



BARKERVILLE GOLD MINES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Barkerville Gold Mines Ltd.

We have audited the accompanying consolidated financial statements of Barkerville Gold Mines Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at February 29, 2016 and February 28, 2015, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Barkerville Gold Mines Ltd. and its subsidiaries as at February 29, 2016 and February 28, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$8,059,974 during the year ended February 29, 2016 and, as at that date, has an accumulated deficit of \$158,530,041. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Professional Accountants
Vancouver, British Columbia
JUNE 14, 2016

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Barkerville Gold Mines Ltd.

Consolidated Statement of Financial Position

As at,

	February 29, 2016	February 28, 2015
Assets		
Current Assets		
Cash and cash equivalents (Note 10)	\$ 25,090,664	\$ 476,958
Available for sale investments (Note 11)	10,481,193	2,760
Amounts receivable (Note 6)	161,281	5,094,589
Prepaid expenses (Note 7)	127,903	165,981
Inventory (Note 8)	8,462	3,569,787
Total current assets	35,869,503	9,310,075
Reclamation deposits (Note 9)	3,395,800	3,395,800
Exploration and evaluation assets (Note 14)	138,178	17,799,347
Mineral properties and deferred development costs (Note 13)	-	1,151,970
Property, plant and equipment (Note 12)	7,356,293	8,040,064
Total assets	\$ 46,759,774	\$ 39,697,256
Liabilities		
Current liabilities		
Trade and other payables (Note 16)	\$ 2,207,913	\$ 9,993,337
Due to related parties (Note 20)	110,375	1,377,402
Lease payable (Note 30)	34,000	34,000
Provision for site reclamation and closure (Note 17)	5,653,617	4,101,997
Gold loan facility (Note 18)	-	19,823,396
Total current liabilities	8,005,905	35,330,132
Provision for site reclamation and closure (Note 17)	3,092,078	2,894,054
Lease payable (Note 30)	70,124	105,824
Flow through premium liability (Note 19)	66,000	-
Deferred tax liability (Note 32)	185,700	229,000
Total liabilities	11,419,807	38,559,010
Shareholders' equity		
Share capital (Note 19)	164,976,771	126,810,456
Share-based payments reserve (Note 19)	28,940,017	24,814,417
Accumulated other comprehensive income (Note 19)	(46,780)	(16,560)
Accumulated deficit	(158,530,041)	(150,470,067)
Total shareholders' equity	35,339,967	1,138,246
Total liabilities and shareholders' equity	\$ 46,759,774	\$ 39,697,256

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

Approved on behalf of the board:

"Thomas J. Obradovich"

Thomas J. Obradovich, Chief Executive Officer

"Greg Gibson"

Greg Gibson, Chairman

Barkerville Gold Mines Ltd.

Consolidated Statement of Loss and Other Comprehensive Loss

For the years ended February 29, 2016 and February 28, 2015

	Year ended	
	February 29, 2016	February 28, 2015
Revenue	\$ 13,192,311	\$ 31,201,965
Cost of sales and direct costs (Note 8)	(4,934,669)	(23,667,428)
Gross Profit	8,257,642	7,534,537
Mine operating expense (Note 22)	(4,639,077)	(4,226,468)
Mine operating income (loss)	3,618,565	3,308,069
Expenses:		
Exploration (Note 23)	11,743,006	3,798,815
Corporate administration (Note 24)	5,808,646	3,464,468
Impairment (Note 15)	669,450	10,802,324
Finance expense (Note 25)	(1,873,824)	(6,496,239)
Change in fair value of derivative (Note 18)	(360,552)	(814,779)
Write off of prepayment	-	(115,198)
Gain on sale of NSR (Note 14)	5,926,519	-
Gain on revaluation of liability to issue options (Note 20)	41,400	-
Gain on shares issued for settlement of gold loan facility (Note 19)	798,069	-
Sundry income	97,956	3,290
Gain (Loss) on shares for debt (Note 19)	(104,057)	(57,390)
Gain on shares issued for penalty interest on gold loan facility (Note 19)	150,752	-
Loss before income taxes	(9,926,274)	(22,237,854)
Income tax recovery (Note 19,32)	1,866,300	930,000
Net loss for the year	\$ (8,059,974)	\$ (21,307,854)
Other comprehensive loss		
Change in fair value of available for sale investment	(30,220)	(690)
Total Comprehensive loss for the year	\$ (8,090,194)	\$ (21,308,544)
Loss per common share, basic and diluted (Note 28)	\$ (0.04)	\$ (0.17)
Weighted average number of common shares outstanding (Note 28)	197,734,501	125,108,314

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

Barkerville Gold Mines Ltd.

