



**MUSTANG MINERALS CORP.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mustang Minerals Corp.

We have audited the accompanying consolidated financial statements of Mustang Minerals Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

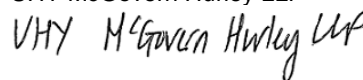
### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Mustang Minerals Corp. and its subsidiaries as at December 31, 2016 and 2015, and their financial performance and 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 2 in the consolidated financial statements which indicates that Mustang Minerals Corp. had continuing losses during the year ended December 31, 2016 and a working capital deficiency and cumulative deficit as at December 31, 2016. These conditions along with other matters set forth in Note 2 indicate the existence of material uncertainties that cast significant doubt about the ability of Mustang Minerals Corp. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
February 22, 2017

**MUSTANG MINERALS CORP.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

AS AT

(In Canadian dollars)

	December 31, 2016	December 31, 2015
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$622,579	\$36,477
Marketable securities, available-for-sale, (Note 5)	70,465	37,569
Amounts receivable	8,183	65,110
Prepays	7,689	8,659
Total current assets	708,916	147,815
<b>MINING INTERESTS, (Note 6)</b>	<b>26,848,329</b>	<b>26,829,083</b>
<b>CAPITAL ASSETS, (Note 7)</b>	<b>203,752</b>	<b>1,050,585</b>
<b>Total assets</b>	<b>\$27,760,997</b>	<b>\$28,027,483</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities, (Notes 9 and 10)	\$1,340,676	\$1,315,784
Total current liabilities	1,340,676	1,315,784
Deferred income taxes (Note 11)	620,000	620,000
<b>Total liabilities</b>	<b>1,960,676</b>	<b>1,935,784</b>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock, (Note 8(a))	46,866,255	46,866,255
Contributed surplus	5,707,257	5,995,645
Accumulated other comprehensive loss	(18,469)	(14,865)
Deficit	(26,754,722)	(26,755,336)
<b>Total shareholders' equity</b>	<b>25,800,321</b>	<b>26,091,699</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$27,760,997</b>	<b>\$28,027,483</b>

Going concern (Note 2)

Commitments and contingencies (Notes 6 and 9)

Approved on Behalf of the Board

'Thomas W. Meredith' Director'Robin Dunbar' Director

**MUSTANG MINERALS CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In Canadian dollars)

	<b>For the year ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Expenses</b>		
Office, general and administrative	<b>\$54,640</b>	\$112,495
Management fees and directors fees (Note 10)	<b>78,200</b>	73,750
Stock based compensation, (Note 8(b))	-	-
Professional fees (Note 10)	<b>18,754</b>	18,142
Amortization (Note 7)	<b>833</b>	1,254
Public company costs	<b>13,347</b>	24,863
Gain on disposition of mining interests	<b>(50,000)</b>	-
<b>Loss from operations before the undernoted</b>	<b>(115,774)</b>	(230,504)
Flow-through share premium income	-	65,500
Impairment of capital assets (Note 7)	<b>(172,000)</b>	(1,817,410)
Shareholder indemnification charges, (Note 9)	-	(1,241,000)
Other loss	-	(17,837)
<b>Net loss before provision for income taxes</b>	<b>(287,774)</b>	(3,241,251)
Deferred income tax recovery, (Note 11(a))	-	640,000
<b>Net loss for the year</b>	<b>(287,774)</b>	(2,601,251)
<b>Other comprehensive income (loss)</b>		
Net increase (decrease) in fair value of marketable securities	<b>(3,604)</b>	66,454
<b>Comprehensive loss for the year</b>	<b>\$ (291,378)</b>	<b>\$ (2,534,797)</b>
<b>Loss per share</b>		
Basic and diluted	<b>\$0.00</b>	(0.01)
Weighted average number of common shares outstanding - basic and diluted	<b>256,475,301</b>	255,985,803

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

**MUSTANG MINERALS CORP.****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

(In Canadian dollars)

