



**(An Exploration Stage Company)**

**AUDITED FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**December 31, 2016 and 2015**

**Corporate Head Office**

1750-700 West Pender Street  
Vancouver, British Columbia  
Canada  
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Tel: 604-638-3664

**BALMORAL RESOURCES LTD.**  
(An Exploration Stage Company)  
**AUDITED FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)

**December 31, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF BALMORAL RESOURCES LTD.

We have audited the accompanying financial statements of Balmoral Resources Ltd., which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of operations and 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 Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Balmoral Resources Ltd. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
March 29, 2017

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**BALMORAL RESOURCES LTD.**  
(An Exploration Stage Company)  
**STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
As at December 31

	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 10,559,915	\$ 9,173,010
Accounts receivable	29,904	19,427
Input tax credits receivable	310,224	190,971
Marketable securities (Note 5)	339,301	200,947
Prepaid expenses (Note 9)	144,414	141,243
	11,383,758	9,725,598
<b>Property, plant and equipment</b>	40,101	6,436
<b>Exploration and evaluation assets</b> (Note 6)	53,583,755	50,067,859
	\$ 65,007,614	\$ 59,799,893
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 188,728	\$ 241,254
Flow-through share premium liability (Note 11)	593,282	1,820,585
	782,010	2,061,839
<b>Deferred income tax liability</b> (Note 10)	6,300,080	6,019,543
	7,082,090	8,081,382
<b>Shareholders' equity</b>		
Capital stock (Note 7)	74,017,786	67,488,730
Share-based payment reserve	8,099,617	7,529,553
Warrant reserve	297	297
Accumulated other comprehensive income (loss) (Note 5)	140,056	(20,490)
Deficit	(24,332,232)	(23,279,579)
	57,925,524	51,718,511
	\$ 65,007,614	\$ 59,799,893

**Approved on behalf of the Directors:**

<u>"Bryan Disher"</u>	Director	<u>"Graeme Currie"</u>	Director
Bryan Disher		Graeme Currie	

The accompanying notes are an integral part of these financial statements

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Expressed in Canadian Dollars)

Years Ended December 31

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	<b>2016</b>	<b>2015</b>
<b>EXPENSES</b>		
Consulting fees (Note 9)	\$ 68,340	\$ 57,910
Depreciation	4,875	1,341
Filing and transfer agent's fees	151,168	110,875
Office and miscellaneous	194,257	179,966
Professional fees	265,077	149,294
Rent	139,115	112,653
Salaries and benefits (Note 9)	659,226	555,813
Share-based payments (Notes 8 and 9)	838,977	104,238
Shareholder communication	481,761	751,525
Travel and related costs	32,145	100,602
<b>Loss before other items</b>	<b>(2,834,941)</b>	<b>(2,124,217)</b>
<b>Other items</b>		
Interest income	91,354	124,408
Gain on sale of marketable securities (Note 5)	46,404	3,528
Impairment losses on marketable securities (Note 5)	-	(61,111)
Foreign exchange gain (loss)	(6,362)	21,304
<b>Loss before income taxes</b>	<b>(2,703,545)</b>	<b>(2,036,088)</b>
<b>Deferred income tax recovery</b> (Notes 10 and 11)	<b>1,650,892</b>	<b>1,913,256</b>
<b>Net loss for the year</b>	<b>(1,052,653)</b>	<b>(122,832)</b>
<b>Other comprehensive income (loss)</b>		
Items that may be reclassified subsequently to net loss:		
Fair value adjustment on marketable securities (Note 5)	160,546	(20,490)
<b>Comprehensive loss for the year</b>	<b>\$ (892,107)</b>	<b>\$ (143,322)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding</b>		
Basic	121,556,653	111,603,157

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**STATEMENTS OF CHANGES IN EQUITY**

(Expressed in Canadian Dollars)

	Number of shares	Capital stock	Share-based payment reserve	Warrant reserve	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
<b>Balance, December 31, 2014</b>	<b>110,381,521</b>	<b>\$ 64,253,566</b>	<b>\$ 7,425,315</b>	<b>\$ 297</b>	<b>\$ -</b>	<b>\$ (23,156,747)</b>	<b>\$ 48,522,431</b>
Shares issued for cash:							
Private placements (Note 7)	7,247,646	5,435,735	-	-	-	-	5,435,735
Allocation of value to flow-through share premium (Note 11)	-	(1,847,912)	-	-	-	-	(1,847,912)
Share issuance costs (Notes 7 and 10)	-	(352,659)	-	-	-	-	(352,659)
Share-based payments	-	-	104,238	-	-	-	104,238
Net loss for the year	-	-	-	-	-	(122,832)	(122,832)
Fair value adjustment on marketable securities	-	-	-	-	(20,490)	-	(20,490)
<b>Balance, December 31, 2015</b>	<b>117,629,167</b>	<b>67,488,730</b>	<b>7,529,553</b>	<b>297</b>	<b>(20,490)</b>	<b>(23,279,579)</b>	<b>51,718,511</b>
Shares issued for cash:							
Private placement (Note 7)	7,120,000	7,129,751	-	-	-	-	7,129,751
Allocation of value to flow-through share premium (Note 11)	-	(864,151)	-	-	-	-	(864,151)
Exercise of options, including reallocation of share-based payment reserve	750,000	718,913	(268,913)	-	-	-	450,000
Share issuance costs (Notes 7 and 10)	-	(455,457)	-	-	-	-	(455,457)
Share-based payments	-	-	838,977	-	-	-	838,977
Net loss for the year	-	-	-	-	-	(1,052,653)	(1,052,653)
Fair value adjustment on marketable securities	-	-	-	-	160,546	-	160,546
<b>Balance, December 31, 2016</b>	<b>125,499,167</b>	<b>\$ 74,017,786</b>	<b>\$ 8,099,617</b>	<b>\$ 297</b>	<b>\$ 140,056</b>	<b>\$ (24,332,232)</b>	<b>\$ 57,925,524</b>

