2016, the Company held the following financial instruments in foreign currencies:

	US$	Pesos
Cash	2,018	699,649
Accounts payable and accrued liabilities	40,331	1,128,219

14 Financial instruments and other (continued)

Market Risk (continued)

c) Price risk

The Company is not exposed to any direct price risk other than that associated with commodities and how fluctuations impact companies in the mineral exploration and mining industries as the Company has no significant revenues.

15 Subsequent events

On June 21, 2016 the Company completed a bought deal financing and issued 25,000,000 units at a price of $0.23 per unit, for aggregate gross proceeds of $5,750,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share of the Company for $0.39 for a period of 24 months from the closing date of the offering. Directors, officers and close family members subscribed to an aggregate of 434,782 units for aggregate subscription proceeds of $100,000.

The Company paid to the Underwriters a fee equal to 6% of the gross proceeds. As additional compensation, the Company issued 1,500,000 broker warrants (“Broker Warrants”) to the Underwriters on the closing date. The Broker Warrants entitle the Underwriters to purchase 1,500,000 units, comprised of one common share and one-half of one warrant, at a price of $0.23 per unit for a period of 24 months following the closing date. Each warrant shall entitle the holder to acquire one common share at an exercise price of $0.39 per share at any time on or before the date which is 24 months after the closing date.