	Capital Stock		Contributed	Accumulated		Total
	# of shares	Amount	Surplus	Deficit	Other Comprehensive Income	
		\$	\$	\$	\$	\$
<b>Balance, December 31, 2014</b>	<b>245,308,637</b>	<b>46,742,220</b>	<b>6,151,646</b>	<b>(24,310,086)</b>	<b>(81,319)</b>	<b>28,502,461</b>
Common shares issued for cash (Note 8(a))	11,166,664	128,125	-	-	-	128,125
Share issue expenses (Note 8(a))	-	(4,090)	-	-	-	(4,090)
Options expired (Note 8(b))	-	-	(156,001)	156,001	-	-
Net loss for the year	-	-	-	(2,601,251)	-	(2,601,251)
Other comprehensive income for the year	-	-	-	-	66,454	66,454
<b>Balance, December 31, 2015</b>	<b>256,475,301</b>	<b>46,866,255</b>	<b>5,995,645</b>	<b>(26,755,336)</b>	<b>(14,865)</b>	<b>26,091,699</b>
Options expired (Note 8(b))	-	-	(288,388)	288,388	-	-
Other comprehensive income for the year	-	-	-	-	(3,604)	(3,604)
Net loss for the year	-	-	-	(287,774)	-	(287,774)
<b>Balance, December 31, 2016</b>	<b>256,475,301</b>	<b>46,866,255</b>	<b>5,707,257</b>	<b>(26,754,722)</b>	<b>(18,469)</b>	<b>25,800,321</b>

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

**MUSTANG MINERALS CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31,**

(In Canadian dollars)

	2016	2015
<b>Cash flows used in operating activities</b>		
Net loss for the year	\$ (287,774)	\$ (2,601,251)
Adjustments not affecting cash		
Amortization	833	1,254
Gain on disposition of mining interest	(50,000)	-
Flow through share premium	-	(65,500)
Impairment charge on capital assets	172,000	1,817,410
Loss on disposal of marketable securities	-	18,035
Deferred income tax (recovery)	-	(640,000)
Changes in non-cash working capital		
Amounts receivable	56,927	(59,763)
Prepays	970	4,895
Accounts payable and accrued liabilities	24,892	1,218,709
<b>Cash flows used in operating activities</b>	<b>(82,152)</b>	<b>(306,212)</b>
<b>Cash flows used in investing activities</b>		
Proceeds on sale of marketable securities	-	94,200
Proceeds on sale of capital assets	674,000	-
Proceeds on sale of mining interests	26,000	-
Increase in mining interests	(31,746)	(195,900)
<b>Cash flows used in investing activities</b>	<b>668,254</b>	<b>(101,700)</b>
<b>Cash flows from financing activities</b>		
Issuance of common shares	-	128,125
Share issue costs	-	(4,090)
<b>Cash flows provided by financing activities</b>	<b>-</b>	<b>124,035</b>
Change in cash for the year	586,102	(283,877)
Cash, beginning of year	36,477	320,354
<b>Cash, end of year</b>	<b>\$ 622,579</b>	<b>\$ 36,477</b>

## **MUSTANG MINERALS CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

(In Canadian dollars)

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#### **1. GENERAL INFORMATION**

Mustang Minerals Corp. (the "Company") was incorporated under the laws of Ontario on July 15, 1997 and is engaged in the business of exploring and developing base and precious metal mineral properties. Substantially all of the efforts of the Company are devoted to these business activities and to date the Company has not earned significant revenues. The principal business address of the Company is 3335 Yonge Street, Suite 305 Toronto, Ontario, M4N 2M1.

The consolidated financial statements of the Company for the years ended December 31, 2016 and 2015 were authorized for issue in accordance with a resolution of the Board of Directors on February 22, 2017.

#### **2. GOING CONCERN**

The Company's ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiating contracts and political uncertainty.

The Company has cumulative operating losses and a significant working capital deficiency at December 31, 2016. The Company expects to incur further losses in the exploration and development of its properties. The Company has a need for equity financing for working capital and exploration and development of its properties.

The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and make arrangements to repay or renegotiate past due accounts payable and accrued liabilities. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These matters represent material uncertainties which cast significant doubt upon the Company's ability to continue as a going concern.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

**MUSTANG MINERALS CORP.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****DECEMBER 31, 2016**

(In Canadian dollars)

Details of deficit and working capital deficiency of the Company are as follows:

	December 31, 2016 \$	December 31, 2015 \$
Deficit	26,754,722	26,755,336
Working capital deficiency**	631,760	1,167,969

\*\*Note: The working capital deficiency is primarily attributable to an accrual for the indemnification of flow-through share subscribers, and Part XII.6 tax, as a result of an audit by the Canada Revenue Agency – see Note 9.