The accompanying notes are an integral part of these financial statements

**BALMORAL RESOURCES LTD.**  
(An Exploration Stage Company)  
**STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
Years Ended December 31

	2016	2015
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,052,653)	\$ (122,832)
Items not affecting cash:		
Depreciation	4,875	1,341
Share-based payments	838,977	104,238
Gain on sale of marketable securities	(46,404)	(3,528)
Impairment losses on marketable securities	-	61,111
Deferred income tax recovery	(1,650,892)	(1,913,256)
Changes in non-cash working capital items:		
Accounts receivable	(7,387)	565
Input tax credits receivable	(119,253)	(49,977)
Refundable tax credit	-	198,500
Prepaid expenses	(3,171)	9,769
Accounts payable and accrued liabilities	38,968	(87,799)
<b>Net cash used in operating activities</b>	<b>(1,996,940)</b>	<b>(1,801,868)</b>
<b>FINANCING ACTIVITIES</b>		
Shares issued for cash	7,579,751	5,435,735
Share issuance costs	(615,482)	(476,566)
<b>Net cash provided by financing activities</b>	<b>6,964,269</b>	<b>4,959,169</b>
<b>INVESTING ACTIVITIES</b>		
Investment in, advances to and expenditures on exploration and evaluation assets	(7,432,869)	(9,632,989)
Cash received from sale of marketable securities, net of commissions	401,929	63,758
Cash received from sale of property	3,489,056	-
Purchase of property, plant and equipment	(38,540)	(2,441)
<b>Net cash used in investing activities</b>	<b>(3,580,424)</b>	<b>(9,571,672)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,386,905</b>	<b>(6,414,371)</b>
<b>Cash and cash equivalents, beginning of the year</b>	<b>9,173,010</b>	<b>15,587,381</b>
<b>Cash and cash equivalents, end of the year</b>	<b>\$ 10,559,915</b>	<b>\$ 9,173,010</b>
<b>Cash and cash equivalents consist of the following:</b>		
Cash	\$ 530,095	\$ 1,160,129
Term deposits	10,029,820	8,012,881
	<b>\$ 10,559,915</b>	<b>\$ 9,173,010</b>
<b>Supplemental cash flow information</b>		
Accounts receivable related to exploration and evaluation assets	\$ 22,517	\$ 19,427
Accounts payable related to exploration and evaluation assets	\$ 41,561	\$ 133,055
Marketable securities received for property option (Notes 5(a) and 6(ii)(a))	\$ 133,333	\$ 190,000
Marketable securities received for property sale (Notes 5(c) and 6(i)(a))	\$ 200,000	\$ -
Deferred taxes included in share issue costs	\$ 160,025	\$ 123,907

The accompanying notes are an integral part of these financial statements

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Balmoral Resources Ltd. (the “Company” or “Balmoral”) is incorporated under the laws of British Columbia, Canada, and is primarily engaged in the acquisition and exploration of mineral properties. The address of its head office is 1750 – 700 West Pender Street, Vancouver, British Columbia, Canada V6C 1G8. The Company is a publicly-traded company listed on the Toronto Stock Exchange (“TSX”) under the symbol “BAR”, on the OTCQX market in the United States under the symbol “BALMF” and on the Frankfurt Stock Exchange under the symbol “BOR”.

Balmoral is an exploration stage company focused on the acquisition and exploration of gold and other precious and base metal properties in Canada. The principal focus of the Company’s exploration activities is the properties comprising its Detour Trend Project in Quebec. The Project encompasses over 700 square kilometres of mineral claims located along and adjacent to the Sunday Lake (Detour) Deformation Zone.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts capitalized as exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of such properties and future profitable production or proceeds from the disposition of the properties.

The Company does not generate cash flows from operations to fund its activities, and therefore relies principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company’s ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future, and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Although these financial statements do not include any adjustments that may result from the inability to secure future financing, such a situation would have a material adverse effect on the Company’s business, results of operations and financial condition.

**2. SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of presentation**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). The accounting policies, methods of computation and presentation applied in these financial statements have been consistently applied in each of the periods presented. The Board of Directors approved the financial statements on March 29, 2017.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(b) Cash and cash equivalents**

Cash and cash equivalents includes cash on deposit at financial institutions and highly liquid investments with original maturities of three months or less from the date of purchase that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment purposes.

**(c) Property, plant and equipment**

**Recognition and measurement**

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including directly attributable borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability, if any, is recognized within provisions.

Property, plant and equipment are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**Depreciation**

Depreciation is recognized in profit or loss on a declining-balance basis at the following annual rates:

Office equipment	20%
Vehicle	20%
Computer equipment	30%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if appropriate.

**(d) Mineral exploration and evaluation expenditures**

**Pre-exploration costs**

Pre-exploration costs are expensed in the period in which they are incurred.