Consolidated Statement of Changes in Equity

As at February 29, 2016

	Outstanding Shares	Share Capital	Share-based payments reserve	Accumulated other comprehensive loss	Accumulated deficit	Total Shareholders' Equity
Balance at March 1, 2014	109,851,706	\$ 118,659,790	\$ 24,814,417	\$ (15,870)	\$ (129,162,213)	\$ 14,296,124
Loss for the year	-	-	-	-	(21,307,854)	(21,307,854)
Issue of shares pursuant to private placement	13,783,000	6,891,500	-	-	-	6,891,500
Share issuance costs	-	(298,224)	-	-	-	(298,224)
Issue of shares for debt settlement	3,000,000	1,557,390	-	-	-	1,557,390
Change in fair value of available for sale investment	-	-	-	(690)	-	(690)
Balance at February 28, 2015	126,634,706	\$ 126,810,456	\$ 24,814,417	\$ (16,560)	\$ (150,470,067)	\$ 1,138,246
Balance at March 1, 2015	126,634,706	\$ 126,810,456	\$ 24,814,417	\$ (16,560)	\$ (150,470,067)	\$ 1,138,246
Loss for the year	-	-	-	-	(8,059,974)	(8,059,974)
Change in fair value of available for sale investment	-	-	-	(30,220)	-	(30,220)
Stock based compensation	-	-	2,604,500	-	-	2,604,500
Issue of flow through shares pursuant to private placements	64,684,375	16,806,554	1,541,000	-	-	18,347,554
Exercise of options	100,000	46,900	(19,900)	-	-	27,000
Issue of shares for settlement of gold loan facility	77,900,939	21,003,103	-	-	-	21,003,103
Issue of shares for debt settlement	1,222,148	309,758	-	-	-	309,758
Balance at February 29, 2016	270,542,168	\$ 164,976,771	\$ 28,940,017	\$ (46,780)	\$ (158,530,041)	\$ 35,339,967

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

Barkerville Gold Mines Ltd.

Consolidated Statement of Cash Flows

For the years ended February 29, 2016 and February 28, 2015

	Year ended	
	February 29, 2016	February 28, 2015
Cash flows from (used in) operating activities		
Income (loss) for the period	\$ (8,059,974)	\$ (21,307,854)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	829,951	1,065,746
Depletion	-	3,391,301
Change in fair value of derivative component of gold loan facility	360,552	814,779
Accretion expense - debt	1,767,976	6,055,868
Accretion expense - provision for site reclamation and closure	105,848	381,043
Increase in estimate for site reclamation and closure	1,643,796	-
Impairment	669,450	10,802,324
Write off of prepaid expenses	-	111,908
Gain on sale of NSR	(5,926,519)	-
Gain on settlement of gold loan facility	(798,069)	-
Stock based compensation	2,537,400	-
Recognition of liability to issue options	69,000	-
Gain on revaluation of liability to issue options	(41,400)	-
(Gain) Loss on issue of shares for debt	104,057	57,390
Gain on shares issued for penalty interest on gold loan facility	(150,752)	-
Deferred tax recovery	(1,866,300)	(930,000)
Changes in non-cash working capital balances:		
Accounts receivable	4,933,308	(4,920,906)
Prepaid expenses	38,078	(28,983)
Trade and other payables	(5,660,473)	(424,481)
Inventory	3,561,325	(732,510)
Total cash inflows (outflows) from operating activities	<u>(5,882,746)</u>	<u>(5,664,375)</u>
Cash flows from (used in) investing activities		
Reclamation deposits	-	(665,000)
Proceeds from sale of NSR	25,000,000	-
Purchase of available for sale investments	(10,508,653)	-
Acquisition of property, plant and equipment, net of disposals	(815,630)	(496,990)
Acquisition of mineral properties and deferred development costs	(1,939,147)	(474,510)
Acquisition of exploration and evaluation assets	(240,445)	(19,123)
Total cash (outflows) from investing activities	<u>11,496,125</u>	<u>(1,655,623)</u>
Cash flows from (used in) financing activities		
Amounts advanced by (paid to) related parties	(1,227,527)	1,393,429
Loan advances (repayments) from related parties	-	(628,518)
Amounts used for site reclamation and closure	-	(53,331)
Finance lease	(35,700)	139,824
Issuance of share capital	20,263,554	6,593,276
Total cash (outflows) inflows from financing activities	<u>19,000,327</u>	<u>7,444,680</u>
Total increase in cash during the period	24,613,706	124,682
Cash and cash equivalents at the beginning of the period	476,958	352,276
Cash and cash equivalents at the end of the period	<u>\$ 25,090,664</u>	<u>\$ 476,958</u>

See Note 29 for a description of non-cash amounts not included in the consolidated statement of cash flows.

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

1. CORPORATE INFORMATION

Barkerville Gold Mines Ltd. (“the Company”) was incorporated on February 12, 1970 under the laws of the Province of British Columbia and is engaged in the production and sale of gold, and the exploration, development, and acquisition of mineral properties in British Columbia. The Company is listed on the TSX Venture Exchange, under the symbol BGM-V.

The address of the Company’s corporate office and principal place of business is 11th floor 1111 Melville Street, Vancouver, British Columbia, Canada.

The Company obtained the required permits to mine Bonanza Ledge in December 2011. In July 2012, the Company obtained the required permits to mill Bonanza Ledge ore at the QR Mill and intends to obtain the required financing for the exploration of its Cariboo Gold Project. The Company commenced commercial production at Bonanza Ledge Mine in June 2014 and ceased mining operations in February 2015. The Bonanza Ledge Mine is currently under care and maintenance.

2. BASIS OF PREPARATION

a) Going Concern of Operations

These consolidated financial statements have been prepared in accordance with accounting principles applicable to a going concern and do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statement of financial position classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material. At February 29, 2016, the Company had accumulated losses of \$158,530,041 (February 28, 2015: \$150,470,067). The Company had a loss of \$8,059,974 during the year ending February 29, 2016 (February 28, 2015: loss of \$21,307,854). These conditions raise material uncertainty that may cast significant doubt as to the ability of the Company to continue operating as a going concern.

The Company requires additional financing to continue to be able to operate, retain rights to its properties and carry out exploration and development of its properties. Because of continuing operating losses and its excess of current liabilities over current assets, the Company’s continuance as a going concern for the foreseeable future is dependent upon its ability to obtain adequate financing. It is not possible to predict whether financing efforts will be successful.

The Company is in the process of exploring its properties and has not yet determined whether these properties contain economically recoverable reserves. The continued operations of the Company and the amounts recoverable on these properties are dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the financing to complete the necessary exploration and development of such property and upon attaining future profitable production or proceeds from disposition of the properties.