**3. BASIS OF PREPARATION**

These consolidated financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (“SICs”).

**4. SIGNIFICANT ACCOUNTING POLICIES****Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Global Nickel Inc., a Canadian federally incorporated company, and Maskwa Nickel Chrome Mines Limited which is a Manitoba corporation and is owned 72.56%. The financial statements of the subsidiaries are consolidated from the date that control commences until the date that control ceases. All inter-company balances and transactions have been eliminated.

**Basis of measurement**

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, and have been prepared using the accrual basis of accounting except for cash flow information.

**Mining interests – acquisition costs and exploration expenditures**

Acquisition costs and exploration expenditures relating to properties that are incurred after the legal right to explore has been obtained are capitalized until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized exploration costs are expensed to operations in the year of abandonment or sale. The amounts shown as mining interests represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition and exploration of properties. The carrying value is reduced by option proceeds received until such time as the exploration property acquisition assets and exploration and evaluation assets are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, mining interest assets in respect of that property are assessed as impaired and written off to the consolidated statement of operations. The Company also assesses mining interest assets for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.



**Impairment**

Financial assets

At the end of each reporting year, the Company assesses its financial assets to determine whether there is any objective evidence that they are impaired. Significant financial difficulties of a debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated statement of operations.

Non-financial assets

At the end of each reporting year, non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Any impairment is recognized in the consolidated statement of operations.

**Provisions and decommissioning liabilities**

Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount. The Company records a provision when:

- (i) the Company has a present obligation, legal or constructive, as a result of a past event;
- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- (i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- (ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting year and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting year. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each year to reflect the passage of time. This increase (accretion expense) is included in finance costs in the consolidated statement of operations.

The Company did not have any material reclamation provisions or decommissioning liabilities as at December 31, 2016 and 2015.

**Loss per share**

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated by assuming that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. During the years ended December 31, 2016 and 2015, all outstanding options and warrants were considered anti-dilutive and were therefore excluded from the diluted loss per share calculation.

**Income taxes**

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of operations except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

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### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

(In Canadian dollars)

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#### **Current income tax**

Current income tax expense is based on the results for the year as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting year. Management at the end of each reporting year evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### **Deferred income tax**

Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

#### **Flow-through share financings**

The Company periodically finances a portion of its exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor (referred to as renunciation). Proceeds received on the issuance of such shares up to the value of similar non-flow through shares are credited to capital stock and any difference between that amount and the issue price is recognized as a flow-through share premium and recognized as a liability in the consolidated statement of financial position. Upon renunciation to the investor of the tax benefits associated with the related expenditures, a deferred income tax liability and corresponding deferred income tax expense is recognized and the liability previously recorded as a flow through share premium is recorded to flow-through share premium income. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred income tax liability and record a recovery on the consolidated statement of operations. The related exploration costs are charged to mining interest assets.

#### **Foreign currency translation**

The Canadian dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the consolidated statement of operations.

#### **Financial instruments**

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "fair value through profit or loss ("FVTPL")", "available for sale" financial assets, "held to maturity", "loans and receivables", or "other" financial liabilities. FVTPL financial instruments are measured at their fair value with changes in fair value recognized in net loss for the year. Available for sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income (loss) until the asset is removed from the consolidated statement of financial position or until impairment is assessed as other than temporary. Held to maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments recorded at fair value by valuation technique:

Level 1: The fair value measurements are classified as level 1 if the fair value is determined using quoted, unadjusted market prices for identical assets or liabilities.

Level 2: The fair value measurements are classified as level 2 when inputs other than quoted prices in level 1 which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: The fair value measurements are classified as level 3 when inputs require unobservable market data or use statistical techniques to derive forward curves from observable market data and unobservable inputs.

**Share-based payments**

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. The fair value of options granted is recorded in contributed surplus. Cash consideration received from employees on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from the option reserve and credited to operations, while the value of options that expire after vesting is credited directly to deficit.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the estimated fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

**Warrants**

All warrants issued are valued on the date of grant using the Black-Scholes option pricing model, net of related issue costs and are recorded in contributed surplus.

**Capital assets**

**Recognition and Measurement**

Capital assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

**Amortization**

Equipment and automobile are depreciated annually on a straight-line basis using rates of 20% and 30% respectively. Mill equipment, once ready for its intended use, is expected to be amortized annually on a straight-line basis at a rate of 20%.