**Exploration and evaluation assets**

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, geological and geophysical evaluation, surveying costs, drilling costs, payments made to contractors and camp costs during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Mineral exploration and evaluation expenditures (Continued)**

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer a part of a mineral interest as consideration for an agreement by the transferee to make certain payments to the Company and meet certain exploration and evaluation expenditures, which would have otherwise been undertaken by the Company. The Company uses the carrying amount of the interest before the farm-out as the carrying amount for the portion of the interest retained. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the cost previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for in profit or loss.

When a project is deemed to no longer have commercially viable prospects for the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. The Company does not currently have any “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has not commenced commercial operations, any incidental revenues, including receipt of input tax credit receivables, earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

An impairment loss is reversed if there is an indication that 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, if no impairment loss had been recognized.

**(e) Provisions for environmental rehabilitation**

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. The liability is recognized at the time environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and/or internal expertise, and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(e) Provisions for environmental rehabilitation (Continued)**

Additional disturbances and changes in closure and reclamation estimates are accounted for as incurred with a change in the corresponding capitalized cost. Costs of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred.

**(f) Mining and exploration tax recoverable**

The Company recognizes mining and exploration tax recoveries in the period in which the related qualifying resource expenditures are incurred. The amount recoverable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

**(g) Income taxes**

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in net income (loss), except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current and deferred income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

**(h) Capital stock**

The proceeds from the exercise of stock options and warrants and the cost initially recognized on their issuance are recorded as capital stock in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

Commissions paid to agents, and other related share issuance costs, such as legal, auditing and printing, on the issue of the Company's shares are charged directly to capital stock.

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Capital stock (Continued)****Valuation of equity units issued in private placements**

The Company has adopted the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to common shares issued in the private placements at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the warrants. Any fair value attributed to the warrants is recorded in shareholders' equity.

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) fair value of capital stock issued, based on market price at time of issuance, and ii) the residual as a flow-through share premium, which is recognized as a liability. On issuance of a flow-through unit, the Company allocates the flow-through unit into i) fair value of capital stock issued, based on market price at time of issuance, ii) estimated fair value of a warrant, and iii) the residual as a flow-through share premium, which is recognized as a liability. Upon qualifying expenses being incurred the Company derecognizes the liability and recognizes a credit to deferred tax expense.

The Company is required to spend the proceeds received from the issuance of flow-through shares on Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received, but not yet expended at the end of the Company's period, is disclosed in Note 11.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a liability until paid.

**(i) Earnings (loss) per share**

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Share-based payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares or are directly related to the acquisition of an exploration and evaluation asset. Amounts related to the issuance of shares are recorded as a reduction of capital stock, whereas amounts directly related to the acquisition of an exploration and evaluation asset are capitalized as a component of the asset cost.

When the value of goods or services received in exchange for the share-based payments cannot be reliably estimated, the fair value is measured by use of a valuation model, the Black-Scholes option pricing model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the associated amount reflected in reserves is credited to capital stock, and adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation or settlement as an acceleration of vesting and immediately recognizes the amount that otherwise would have been recognized for services received over the revised vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**(k) Financial instruments****Financial assets**

The Company classifies its financial assets in the following categories: fair value through profit or loss, available-for-sale ("AFS"), held-to-maturity or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

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**BALMORAL RESOURCES LTD.**

(An Exploration Stage Company)

**NOTES TO FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

Years Ended December 31, 2016 and 2015

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)****Financial assets (Continued)***Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss comprise of derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash and cash equivalents are included in this category of financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Loans and receivables are comprised of accounts receivable.

*Available-for-sale financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any other financial asset category. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income (loss) and classified as a component of equity. AFS assets include marketable securities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in accumulated other comprehensive income (loss) are included in profit or loss.

*Held-to-maturity investments*

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment including impairment losses are recognized in profit or loss.

*Impairment of financial assets*

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Financial instruments (Continued)****Financial liabilities**

The Company classifies its financial liabilities in the following categories: other financial liabilities and financial liabilities at fair value through profit or loss.

*Other financial liabilities*

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method.

Other financial liabilities are classified as current or non-current based on their maturity date. Other financial liabilities include accounts payable and accrued liabilities.

*Financial liabilities at fair value through profit or loss*

This category is comprised of derivative financial liabilities. Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss.

The following table summarizes the fair value hierarchy under which the Company's financial instruments are valued.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - Inputs for the asset or liability that are not based upon observable market data.

**(l) New accounting pronouncements**

The IASB has issued pronouncements effective for accounting periods beginning on or after January 1, 2017. Only those which may significantly impact the Company are discussed below:

*IFRS 9 Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Financial liabilities are classified in a similar manner to under IAS 39, however, there are differences in the requirements applying to the measurement of an entity's own credit risk. IFRS 9 also introduces a "fair value through other comprehensive income" category for certain debt instruments. The finalized version of IFRS 9 is applicable to the Company's annual periods beginning January 1, 2018.

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(I) New accounting pronouncements (Continued)***IFRS 16 Leases*

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

IFRS 16 is applicable to the Company's annual periods beginning on January 1, 2019.

*Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)*

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendment to IAS 7 is applicable to the Company's annual periods beginning on January 1, 2017.

*Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes)*

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

The Amendments to IAS 12 is applicable to the Company's annual periods beginning on January 1, 2017.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future years if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical accounting estimates**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

*Assumptions used in the calculation of the fair value assigned to share-based payments*

The Black-Scholes option pricing models require the input of subjective assumptions, including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's equity reserves.

**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)**

**Critical accounting estimates (Continued)**

*Income taxes*

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

*Provisions for environmental rehabilitation*

The Company assesses its provisions for environmental rehabilitation on an annual basis or when new material information becomes available. Provisions for environmental rehabilitation require management to make estimates of the future costs of the work required to comply with legal or constructive obligations. Actual costs incurred may differ from the amounts estimated. Future changes to environmental laws and regulations could change the extent of work required to be performed, which could materially impact the amounts provided for environmental rehabilitation.

**Critical accounting judgments**

Critical accounting judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

*Refundable tax credits and flow-through expenditures*

The Company is entitled to refundable input tax credits and tax credits on qualified resource expenditures incurred in Canada. Management's judgment is applied in determining whether expenditures are eligible for claiming such credits.

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resource expenditures. Management's judgment is applied in determining whether qualified expenditures have been incurred. Differences in judgment between management and regulatory authorities could materially increase the flow-through premium liability and flow-through expenditure commitment.

*Evaluation of the nature of interests in undivided assets*

Management has determined that the contractual arrangement with GTA Resources and Mining Inc. ("GTA") discussed in Note 6(iii)(a) does not meet the definition of a joint operation under IFRS 11 *Joint Arrangements*, as the Company and GTA do not share joint control. However, as the Company retains a 48% undivided interest on the Northshore Property, the Company has accounted for this interest by recognizing its share of the assets, liabilities and expenditures under the arrangement.

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**3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)**

**Critical accounting judgments (Continued)**

*Valuation of exploration and evaluation assets*

The application of the Company's accounting policy for exploration and evaluation assets and expenditures requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves. Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks, which even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves and further the development of a property. Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies and there is no assurance that the Company will be able to arrange sufficient financing to bring ore bodies into production. For the fiscal years ended December 31, 2016 and 2015, there were no indicators of impairment on the Company's exploration and evaluation assets or the Company's other assets.

**4. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS**

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support future business opportunities. The Company defines its capital as shareholders' equity. 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 manage its capital to be able to sustain the future development of the Company's business. The Company currently has no source of revenues, and therefore, is dependent upon external financings to fund activities. In order to carry future projects and pay administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended December 31, 2016. The Company is not subject to externally imposed capital requirements.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

**(a) Credit risk**

Concentration of credit risk exists with respect to the Company's cash, as all amounts are held at a single major Canadian financial institution.

The Company's concentration of credit risk and maximum exposure is as follows:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 10,559,915	\$ 9,173,010

The credit risk associated with cash and cash equivalents is minimized by ensuring it is placed with a major Canadian financial institution with a strong investment-grade rating issued by a primary ratings agency.

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**4. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS  
(Continued)****(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they fall due. The Company's approach to managing liquidity risk is to maintain sufficient cash balances to meet its liabilities and commitments when due. The Company manages its liquidity by raising financing in advance of committing to the cash outflows required for operations and approved exploration and evaluation activities. Management and the Board of Directors are actively involved in the planning and approval of expenditure plans and other commitments. As at December 31, 2016, the Company had \$10,559,915 of cash and cash equivalents on hand to settle \$188,728 in accounts payable and accrued liabilities and to fund \$5,121,000 of commitments in respect of flow-through share financing (Note 11).

**(c) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

**i. Interest rate risk**

The Company's cash and cash equivalents consist of cash held in bank accounts and term deposits. Due to the short-term nature of the term deposits, fluctuations in market rates do not have a significant impact on their estimated fair value as of December 31, 2016, and accordingly the Company is not subject to material interest rate risk. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

**ii. Foreign currency risk**

The Company's presentation and functional currency is the Canadian Dollar. As at December 31, 2016, the Company is not exposed to material foreign currency risk.

**iii. Fair value of financial instruments**

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short term to maturity of these financial instruments.

Assets and liabilities measured at fair value at December 31, 2016:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 10,559,915	-	-	\$ 10,559,915
Marketable securities	\$ 339,301	-	-	\$ 339,301

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**4. RISK MANAGEMENT, CAPITAL MANAGEMENT AND FINANCIAL INSTRUMENTS  
(Continued)****(c) Market risk (Continued)**

## iii. Fair value of financial instruments (Continued)

Assets and liabilities measured at fair value at December 31, 2015:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 9,173,010	-	-	\$ 9,173,010
Marketable securities	\$ 200,947	-	-	\$ 200,947

## iv. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk, foreign currency risk or commodity price risk.

The Company is exposed to other price risk related to the fluctuation in the market price of its marketable securities. The Company's marketable securities are carried at market value and are directly affected by fluctuations in the market value of the underlying securities. The Company's sensitivity analysis suggests a 10% change in the market prices would not have a material effect on net income (loss) and comprehensive income (loss).

**5. MARKETABLE SECURITIES****(a) GTA Resources and Mining Inc.**

As at December 31, 2016, the Company held 2,601,555 (2015 - 3,055,555) common shares of GTA with a fair value of \$156,093 (2015 - \$91,667). During the year ended December 31, 2016, the Company sold 454,000 of its holding of GTA shares for an average price of \$0.18 per share for proceeds of \$82,036, net of commissions of \$1,165, and realized a loss of \$47,689. The Company classifies these shares as available-for-sale. The fair value adjustment on these securities for the year ended December 31, 2016 was an unrealized gain of \$194,151, which was recorded as other comprehensive income.