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 unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

b) Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) applicable to the preparation of these financial statements.

The financial statements were authorized for issue by the Board of Directors on June 14, 2016.

2. BASIS OF PREPARATION (CONTINUED)

c) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative liabilities carried at fair value.

The consolidated financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

a) Basis of Consolidation

The consolidated financial statements include Barkerville Gold Mines Ltd. and its subsidiaries as at February 29, 2016. Subsidiaries are entities controlled by the Company. Control is achieved when the Company 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. Specifically, the Company controls an investee if, and only if, the Company has all of the following:

- Power over the investee (i.e., existing rights that give the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The operations, assets and liabilities of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries:

- Bethlehem Resources (1996) Corporation; and
- 0847423 BC Ltd.

All intercompany transactions and balances are eliminated on consolidation.

b) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, demand deposits with financial institutions, and cash held in trust by legal counsel, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts. Cash and cash equivalents do not include restricted cash.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Revenue Recognition

Revenue from the sale of metals contained in concentrates is recognized when significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals represents gross proceeds receivable from the customer. Revenue from metal sales is primarily from gold sales but also includes silver byproduct.

Contract terms for the Company's sale of gold and silver in concentrate ("metal concentrate") to third parties allow for price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. These are referred to as provisional pricing arrangements, and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer. Adjustments to the sales price arise due to movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlement generally takes less than 1 week.

Sales contracts for metal in concentrate that have provisional pricing features are considered to contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment. The embedded derivative, which does not qualify for hedge accounting, is initially recognized at fair value, with subsequent changes in the fair value recognized in profit or loss each period until final settlement, and presented as part of Other Income. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices for gold and silver.

Interest revenue is recognized as it is earned.

d) Inventory

Stockpiled ore, work in progress and consumables are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Cost is calculated by the cost method, comprising of direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation, depletion, and amortization, incurred in converting materials into finished goods.

Consumables are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence.

e) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs

Pre-exploration Costs

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs (continued)

Exploration and Evaluation Expenditures

Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, drilling and other work involved in searching for minerals.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of:

- (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
- (ii) determining the optimal methods of extraction and metallurgical and treatment processes;
- (iii) studies related to surveying, transportation, and infrastructure requirements;
- (iv) permitting activities; and
- (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

License costs paid in connection with a right to explore in an existing exploration area are expensed as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless it is concluded that a future economic benefit is more likely than not to be realized.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation expenditures incurred on a license where a NI 43-101 - Standards of Disclosure for Mineral Projects ("43-101") compliant resource has not yet been established are expensed as incurred until sufficient evaluation has occurred in order to establish a 43-101 compliant resource and on completion of a pre-feasibility study. Costs expensed during this phase are included in "exploration expenses" in the statement of loss and other comprehensive loss.

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. Similarly, the costs associated with acquiring an exploration and evaluation asset (that does not represent a business) are also capitalized. They are subsequently measured at cost less accumulated impairment.

Once a pre-feasibility study has been completed and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred from "Exploration and Evaluation Assets" to "Mineral Properties and Deferred Development Costs" or "Property, Plant & Equipment" depending on the nature of the asset. No amortization is charged during the exploration and evaluation phase.

Mineral Properties and Deferred Development Costs

Subsequent to completion of a positive economic analysis on a mineral property, capitalized exploration and evaluation assets are transferred into mineral properties, as an intangible asset, or as an item of property, plant and equipment based on the nature of the underlying asset. Items of intangible assets and property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant) borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Following transfer of "Exploration and Evaluation Assets" into "Mineral Properties" within "Mineral Properties and Deferred Development Costs", all subsequent expenditure on the construction, installation or completion of infrastructure and mine facilities is capitalized within "Deferred Development Costs". Development expenditure is net of proceeds from the incidental sale of ore extracted during the development phase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs (Continued)

Mineral Properties and Deferred Development Costs (Continued)

It is also necessary to incur costs to remove overburden and other mine waste materials (stripping costs) in order to access the ore body. During the development of a mine, stripping costs are capitalized to deferred development costs for the related mineral property.

When a mine construction project (included in deferred development costs) moves into the production stage, the capitalization of certain mine construction costs ceases and are either regarded as part of the cost of inventory or expenses, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground/surface mine development or mineable reserve development.

During the productive phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to sources of reserves that will be produced in future periods and would not have otherwise been accessible, which are capitalized as development costs.

Management reviews the carrying value of capitalized mineral property and development costs for indicators of impairment. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all costs associated with the project are impaired to the project's recoverable amount.

Amortization and Depletion

Accumulated mine development costs are amortized/depleted on a unit of production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life are shorter than the life of the mine, in which case the straight line method is applied. The unit of account for run-of-mine (ROM) costs is tonnes of ore extracted and processed. Rights and concessions are depleted on the unit of production basis over total reserves of the relevant area. The unit of production rate for the amortization/depletion takes into consideration expenditures to date, and future sanctioned expenditures.

Amortization and depletion are either regarded as part of the cost of inventory or expensed through the statement of loss and other comprehensive loss.

Disposal

Gains and losses on disposal of an item within Exploration and Evaluation Properties, or Mineral Properties and Deferred Development Costs are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Sale of Royalty Interest

The Company does not recognize any gain or loss on its exploration and evaluation royalty transactions, until the consideration received is in excess of the carrying amount.

f) Property, Plant and Equipment

Cost

Items of property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant) borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The cost of replacing or overhauling a component of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is written off. Costs associated with routine repairs and maintenance of plant and equipment are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Property, Plant and Equipment (continued)

Depreciation

The carrying amounts of property, plant and equipment are depreciated using the diminishing balance method using the rates below. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (or components) of plant and equipment.