**Recent accounting pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after January 1, 2017. Many are not applicable or do not have a significant impact to the Company and have been excluded below. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

**Segmented information**

The Company conducts all of its operations in Canada in one business segment.

**Critical accounting judgements and key sources of estimation uncertainty**

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including

## **MUSTANG MINERALS CORP.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**

(In Canadian dollars)

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expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

#### Capitalization of mining interest costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

#### Impairment of mining interests and capital assets

While assessing whether any indications of impairment exist for mining interest assets and capital assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, and economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of mining interest assets. Internal sources of information include the manner in which mining interest assets and capital assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining interests, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mining interests and capital assets.

#### Income taxes and recoverability of potential deferred tax assets

The Company is subject to income, value added, withholding and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning 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. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting year.

#### Share-based payments

Management determines the valuation of share-based payments and warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards and warrants are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation

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techniques. These assumptions and judgments may include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

**Mineral reserve estimates**

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, “Standards of Disclosure for Mineral Projects”, issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company’s control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management’s assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company’s financial position and results of operation.

**Commitments and contingencies**

Refer to Notes 6 and 9.

**5. MARKETABLE SECURITIES**

The Company's marketable securities have been designated as available-for-sale and are reported at fair value based on quoted market prices as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Aquila Resources Inc.	55,681	36,942
Other	14,784	627
	70,465	37,569

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**6. MINING INTERESTS AND COMMITMENTS**

For the year ended December 31, 2016

<b>MANITOBA</b>	Jan 1, 2016	Disposition	Exploration	Recoveries	Dec 31, 2016
Makwa	\$ 16,122,219	\$ -	\$ 11,765	\$ -	16,133,984
Mayville	10,374,581	-	58,385	(38,404)	10,394,562
Tanco	332,283	(12,500)	-	-	319,783
	<b>\$ 26,829,083</b>	<b>\$ (12,500)</b>	<b>\$ 70,150</b>	<b>\$ (38,404)</b>	<b>\$ 26,848,329</b>

For the year ended December 31, 2015

<b>MANITOBA</b>	Jan 1, 2015	Disposition	Exploration	Recoveries	Dec 31, 2015
Makwa	\$ 16,093,689	\$ -	\$ 28,530	\$ -	16,122,219
Mayville	10,207,211	-	167,370	-	10,374,581
Tanco	332,283	-	-	-	332,283
	<b>\$ 26,633,183</b>	<b>\$ -</b>	<b>\$ 195,900</b>	<b>\$ -</b>	<b>\$ 26,829,083</b>

It is in the normal course of business for the Company to acquire and divest mining claims based on the results of exploration. Certain of the properties are subject to a Net Smelter Return royalty ("NSR") payable on future mineral production.

**MANITOBA****MAKWA**

The Makwa property is a nickel copper platinum group metal exploration project located near Lac du Bonnet, in south east Manitoba. During 2004, the Company acquired the mining interest by acquiring 100% of the shares of Global Nickel Inc., a federally incorporated company that owns the mineral rights to the Makwa Property. To acquire the shares the Company paid \$500,000 cash and issued 6,679,000 common shares valued at \$0.43 per share, representing the quoted share price of the Company at the time of the transaction.

The mineral rights of the Makwa Property consist of a mineral lease, a surface lease, and mining claims held by the Company. An annual payment of approximately \$10,000 must be made to the province of Manitoba to keep the mineral lease and surface lease in good standing.

**MAYVILLE**

The Mayville property is a copper nickel platinum group metal exploration project located near Lac du Bonnet, in south east Manitoba. The Company acquired a cumulative 89% interest in the property (consisting of mining claims) in 2005. A direct 60% interest was acquired from the vendor for consideration of \$90,000 in cash, a note for \$165,000 due 18 months from closing (which was paid during 2006), and 700,000 common shares of the Company (issued in 2005). This 60% interest is subject to a 2% royalty interest.

The additional 29% interest was acquired through the acquisition of a 72.56% interest in Maskwa Nickel Chrome Mines Limited ("MNCM"), a company which holds the remaining 40% interest in the Mayville property. The shares in MNCM were acquired through the issuance of 400,000 common shares of the Company and a cash payment of \$120,000. A royalty payment in the amount of \$210,000 will be due in 5 equal annual payments upon the commencement of commercial production on any portion of the MNCM property.