Fair value adjustment for the year ended December 31, 2015 was an unrealized loss of \$61,111, which was recorded as an impairment loss on marketable securities in profit or loss, as the decline in value was considered other than temporary.

**(b) Wealth Minerals Ltd.**

On February 26, 2015, the Company received 1,000,000 common shares of Wealth Minerals Ltd. ("Wealth") with a fair value of \$190,000 as a first payment under an option agreement for the Company's N1 and N2 Properties (Note 6(ii)(a)). During the year ended December 31, 2015, the Company sold 317,000 of these shares for an average price of \$0.21 per share, realizing proceeds of \$63,758, net of commissions of \$1,355, and a gain of \$3,528. During the six months ended June 30, 2016, the Company sold the remaining 683,000 of these shares for an average price of \$0.29 per share for proceeds of \$196,111, net of commissions of \$2,480, and realized a gain of \$66,340.

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**5. MARKETABLE SECURITIES (Continued)****(b) Wealth Minerals Ltd. (Continued)**

On July 13, 2016, the Company received an additional 148,477 common shares of Wealth in settlement of the second instalment of \$133,333 pursuant to the Termination Agreement relating to the N1 and N2 properties (Note 6(ii)(a)). During the period July 13, 2016 to December 31, 2016, the Company sold another additional 106,700 of the Wealth shares for an average price of \$1.17 per share for gross proceeds of \$123,782, net of commissions of \$1,412, and realized a gain of \$27,753. The Company classified these shares as available-for-sale. The fair value adjustment on these securities for the year ended December 31, 2016 was an unrealized gain of \$35,408 (2015 - an unrealized loss of \$20,490), which was recorded as other comprehensive income.

As at December 31, 2016, the Company held 41,777 (2015 - 683,000) common shares of Wealth with a fair value of \$52,221 (2015 - \$109,280). Subsequent to December 31, 2016, the Company sold the remaining 41,777 Wealth shares for an average price of \$1.23 per share for gross proceeds of \$51,263.

**(c) Wallbridge Mining Company Limited**

On May 25, 2016, the Company received 2,381,575 common shares of Wallbridge Mining Company Limited ("Wallbridge") with a fair value on that date of \$200,000 as a first payment under a Letter of Intent to purchase the Company's Fenelon Mine Property (Note 6(i)(a)). The Company classified these shares as available-for-sale. As at December 31, 2016, the Company continued to hold 2,381,575 common shares of Wallbridge with a fair value at that date of \$130,987. The unrealized loss of \$69,013 was recorded as other comprehensive loss.

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**6. EXPLORATION AND EVALUATION ASSETS**

	<b>Fenelon</b> (Note 6(i)(a))	<b>N2</b> (Note 6(ii)(a))	<b>Martiniere</b> (Note 6(i)(a))	<b>Northshore</b> (Note 6(iii)(a))	<b>Detour East</b> (Note 6(i)(b))	<b>Grasset</b> (Note 6(i)(c))	<b>Others</b> (Note 6(ii)(b))	<b>Total</b>
<b>Balance, December 31, 2014</b>	\$ 4,601,217	\$ 1,916,860	\$ 21,944,438	\$ 389,784	\$ 3,293,799	\$ 7,603,089	\$ 963,245	\$ 40,712,432
Acquisition costs								
Cash payments	-	-	-	-	-	1,707	497	2,204
Total acquisition costs	-	-	-	-	-	1,707	497	2,204
Deferred exploration costs:								
Assays	63,810	-	177,275	-	5,427	272,855	11,627	530,994
Claims management	1,082	1,082	1,082	1,082	1,082	1,082	5,410	11,902
Community relations	3,750	-	500	1,500	-	750	-	6,500
Drilling	224,843	-	1,115,677	-	-	2,676,960	138,294	4,155,774
Field expenses	150,767	558	360,828	3,217	11,463	921,274	29,321	1,477,428
Geochemistry	-	-	-	-	-	87,952	-	87,952
Geology	145,965	4,673	555,623	900	14,377	1,043,480	44,167	1,809,185
Geophysics	233,503	-	4,920	-	-	757,942	4,049	1,000,414
Project management	237	-	164,772	-	1,156	3,230	-	169,395
Property payments	10,100	-	4,617	1,934	7,165	27,548	17,676	69,040
Travel	11,906	1,455	50,670	1,632	-	106,158	3,192	175,013
Total deferred exploration costs	845,963	7,768	2,435,964	10,265	40,670	5,899,231	253,736	9,493,597
Total expenditures for the year	845,963	7,768	2,435,964	10,265	40,670	5,900,938	254,233	9,495,801
Cost recoveries (Note 5)	-	(95,000)	-	-	-	-	(95,000)	(190,000)
Quebec mining tax credit	849	47	16,921	-	157	30,814	838	49,626
<b>Balance, December 31, 2015</b>	\$ 5,448,029	\$ 1,829,675	\$ 24,397,323	\$ 400,049	\$ 3,334,626	\$ 13,534,841	\$ 1,123,316	\$ 50,067,859

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**6. EXPLORATION AND EVALUATION ASSETS (Continued)**