Mining Plant & Equipment: 5%-50%

Office Furniture & Equipment: 20%

Depreciation methods and useful lives are reviewed at each annual reporting date and adjusted as appropriate.

Depreciation is either regarded as part of the cost of inventory or expensed through the statement of loss and other comprehensive loss.

Disposal

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

g) Reclamation Deposits

Reclamation deposits are term deposits held on behalf of the Government of the Province of British Columbia (the "province") as collateral for possible reclamation activities on the Company's mineral properties in connection with permits required for exploration activities. As they are restricted from general use, they are excluded from current assets. Reclamation deposits are released, by the province, once the property is restored to satisfactory condition. Reclamation deposits are classified as loans and receivables.

h) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset (or cash-generating unit (CGU)) may be impaired. If any indication of impairment exists, or when annual impairment testing for an indefinite-lived asset (or CGU) is required, the Company estimates the asset's or CGU's recoverable amount. Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated.

Impairment losses of continuing operations, including impairment of inventories, are recognized in loss and other comprehensive loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. The reversal is limited to the recoverable amount, which cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in loss and other comprehensive loss. Exploration and Evaluation assets are considered for impairment in light of the requirements of IFRS 6, and are not allocated to other CGUs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial Instruments

Initial recognition and measurement

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs.

Purchases or sales of financial assets that require delivery of assets in a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash, reclamation deposits, amounts receivable, and available for sale investments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, described below.

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss (FVTPL) are carried in the statement of financial position at their fair value at each period end with net changes in fair value presented as a finance expense in profit and loss. Cash is classified as FVTPL.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. Loans and receivables are comprised of amounts receivable and reclamation deposits. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial Instruments (Continued)

Available-For-Sale Investments

Non-derivative financial assets not included in the above category are classified as available-for-sale and comprise principally of the Company's strategic investments in entities not qualifying as subsidiaries or associates, and short term corporate bonds. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be reliably determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Financial Liabilities

Initial recognition and measurement

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, due to related parties, loans and borrowings, gold loan facility and derivative financial instruments.

Subsequent measurement

Financial liabilities classified as other financial liabilities, based on the purpose for which the liability was incurred, are comprised of trade and other payables, due to related parties, loan from director and non-derivative components of the gold loan facility. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 21.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Financial Instruments (Continued)

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, and the risks and characteristics are not closely related to those of the host contracts. The Company may enter into derivative financial instruments to obtain loan financing. These instruments are non-hedge derivative instruments and are accounted for at fair value through profit or loss ("FVTPL").

j) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in loss and other comprehensive loss.

Provision for site reclamation and closure

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining production location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are expensed as incurred. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability, and is included as a finance expense.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) which is created on an ongoing basis during production are provided for at their net present values and recognized in profit or loss as extraction progresses.

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature mines, the revised mine asset net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognized immediately in loss and other comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Contingencies

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in the consolidated financial statements on the date such changes occur.

l) Government Grants

From time to time the Company receives government incentive programs such as investment tax credits. Government incentives are accrued when there is reasonable assurance of realization and reflected as a reduction of the related asset or expense.

m) Income Taxes

Income tax expense comprises current and deferred tax expense. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

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 income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

n) Deferred Tax

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 which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

o) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, and flow-through shares are classified as equity instruments.

When the Company issues units as part of a private placement, consisting of both common shares and common share purchase warrants, the fair value of the warrants is determined using the Black-Scholes pricing model, and the remaining value is assigned to the common shares.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings (loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings (loss) per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants and debt conversion, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercise were used to acquire common stock at the average market price during the reporting period. In a loss period, stock options and warrants are anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Share Capital (continued)

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. Non-market 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 the market 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 persons other than employees, profit or loss is charged with the fair value of goods and services received. Where the fair value of the goods or services is not determinable, the fair value of the equity instruments granted is used.

When options are exercised, the proceeds received, together with any related amount in share-based payments reserve, are credited to share capital.

p) Fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each reporting date. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g. when the entity acquires a business, or when an entity measures the recoverable amount of an asset or cash-generating unit (CGU) at fair value less costs of disposal. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 21.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purposes of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

q) Recent accounting pronouncements

The Company did not adopt any new or amended standards for the year beginning March 1, 2015 that had a material impact on the consolidated financial statements. The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended February 29, 2016.

(i) IFRS 15 Revenue Recognition

On May 28, 2014 the IASB issued IFRS 15 *Revenue from Contracts with Customers*. The new standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 15 will replace IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers*, and SIC 31 *Revenue - Barter Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized.

The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The Company intends to adopt IFRS 15 in its consolidated financial statements for the annual period beginning on March 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

(ii) IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to 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. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

There are no additional standards not yet effective that would have an impact on the consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

a) Provision for Site Reclamation and Closure

Provisions for Site Reclamation and Closure have been created based on management estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability as shown in Note 17. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of discount rate, contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual reclamation and closure costs will ultimately depend on future market prices for the costs which will reflect the market condition at the time the costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

b) Mineral Reserves and Mineral Resource Estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its mineral reserve and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mineral reserve or mineral resource estimates may impact the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

c) Units of production depletion

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimate of future capital expenditure. Changes are accounted for prospectively.