**TANCO**

The Tanco property is an exploration project located near Lac du Bonnet, in south east Manitoba. On June 30, 2010, the Company entered into an option agreement with Tantalum Mining Corporation of Canada and has now acquired a 100% interest in the base and precious metal rights of a property located in southeast Manitoba. Pursuant to the terms of the option agreement, the Company made cash option payments totaling \$45,000, and incurred expenditures of \$312,600.



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The property is subject to a 2% NSR.

During 2016 the company sold certain of the Tanco claims for \$12,500, including \$6,000 in cash and \$6,500 in shares of Pacific North West Capital Corp.

**7. CAPITAL ASSETS**

	Asset held for sale			Total \$
	Equipment \$	Automobile \$	Mill equipment \$	
<u>Cost</u>				
Balance at December 31, 2014, and 2015	96,956	32,687	2,864,410	2,994,053
Disposal	-	-	(674,000)	(674,000)
Balance December 31 ,2016	96,956	32,687	2,190,410	2,320,053
<u>Amortization</u>				
Balance December 31, 2014	94,994	29,810	-	124,804
Amortization for the year	392	862	-	1,254
Impairment charge	-	-	1,817,410	1,817,410
Balance December 31 ,2015	95,386	30,672	1,817,410	1,943,468
Amortization for the year	292	541	-	833
Impairment charge	-	-	172,000	172,000
Balance December 31 ,2016	95,678	31,213	1,989,410	2,116,301
<u>Net book value</u>				
As at December 31, 2015	1,570	2,015	1,047,000	1,050,585
Balance December 31 ,2016	1,278	1,474	201,000	203,752

During 2015, the Company determined that impairment was required on the mill equipment. The Company estimated the impairment based on the estimated realizable value of comparable used mill equipment. An impairment allowance of \$1,817,410 was recorded at December 31, 2015.

During the year ended December 31, 2016 the Company -

- a. Determined that a further impairment was required on the mill equipment, and recorded an impairment allowance of \$172,000. The Company estimated the impairment and the remainder of the used equipment based on the estimated realizable value of comparable used mill equipment.
- b. Sold the majority of the mill equipment for net proceeds of \$674,000.

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

The authorized capital stock of the Company consists of an unlimited number of common shares.

There was no common share activity during the year ended December 31, 2016.

**2015 Activity**

During January 2015, the Company completed the third tranche of the non-brokered private placement commenced in December 2014, with the issuance of 11,166,664 common shares for gross proceeds of \$128,125 and recorded \$4,090 in share issue expenses that were incurred in connection with all three tranches. Under the third tranche Western Areas Ltd. ("Western Areas"), a related party that owns approximately 19% of the Company, subscribed for 3,291,664 shares

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for gross proceeds of \$49,375.

**(b) Stock option plan and stock-based compensation**

The Company has a stock option plan to provide employees, directors, officers and consultants with options to purchase common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the day of grant and the maximum term of option is five years. The maximum number of shares which may be issued under the program shall not exceed 10% of the issued and outstanding shares.

The following summarizes the employees, directors, officers and consultants' stock options that have been granted, exercised, expired, vested or cancelled during the years ended December 31, 2016 and 2015:

	Number of Options	Weighted Average Exercise Price \$
<b>Balance, December 31, 2014</b>	<b>6,135,000</b>	<b>0.23</b>
<b>Expired during 2015</b>	<b>(1,550,000)</b>	
<b>Balance, December 31, 2015</b>	<b>4,585,000</b>	<b>0.23</b>
<b>Expired during 2016</b>	<b>(2,460,000)</b>	
<b>Balance, December 31, 2016</b>	<b>2,125,000</b>	<b>0.12</b>

The following table summarizes information about stock options outstanding and exercisable at December 31, 2016:

Weighted average exercise price	Number of options outstanding and exercisable	Remaining life (months)
\$0.12	2,125,000	17.0
<b>\$0.12</b>	<b>2,125,000</b>	

**9. COMMITMENTS AND CONTINGENCIES**

At December 31, 2016 the Company has an office lease commitment amounting to \$16,800 per annum through February 28, 2017.

See Note 6 for details of other commitments and contingencies.