	<b>Fenelon</b> (Note 6(i)(a))	<b>N2</b> (Note 6(ii)(a))	<b>Martiniere</b> (Note 6(i)(a))	<b>Northshore</b> (Note 6(iii)(a))	<b>Detour East</b> (Note 6(i)(b))	<b>Grasset</b> (Note 6(i)(c))	<b>Others</b> (Note 6(ii)(b))	<b>Total</b>
<b>Balance, December 31, 2015</b>	\$ 5,448,029	\$ 1,829,675	\$ 24,397,323	\$ 400,049	\$ 3,334,626	\$ 13,534,841	\$ 1,123,316	\$ 50,067,859
Acquisition costs								
Cash payments	-	-	-	-	1,014	-	29,000	30,014
Total acquisition costs	-	-	-	-	1,014	-	29,000	30,014
Deferred exploration costs:								
Assays	-	-	-	-	-	23,795	-	23,795
Claims management	1,309	1,309	5,699	1,309	3,035	1,309	6,545	20,515
Community relations	3,000	-	-	-	-	-	-	3,000
Drilling	251,150	9,836	5,334,140	3,050	446,446	762,751	14,595	6,821,968
Engineering	-	-	-	-	-	44,131	-	44,131
Geology	617	-	24,130	-	2,690	16,797	-	44,234
Geophysics	-	-	134,929	-	378,171	4,075	-	517,175
Project management	-	-	68,270	-	121	5,422	-	73,813
Property payments	19,610	4,929	10,710	-	23,649	10,364	18,225	87,487
Total deferred exploration costs	275,686	16,074	5,577,878	4,359	854,112	868,644	39,365	7,636,118
Total expenditures for the year	275,686	16,074	5,577,878	4,359	855,126	868,644	68,365	7,666,132
Cost recoveries	(3,689,056)	(400,000)	-	-	-	-	-	(4,089,056)
Quebec mining tax credit	(6,430)	(1,939)	(27,235)	(391)	(3,391)	(20,283)	(1,511)	(61,180)
<b>Balance, December 31, 2016</b>	\$ 2,028,229	\$ 1,443,810	\$ 29,947,966	\$ 404,017	\$ 4,186,361	\$ 14,383,202	\$ 1,190,170	\$ 53,583,755

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**6. EXPLORATION AND EVALUATION ASSETS (Continued)****(i). Properties along the Sunday Lake Deformation Zone, Quebec****(a) Fenelon and Martiniere, Quebec**

The Company owns 100% interests in each of the Fenelon and Martiniere properties.

There are certain net smelter return (“NSR”) royalties on the properties in favour of former property owners and payable on commencement of commercial production: 2% at Martiniere, between 2% and 4% for Fenelon. Buyout provisions exist for certain portions of these royalties.

On May 24, 2016, the Company entered into a letter of intent (the “LOI”) to sell its Fenelon Mine Property, which comprises approximately 10% of its broader Fenelon Property, to Wallbridge. Under the terms of the LOI, the Company was to receive payment of 2,381,575 common shares of Wallbridge (Note 5(c)) with a deemed value of \$200,000 and cash payments totalling \$3,500,000. These payments were received in full during the year ended December 31, 2016. The Company retains a 1% NSR royalty on all future production from the Fenelon Mine property.

**(b) Detour East, Quebec**

The Company owns a 100% interest in the Detour East Property, except for 18 claims, which are in a 63%/37% participatory joint venture with Encana Corp. and for which the Company is the operator. During the year ended December 31, 2016, the Company acquired additional claims for staking fees of \$1,014.

There is a NSR of 2%, which relates to the entirety of the property, payable to a former property owner, which may be repurchased at any time for \$1,000,000 for the first 50% of the NSR interest and \$2,000,000 for the remainder.

**(c) Grasset, Quebec**

The Company acquired a 100% interest by staking a group of mineral claims located east of the Company’s Fenelon Project (Note 6(i)(a)). There are no underlying royalties on the Grasset Property.

**(ii). Properties along the Casa Beradi Fault Zone, Quebec****(a) N2, Quebec**

The Company owns a 100% interest in the N2 property.

There are certain NSR royalties on the properties in favour of former property owners and payable on commencement of commercial production: 1% to 5% on the N2 Property. Buyout provisions exist for certain portions of these royalties.

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**6. EXPLORATION AND EVALUATION ASSETS (Continued)****(ii) Properties along the Casa Berardi Fault Zone, Quebec (Continued)****(a) N2, Quebec (Continued)**

On February 2, 2015, the Company agreed to option a partial interest in its N1 and N2 properties (the "Project") to Wealth. Under the terms of the Option Agreement, Wealth would have been granted an option to earn up to a 75% interest in the Project by completing certain exploration on the Project and issuing 3,000,000 common shares of Wealth and making cash payments to the Company. The Company received 1,000,000 common shares on February 26, 2015 as its initial payment under the Option Agreement. The Option Agreement was terminated on February 25, 2016 when the Company and Wealth entered into a Termination Agreement under which Wealth would pay to the Company a sum of \$400,000 in cash or common shares of Wealth, at Wealth's option, in three equal instalments. The first instalment was paid in cash on April 1, the second in shares on July 1 (Note 5(b)), and the final instalment in cash on October 1, 2016. The Company holds a 100% interest in the Project and Wealth maintains no interest in the Project.