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

d) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward only to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

e) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 19.

f) Fair Value Measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumption that market participants act in their best economic interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

When the fair values of non-financial assets/CGUs need to be determined, e.g. when calculating fair value less cost to sell for impairment purposes, fair value is measured using valuation techniques including comparable calculations and discounted cash flow models. Further information about the judgments and estimates and assumptions impacting impairment testing is contained in Note 15.

g) Inventories

Net realizable value tests are performed at each reporting date and represent the estimated future sale price of the product the Company expects to realize when the product is sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Stockpiles are measured by estimating the number of tons added and removed from the stockpile, the number of contained gold ounces is based on assay data, and estimated recovery percentage is based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

5. CRITICAL ACCOUNTING JUDGMENTS

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

a) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

b) Commencement of Production

The Company assesses the stage of each mine under construction to determine when a mine moves into the production stage, being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when the production phases are considered to commence and all related amounts are reclassified from 'Mines under construction' to 'Producing mines' and 'Property, plant and equipment'. The principal criteria used includes, but is not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specification)
- Ability to sustain ongoing production of metal
- Ability to sustain ongoing profitable production

When a mine development / construction project moves into the production stage, the capitalization of certain mine development costs ceases. Costs are either regarded as forming part of the cost of inventory or expensed. However, any costs relating to mining asset additions or improvements, underground mine development or mineable reserve development are assessed to determine whether capitalization is appropriate. It is also at this point that depreciation / amortization commences.

c) Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure 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.

5. CRITICAL ACCOUNTING JUDGMENTS (CONTINUED)

d) Impairment of Property, Plant and Equipment, Mining Properties and Deferred Development Costs and Exploration and Evaluation Properties

Management considers both external and internal sources of information in determining if there are any indications that the Company's property, plant and equipment assets, mining properties and deferred development costs and exploration and evaluation assets are impaired. External sources of information management consider include the market, economic, and legal environment in which the Company operates. Internal sources of information management considers include the manner in which the property, plant and equipment, mining properties and deferred development costs are being used or are expected to be used, and indication of economic performance of the assets. Management has used its judgment to determine the appropriate allocation of assets to a specific cash generating unit (CGU), for which it was determined that there are two CGUs (individual mining locations). These locations are the lowest level for which cash inflows are largely independent of those from other assets/CGUs. Further information on assumptions and estimates used in the Company's impairment assessment are given in Note 15.

Exploration and Evaluation properties have not been included with other CGUs for assessment for impairment indicators.

If, after an exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available. The Company has determined that there are currently no indicators of impairment on its exploration and evaluation properties at February 29, 2016 (February 28, 2015: \$7,932,779, see note 14).

e) Embedded Derivatives and Hybrid Financial Instruments

Judgment is required in determining whether financial instruments are classified as debt or equity and whether instruments contain one or more embedded derivatives. The Company makes significant judgments in assessing whether instruments meet the definition of an equity instrument or financial liability and in determining whether a contract gives rise to one or more derivatives with economic characteristics distinct from the host contract. See Note 18.

6. AMOUNTS RECEIVABLE

The amounts receivable for the Company are comprised of the following:

	February 29, 2016	February 28, 2015
Trade receivables	\$ 1,775	\$ 4,381,629
Goods and services tax receivable	159,506	712,960
Total amounts receivable	\$ 161,281	\$ 5,094,589

7. PREPAID EXPENSES

The prepaid expenses for the Company are comprised of the following:

	February 29, 2016	February 28, 2015
Insurance	\$ 53,591	\$ 66,629
Rent	-	3,500
Other prepaid amounts	74,312	95,852
Total prepaid expenses	\$ 127,903	\$ 165,981

Barkerville Gold Mines Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2016 and February 28, 2015

8. INVENTORY, COST OF SALES AND DIRECT COSTS

The inventory for the Company is comprised of the following:

	February 29, 2016	February 28, 2015
Consumables	\$ 8,462	\$ 43,599
Stockpiled ore	-	2,479,765
Finished goods	-	1,046,423
Total inventory	\$ 8,462	\$ 3,569,787

There have been no write-downs of the carrying value of inventory during the year ended February 29, 2016 (February 28, 2015: \$nil).

The cost of sales and direct costs included in profit and loss is comprised of the following:

	Year ended February 29, 2016	Year ended February 28, 2015
Mining and processing costs	\$ 1,245,167	\$ 21,413,397
Depletion	-	3,391,301
Depreciation	128,177	706,757
Change in inventory	3,561,325	(1,844,027)
Cost of Sales and Direct Costs	\$ 4,934,669	\$ 23,667,428

9. RECLAMATION DEPOSITS

The Company is required to make reclamation deposits in respect of its expected site reclamation and closure obligations. The reclamation deposits represent collateral for possible reclamation activities necessary on mineral properties in connection with the permits required for exploration activities by the Company.

Under the terms of the M-238 and M-198 permits the Company is further required to deposit additional reclamation bonds of \$18,190,000 (February 28, 2015: \$18,190,000):

- (i) \$1,750,000 within 30 days of the start of milling (not paid);
- (ii) \$1,500,000 on or before September 30, 2012 (not paid);
- (iii) \$4,140,000 on or before December 15, 2012 (not paid).
- (iv) Deposit \$4,400,000 on or before December 30, 2014 (not paid);
- (v) Deposit \$1,500,000 on or before September 30, 2015 (not paid);
- (vi) If the underground bulkhead is not fully constructed by September 30, 2015, the Company shall post an additional \$2,000,000
- (vii) Deposit \$1,500,000 on or before September 30, 2016 ;
- (viii) Deposit \$1,400,000 on or before September 30, 2017;
- (ix) Other bonds of \$343,500 have been paid in respect of properties included in exploration and evaluation asset at February 29, 2016 (February 28, 2015: \$343,500).