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

During 2015, the Company's flow-through renunciation and related expenditures from 2010 to 2013 were audited by the Canadian Revenue Agency ("CRA"). CRA determined that certain amounts previously judged by management to be eligible expenditures did not qualify as such. As a result of the indemnification provided to flow-through subscribers, the Company has included in accounts payable and accrued liabilities an estimated provision of \$1,055,000 for the expected amounts that will become payable to the subscribers of its flow-through shares. The Company also has an additional liability for Part XII.6 tax as a result of the audit estimated to be \$186,000 which has also been included in accounts payable. The total provided for amounts to \$1,241,000.



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**10. RELATED PARTY TRANSACTIONS**

Director's fees, professional fees and other compensation of directors and key management personnel were as follows for the years ended December 31:

	2016	2015
	\$	\$
Short-term compensation and benefits	114,000	167,196
Share-based payments	-	-

As at December 31, 2016, accounts payable and accrued liabilities includes \$75,500 (2015 - \$31,160) owing to key management personnel.

During the year ended December 31, 2015, the Company received \$49,375 for a share subscription (2016 - \$Nil) from Western Areas. Western Areas is a company that owns approximately 19% of the Company.

Legal fees were charged by a legal firm during the year ended December 31, 2016, of which an officer of the Company is an employee, for legal and corporate secretarial services in the amount of \$3,106 (2015 - \$11,067).

Amounts due to related parties and included in accounts payable, are unsecured, non-interest bearing, and have no fixed terms of re-payment.

**11. INCOME TAXES**

## a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2015 - 26.5%) were as follows:

	2016	2015
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
Loss before income taxes	(287,774)	(3,241,251)
Expected income tax recovery based on statutory rate	(76,300)	(871,000)
Adjustment to expected income tax benefit:		
Impairment of capital assets	45,600	491,000
Other	30,700	(260,000)
Deferred income tax recovery	-	(640,000)

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b) The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2016 and 2015 are as follows:

	2016	2015
	\$	\$
Deferred tax assets (liabilities):		
Capital assets	535,900	543,000
Share issue costs	1,500	8,000
Non-capital losses carried forward	2,128,000	2,128,000
Cumulative eligible capital	15,600	16,000
Marketable securities	(7,000)	4,000
Mining interests	(3,294,000)	(3,319,000)
Net deferred income tax liability	<u>(620,000)</u>	<u>(620,000)</u>

## c) Losses Carried Forward

As at December 31, 2016, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$7,540,000 (2015 - \$7,406,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2036.

	Canada
<u>Expiry</u>	<u>\$</u>
2026	545,000
2027	804,000
2028	1,153,000
2029	1,055,000
2030	843,000
2027	1,151,000
2031	415,000
2032	287,000
2033	1,000
2034	101,000
2035	1,051,000
2036	<u>134,000</u>
	<u><u>7,540,000</u></u>

## **12. FINANCIAL INSTRUMENTS**

The carrying amounts for cash, amounts receivable, marketable securities and accounts payable and accrued liabilities approximate their estimated fair value due to the short term nature of these financial instruments.

Cash and accounts receivable are classified as loans and receivables and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Marketable securities are classified as available for sale financial assets and are measured at their fair value. Changes in fair value are included in other comprehensive income (loss) until the asset is removed from the consolidated statement of financial position or until impairment is assessed as other than temporary.

Accounts payable are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The Company's risk exposures and the impact on its financial investments, as summarized below, have not changed significantly for the year ended December 31, 2016.

### **Credit Risk**

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instruments included in accounts receivable is remote.

### **Liquidity Risk**

The Company's main source of liquidity is derived from its common stock issuances. As at December 31, 2016, the Company had current assets of \$708,916 (December 31, 2015 - \$147,815) to settle current liabilities of \$1,340,676 (December 31, 2015 - \$1,315,784). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms.

### **Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

### **Market Risk**

#### *Foreign Currency Risk*

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

#### *Price Risk*

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration and evaluation stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

### **Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

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**13. CAPITAL MANAGEMENT**

Capital management is reflected by the manner in which the Company manages its capital stock. The Company's objectives when managing capital are:

- a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;
- b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

There were no significant changes in the Company's approach to capital management during the years ended December 31, 2016 and 2015.

As at December 31, 2016, the Company's capital stock was \$46,866,255 (December 31, 2015 - \$46,866,255). The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or equity or similar instruments, reduce debt levels from, or make adjustments to, its capital expenditure program.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2016, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.