**(b) Hwy 810**

The Company acquired a 100% interest in the Hwy 810 Property, which is located proximal to the producing Casa Berardi gold mine, by staking in 2016 for an amount of \$29,000.

**(iii). Ontario, Thunder Bay Mining Division****(a) Northshore, Ontario**

As at December 31, 2016, the Company owns a 48.6% interest in the Northshore Property along with a similar interest in certain surface rights attached to the property. The Northshore Property mineral rights are underlain by a sliding-scale NSR to a third-party, which is adjusted to the contained number of ounces of gold outlined in a pre-production resource estimate.

On July 24, 2011, the Company and GTA entered into an option agreement whereby GTA was granted the exclusive right to acquire up to a 70% interest in the Northshore Property.

On July 14, 2014, GTA delivered a first option vesting notice to the Company and subsequently advised the Company that it would not be proceeding with a second option, which had been granted under the terms of the Option Agreement. Consequently a 51%/49% participatory contractual arrangement (joint venture) has now been formed with respect to the Northshore Property with GTA as the majority holder and project operator. As the Company does not have joint control over the operations, but retains a 48% undivided interest to the property, the Company accounted for the disposal of its Northshore Property and the acquisition of this interest in Northshore by recognizing its share of the assets under the arrangement. At December 31, 2016, \$404,017 was the carrying value of the Northshore Property.

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**7. CAPITAL STOCK****(a) Common shares****Authorized**

An unlimited number of common shares without par value.

**Share issuances**

(i) During the year ended December 31, 2016:

- a. The Company closed a bought deal private placement of flow-through common shares and raised gross proceeds of \$7,129,751 through the issuance of 4,714,163 National flow-through common shares at a price of \$0.90 per share and 2,405,837 Quebec flow-through common shares at a price of \$1.20 per share.

In connection with the placement, the Company paid finders' cash commission of \$427,785 and \$187,697 in share issuance costs.

- b. The Company issued 750,000 common shares at \$0.60 per share pursuant to the exercise of stock options granted on January 23, 2014 and March 14, 2016 and reclassified \$268,913 related to these options from share-based payment reserve to capital stock.

(ii) During the year ended December 31, 2015:

- a. The Company raised gross proceeds of \$5,435,735 through the issuance of 6,047,646 flow-through common shares in a non-brokered private placement on October 28, 2015 and a second tranche of 1,200,000 flow-through common shares on November 18, 2015, both at a price of \$0.75 per share.

In consideration of the agents' services, the Company paid cash commission of \$319,544 and paid an additional \$157,522 in share issuance costs.

**(b) Warrants**

The Company had outstanding warrants as follows:

Expiry date	2016		2015	
	Exercise price	Number of warrants	Exercise price	Number of warrants
June 20, 2016 (agent warrants)	\$ -	-	\$ 1.25	154,800

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**8. SHARE-BASED PAYMENTS**

**(a) Stock options**

Stock option transactions are summarized as follows:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the year	7,422,700	\$ 0.78	7,932,700	\$ 0.81
Granted	2,560,000	\$ 0.63	360,000	\$ 0.77
Expired	(1,335,000)	\$ (1.14)	(870,000)	\$ (0.88)
Exercised	(750,000)	\$ 0.60	-	\$ -
Balance, end of the year	7,897,700	\$ 0.73	7,422,700	\$ 0.78

The weighted average remaining contractual life of options outstanding at December 31, 2016 was 2.63 (2015 – 2.60) years.

Stock options outstanding and exercisable are as follows:

Expiry date	2016			2015		
	Exercise price	Options outstanding	Options exercisable	Exercise price	Options outstanding	Options exercisable
June 6, 2016	\$ -	-	-	\$ 1.25	695,000	695,000
February 6, 2018	\$ 1.05	1,807,700	1,807,700	\$ 1.05	2,397,700	2,397,700
January 23, 2019	\$ 0.60	2,855,000	2,855,000	\$ 0.60	3,520,000	3,520,000
February 5, 2019	\$ 0.61	300,000	300,000	\$ 0.61	300,000	300,000
December 23, 2019	\$ 0.90	150,000	150,000	\$ 0.90	150,000	150,000
June 18, 2020	\$ 0.77	360,000	270,000	\$ 0.77	360,000	90,000
March 14, 2021	\$ 0.60	1,900,000	1,900,000	\$ -	-	-
November 7, 2021	\$ 0.90	175,000	175,000	\$ -	-	-
December 23, 2021	\$ 0.70	350,000	350,000	\$ -	-	-
		7,897,700	7,807,700		7,422,700	7,152,700

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**8. SHARE-BASED PAYMENTS (Continued)**

**(b) Share-based payments**

Share-based payment expense for the year ended December 31, 2016 totalled \$838,977 (2015 - \$104,238). The weighted average fair value of stock options granted was estimated at \$0.31 (2015 - \$0.45) at the grant date using the Black-Scholes option pricing model and the following assumptions:

	<b>2016</b>	<b>2015</b>
Risk-free interest rate	0.83%	0.96%
Expected life of options	5 years	5 years
Expected annualized volatility	71%	75%
Expected dividend yield	0.0%	0.0%
Forfeiture rate	0.0%	0.0%
Share price	\$0.55	\$0.77

Expected volatility is based on historical price volatility over the expected life of the option.