As at February 29, 2016, The Company had total deposits of \$3,395,800 (February 28, 2015 \$3,395,800):

	As at February 29, 2016	As at February 28, 2015
Open Pit	\$ 1,000,000	\$ 1,000,000
Mill Bonanza Ledge	2,052,300	2,052,300
Other bonds	343,500	343,500
Total	\$ 3,395,800	\$ 3,395,800

Barkerville Gold Mines Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2016 and February 28, 2015

10. CASH AND CASH EQUIVALENTS

The balance at February 29, 2016 consists of cash on deposit with major Canadian banks in general interest bearing accounts totaling \$20,773,996 (February 28, 2015 - \$476,958) and cashable guaranteed investment certificates with major Canadian banks of \$4,316,668 (February 28, 2015 - \$nil) for total cash and cash equivalents of \$25,090,664 (February 28, 2015 - \$476,958).

11. AVAILABLE FOR SALE INVESTMENTS

The balance at February 29, 2016 consists various short term corporate bonds totaling \$10,479,813 (February 28, 2015: \$nil) and shares of publicly traded companies totaling \$1,380 (February 28, 2015: \$2,760) for total of \$10,481,193 (February 28, 2015: \$2,760). As at February 29, 2016, these available for sale investments have been measured at their fair value of \$10,479,813 (February 28, 2015: \$2,760). The impact to the consolidated financial statements of this revaluation to market value resulted in a loss of \$30,220 for the year ended February 29, 2016 (February 28, 2015: \$690 loss) which has been recognized in other comprehensive loss.

12. PROPERTY, PLANT AND EQUIPMENT

	Mine Plant & Equipment		Office furniture & equipment		Total
Cost:					
Balance at February 28, 2014	\$	17,775,642	\$	724,938	\$ 18,500,580
Additions		369,300		127,690	496,990
Disposal		(3,402)		-	(3,402)
Balance at February 28, 2015		18,141,540		852,628	18,994,168
Additions		717,143		101,875	819,018
Disposals		-		(3,388)	(3,388)
Balance at February 29, 2016	\$	18,858,683	\$	951,115	\$ 19,809,798
Depreciation and impairment losses					
Balance at February 28, 2014	\$	6,425,584	\$	455,778	\$ 6,881,362
Depreciation		1,129,735		76,154	1,205,889
Disposal		(2,692)		-	(2,692)
Impairment (Note 15)		2,869,545		-	2,869,545
Balance at February 28, 2015		10,422,172		531,932	10,954,104
Depreciation		758,717		71,234	829,951
Impairment (Note 15)		669,450		-	669,450
Balance at February 29, 2016		11,850,339		603,166	12,453,505
Net Book Value					
At March 1, 2014	\$	11,350,058	\$	269,160	\$ 11,619,218
At February 28, 2015	\$	7,719,368	\$	320,696	\$ 8,040,064
Balance at February 29, 2016	\$	7,008,344	\$	347,949	\$ 7,356,293

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at February 29, 2016, \$807,700 (February 28, 2015: \$807,700) of property, plant and equipment is pledged as collateral for the reclamation deposits (see Note 9).

No amortization has been charged on the Goldstream Mill during the period ended February 29, 2016 (2015: \$Nil) as it is not in production. As at February 29, 2016, the carrying value of the Goldstream Mill is \$2,697,450 (February 28, 2015: \$3,110,000) which approximates its fair value.

13. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS

	Mineral properties	Deferred development costs	Total
Cost			
Balance at March 1, 2014	\$5,275,301	\$12,141,089	\$17,416,390
Additions for the year	-	3,350,368	3,350,368
Balance at February 28, 2015	5,275,301	15,491,457	20,766,758
Additions for the period	-	19,897	19,897
Sale of NSR	(1,151,970)	(19,897)	(1,171,867)
Balance at February 29, 2016	\$4,123,331	\$15,491,457	\$19,614,788
Depletion and impairment losses			
Balance at March 1, 2014	\$3,416,754	\$3,902,580	\$7,319,334
Depletion for the year	624,939	3,737,736	4,362,675
Impairment for the year	81,638	7,851,141	7,932,779
Balance at February 28, 2015	4,123,331	15,491,457	19,614,788
Depletion for the period	-	-	-
Balance at February 29, 2016	\$4,123,331	\$15,491,457	\$19,614,788
Carrying amounts			
At March 1, 2014	\$1,858,547	\$8,238,509	\$10,097,056
At February 28, 2015	\$1,151,970	\$0	\$1,151,970
Balance at February 29, 2016	\$-	\$-	\$-

Quesnel River Mine:

The QR Mine is subject to a 5% net operating profits royalty, a 1% net smelter return royalty (NSR), and a 2% net profit royalty. Should a deposit of one million proven recoverable ounces of gold be discovered on the property, the property is subject to a 50% back-in interest in return for reimbursing the Company for double the amount of expenditures incurred and by completing a bankable feasibility study.

13. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS (CONTINUED)

Bonanza Ledge:

In December 2011 the Company received a M-238 Permit from the British Columbia provincial government to develop an open pit gold mine at the Bonanza Ledge section of the Cariboo Gold Project.

During the year ended February 28, 2015, the Company decided to put Bonanza Ledge under care and maintenance and as a result recorded impairment of \$7,932,779. On February 5, 2016, the Company sold a 1.5% net smelter return (“NSR”) royalty on the Cariboo Gold Project for a cash consideration of \$25,000,000 to Osisko Gold Royalties Ltd, see Note 14 for details. As at February 29, 2016, the carrying value of Bonanza Ledge is \$nil (February 28, 2015: \$1,151,970).

14. EXPLORATION & EVALUATION ASSETS

	Wayside Property	Cariboo Gold Project	Bethlehem	Total
Cost				
Balance at March 1, 2014	\$1	\$17,642,046	\$138,177	\$17,780,224
Additions	-	19,123	-	19,123
Balance at February 28, 2015	1	17,661,169	138,177	17,799,347
Additions	-	240,445	-	240,445
Sale of NSR	-	(17,901,614)	-	(17,901,614)
Balance at February 29, 2016	\$1	\$ -	\$138,177	\$138,178
Carrying amounts				
At March 1, 2014	\$1	\$17,642,046	\$138,177	\$17,780,224
At February 28, 2015	\$1	\$17,661,169	\$138,177	\$17,799,347
Balance at February 29, 2016	\$1	\$ -	\$138,177	\$138,178

Wayside property:

As at February 29, 2016 and February 28, 2015 the Company holds a 100% interest in the Wayside property, consisting of certain mineral claims and leases located in the Lillooet Mining Division, British Columbia. If the property commences commercial production, the Company will be required to issue shares equal in value to \$480,000 to the party from whom it was initially acquired.

Cariboo Gold Project:

The Company has a 100% interest in the mineral rights to 254 contiguous mineral tenures totaling 117,442 hectares in the Cariboo Mining District near Wells, British Columbia. The Company also pays taxes on 2,419 hectares of Crown Grant Mineral Claims which is contained within the 117,442 hectare Cariboo Gold Project claim group. The Cariboo Gold Project is subject to a net smelter return royalty (NSR) of 1-3% for various properties within the contiguous mineral tenures.

On October 6, 2015 the Company agreed to pay Istana a cash payment in the amount of \$150,000 and issue an aggregate of 800,000 common shares of the Company in settlement of the outstanding advance royalty payments and to relieve BGM of the obligation to make any future advance royalty payments.

On February 5, 2016, the Company sold a 1.5% net smelter return (“NSR”) royalty on the Cariboo Gold Project for a cash consideration of \$25,000,000 to Osisko Gold Royalties Ltd. The Company’s policy is to recognize, in income, costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount of the corresponding exploration and evaluation asset. Accordingly, the Company reduced the carrying value of the Cariboo Gold Project exploration and evaluation asset to \$nil during the year ended February 29, 2016 and recognized a gain of \$5,926,519 on the consolidated statement of loss and comprehensive loss.

14. EXPLORATION & EVALUATION ASSETS (CONTINUED)

In connection with the purchase of this NSR royalty, the Companies have also agreed to negotiate a gold stream agreement ("Gold Stream Agreement") following the completion of a feasibility study by Barkerville on the Cariboo Gold Project. Following a 60 day negotiation period, if the Companies have not entered into a Gold Stream Agreement, Barkerville shall either grant a right to Osisko to purchase an additional 0.75% NSR royalty for consideration of \$12.5 million, or make a payment of \$12.5 million to Osisko.

Bethlehem:

On November 16, 2010 the Company completed the acquisition of all the issued and outstanding shares of Bethlehem Resources (1996) Corporation, a private B.C. company, from International Bethlehem Mining Corporation (IBMC). The asset purchase includes the Goldstream mill facility, tailings pond, and related mineral leases and claims which are located in the Revelstoke mining division, British Columbia. Certain mineral claims are subject to either a 25% net profit royalty, or a 2.5% net smelter return royalty and a 12.5 % net profit royalty, at the election of the holder of the royalty interest.

15. IMPAIRMENT OF NON-FINANCIAL ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The recoverable amount is determined based on the greater of value in use ("VIU") and fair value less costs to sell ("FVLCS"). The determination of the VIU requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. The determination of VIU and FVLCS for each CGU use Level 3 valuation techniques in both periods.

In assessing whether the carrying value of an asset or CGU is impaired, its carrying value is compared with its recoverable amount. Management has determined that there are three cash generating units at February 29, 2016 and February 28, 2015:

- a) QR Mill and Bonanza Ledge mine ("BL CGU");
- b) Exploration and evaluation assets ("E&E CGU"); and
- c) Goldstream Mill.

a) QR Mill and Bonanza Ledge

Year ended February 29, 2016:

The Company determined that no further indications for impairment existed for the QR Mill during the year ended February 29, 2016.

Year ended February 28, 2015:

During the year ended February 28, 2015, the Company decided to place the BL CGU under care and maintenance. This constituted an internal indicator of impairment. Immediately prior to the identification of the impairment indicator the BL CGU had a carrying amount of \$15,881,357. The carrying amount of the BL CGU was comprised as follows:

	Milling Plant & Equipment	Mineral Properties	Mine Development Costs	Total
Carrying Amount	\$ 6,796,608	\$ 1,233,608	\$ 7,851,141	\$ 15,881,357
Recoverable Amount	3,927,063	1,151,970	-	5,079,033
Impairment Loss	2,869,545	81,638	7,851,141	10,802,324
Impairment Reversals	-	-	-	-

15. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

As management has placed the BL CGU into care and maintenance the recoverable amount of the assets in the CGU have been calculated separately. The recoverable amount of the Mineral Properties and Mine Development Costs have been calculated using a level 3 fair value measurement, based on comparable market capitalizations for similar properties in North America.

The recoverable amount of the Milling Plant & Equipment was obtained using a professional valuator, using an orderly liquidation value. The recoverable amount for the Milling Plant & Equipment was \$3,927,063 (including 5% selling costs). Significant assumptions in this valuation include scrap metal prices.