**9. RELATED PARTY TRANSACTIONS AND BALANCES**

During the years ended December 31, 2016 and 2015, the Company had the following transactions with related parties:

**Key management compensation**

Key management consists of senior officers and directors of the Company; their compensation is as follows:

	<b>2016</b>	<b>2015</b>
Short-term benefits (included in consulting fees and salaries and benefits and capitalized to mineral properties)	\$ 966,975	\$ 693,250
Share-based payments	444,060	104,238
	<b>\$ 1,411,035</b>	<b>\$ 797,488</b>

**Transactions with other related parties**

As at December 31, 2016, \$4,197 (2015 - \$12,553) is due to officers of the Company for reimbursement of expenses and is included in accounts payable and accrued liabilities. The amount is non-interest-bearing with no fixed terms of repayment.

A short-term advance of \$nil (2015 - \$11,225) to officers of the Company for travel is included in prepaid expenses.

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**10. INCOME TAXES**

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate of 26.00% (2015 – 26.00%) to loss before income taxes. The reasons for the difference are as follows:

	<b>2016</b>	<b>2015</b>
Loss before income taxes	\$ (2,703,545)	\$ (2,036,088)
Statutory income tax rate	26.00%	26.00%
Expected income tax recovery	(702,922)	(529,383)
Items not deductible for tax purposes	221,270	50,979
Change in timing differences	6,690	149,568
Renunciation of resource expenditures on flow-through shares	835,150	2,398,690
Recognition of share issue cost	(160,025)	(123,907)
Change in fair value of marketable securities	20,871	(25,799)
Under provided in prior years	65,088	(12,903)
Flow-through premium	(2,091,454)	(3,795,589)
Unused tax losses and tax offsets not recognized	(5,585)	(148,819)
	\$ (1,810,917)	\$ (2,037,163)
<b>Allocation of deferred income tax recovery</b>		
Deferred income tax recovery	\$ (1,650,892)	\$ (1,913,256)
Capital stock *	(160,025)	(123,907)
	\$ (1,810,917)	\$ (2,037,163)

\* Net against share issuance costs.

The tax effected items that give rise to significant portions of the deferred income tax liability at December 31, 2016 and 2015 are presented below:

	<b>2016</b>	<b>2015</b>
Exploration and evaluation assets	\$ (11,030,985)	\$ (10,141,612)
Non-capital loss carry-forwards	4,306,540	3,632,540
Marketable securities	83,415	124,610
Property, plant and equipment	3,187	1,920
Share issuance costs	337,763	362,999
Deferred income tax liability	\$ (6,300,080)	\$ (6,019,543)

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**10. INCOME TAXES (Continued)**

The Company recognizes deferred tax assets for tax benefits on losses or other deductible amounts where it is probable the Company will generate sufficient taxable income to utilize the amount. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	<b>2016</b>	<b>2015</b>
Capital losses	\$ 242,273	\$ 310,629
Non-refundable income tax credits	175,340	175,340
Donations	59,000	12,125
<b>Unrecognized deferred tax assets</b>	<b>\$ 476,613</b>	<b>\$ 498,094</b>

The Company's unused tax losses at December 31, 2016 have the following expiry dates:

2027	\$ 291,000
2028	186,000
2029	155,000
2030	1,167,000
2031	1,873,000
2032	2,403,000
2033	2,466,000
2034	2,852,000
2035	2,574,000
2036	2,550,000
	<b>\$ 16,517,000</b>

**11. FLOW-THROUGH SHARE PREMIUM LIABILITY**

The following is a continuity schedule of the liability portion of the Company's flow-through share issuances:

<b>Balance, December 31, 2014</b>	<b>\$ 3,768,262</b>
Liability incurred on flow-through shares issued October 28, 2015	1,511,912
Liability incurred on flow-through shares issued November 18, 2015	336,000
Settlement of flow-through share liability on incurring expenditures	(3,795,589)
<b>Balance, December 31, 2015</b>	<b>1,820,585</b>
Liability incurred on flow-through shares issued June 30, 2016	864,151
Settlement of flow-through share liability on incurring expenditures	(2,091,454)
<b>Balance, December 31, 2016</b>	<b>\$ 593,282</b>

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**11. FLOW-THROUGH SHARE PREMIUM LIABILITY (Continued)**

During the year ended December 31, 2016, the Company incurred \$7,362,351 of qualified flow-through funded exploration expenditures, which fulfilled its commitment under the flow-through share financings made in 2015 and partially fulfilling its commitment under the flow-through financing on June 30, 2016. As at December 31, 2016, approximately \$5,121,000 remains to be incurred on qualifying expenditures during fiscal 2017. The Company intends to fulfill its flow-through commitments within the given time constraints.

**12. CONTINGENT LIABILITIES**

On June 30, 2016, the Company and the Company's president and CEO received 52 co-jointed statements of offence issued by the Ordre des Geologues du Quebec under Code des Professions pertaining to the use of certain Professional Geoscientists and registered Geologists in Training in preparation of five separate reports submitted by the Company to the Government of Quebec and signed by the Company's president.

The fine sought against the Company is \$156,000 (\$3,000 per offence) plus any court fees if granted by the court. The Company and the Company's president have recorded not guilty pleas and are vigorously defending themselves against the allegations. The Company has not recorded an accrual for the amount as at December 31, 2016.

**13. SUBSEQUENT EVENT**

On March 2, 2017, the Company granted 2,434,250 stock options to employees and consultants at an exercise price of \$0.78 per share and expiry date of March 2, 2022.