As at February 28, 2015, the BL Mineral Properties and Mine Development Costs is recorded at a recoverable amount, determined as FVLCS, of \$1,151,970, and an impairment loss of \$7,932,779 was recorded for the year ended February 28, 2015. The recoverable amount of has been allocated to the Mineral Properties and mine development costs, as management has determined the current method of mining was not the method of mining required for profitable operations, and therefore does not have any future value. Accordingly, management recognized an impairment charge of \$7,851,141 through loss and other comprehensive loss with respect to deferred development costs at BL and \$81,638 on mineral property acquisition costs.

Significant assumptions applied in the determination of the fair value less costs to sell model include a valuation of gold resources at BL at \$7.05 per ounce, total gold inventories at BL of 172,000 ounces, and an assumption of selling costs representing 5% of gross sale proceeds.

The determination of FVLCS of the Mineral Properties and Mine Development Costs is most sensitive to the following assumption:

Market price of gold per ounce: In calculating the FVLCS of the Mineral Property and Mine Development Costs, the market price of gold per ounce is a critical estimate. Management reviewed comparable companies with comparable gold inventories (quantity and grade) to determine an appropriate range of valuations between \$3.69 and \$8.45 per ounce.

The total impairment charge for the BL CGU for the year ended February 28, 2015 amounted to \$10,802,324, recognized in the statement of loss and other comprehensive loss.

b) Exploration and evaluation assets

The Company determined that there were no indicators of impairment pertaining to exploration and evaluation assets brought to account at February 29, 2016 and February 28, 2015 given all mining concessions and titles remain in good standing and management's plans for further exploration. Consequently, no impairment charge was recognized in the statement of loss and other comprehensive loss for the year ended February 29, 2016 or the year ended February 28, 2015.

c) Goldstream Mill

The Company determined that further indications for impairment existed for the Goldstream Mill during the year ended February 29, 2016.

The recoverable amount of the Milling Plant & Equipment was obtained using a professional valuator, using an orderly liquidation value. The recoverable amount for the Milling Plant & Equipment was \$2,697,450 (including 5% selling costs) and an impairment loss of \$669,450 was recorded for the year ended February 29, 2016. Significant assumptions in this valuation include scrap metal prices.

16. TRADE AND OTHER PAYABLES

The trade and other payables of the Company consist of the following:

	February 29, 2016	February 28, 2015
Trade payables	\$ 1,698,263	\$ 8,949,129
Payroll related liabilities	82,593	149,245
Royalty Payable	236,000	461,000
Other payables	191,057	433,963
Total trade and other payables	<u>\$ 2,207,913</u>	<u>\$ 9,993,337</u>

17. PROVISIONS FOR SITE RECLAMATION AND CLOSURE

Provincial laws and regulations concerning environmental protection affect the Company's exploration and operations. Under current regulations, the Company is required to meet performance standards to minimize the environmental impact from its activities and to perform site restoration and other closure activities. The Company's provision for future site closure and reclamation costs is based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company's determination of the environmental rehabilitation provision arising from its activities at the Cariboo Gold Project, Quesnel River Mine, Bethlehem Resources and Bonanza Ledge Mine at February 29, 2016 was \$8,745,695 (February 28, 2015: \$6,996,051). This estimate was based upon a February 29, 2016 undiscounted future cost of \$9,090,803 (February 28, 2015: \$7,061,484), an annual inflation rate of 1.98% and risk adjusted discount rate of 5.3%. The closure and reclamation expenditure is expected to be incurred in various stages up to 2021.

During the year ended February 28, 2014, certain work related to Cariboo Gold Project was completed and therefore the remaining provision of \$114,196 was reversed. There is substantial uncertainty related to the cost of implementation of the mitigation plan related to uncertainty about applicable water quality, the engineering scope and cost of mitigation required to meet the standards and responsibilities for the financial liability. As such, outcomes that are unfavorable could result in material additional liability.

The breakdown of the provision for site reclamation and closure is as per below:

	29-Feb-16	28-Feb-15
Balance Addition	\$6,996,051	\$5,711,731
Accretion	1,643,796	\$956,608
Amount used	105,848	\$381,043
Balance, Feb 29	-	(\$53,331)
	<u>\$8,745,695</u>	<u>\$6,996,051</u>
	2016	2015
Current portion	-	-
Long term portion	5,653,617	4,101,997
	<u>3,092,078</u>	<u>2,894,054</u>

18. GOLD LOAN FACILITY

a) Gold loan facility

By agreement dated October 8, 2013 and amended January 31, 2014, the Company entered into a \$15,000,000 gold loan facility (the "Facility") with 2176423 Ontario Limited, a company controlled by Mr. Eric Sprott, (the "Lender"). The amendment was not considered to be substantially different from the original facility, and all changes have been reflected in the amortized cost.

The Facility was due and payable by way of three cash payments on each of July 31, 2014, May 31, 2015 and March 31, 2016 (each a "Repayment Date"). Each cash payment was based on the notional value of 4,181.67 ounces of gold (being 12,545 ounces over the term of the Facility) as priced at the Bloomberg composite closing value of gold at 4 p.m. on the day prior to each repayment. If the gold price was less than US\$1,200 per ounce, then the Company's repayment amount was determined using a reference price of US\$1,200 per ounce. If the gold price is above US\$1,650 per ounce, then the Company's repayment amount was determined using a reference price of US\$1,650 per ounce. There was no requirement or option to deliver physical gold as a form of repayment under the terms of the Facility. The Company agreed to provide the Lender with a minimum rate of return equal to 10% per annum, which shall be calculated on the date which the Facility is fully repaid.

In consideration for the advance of the Facility, the Company made a bonus payment to the Lender in the amount of 9,000,000 non-transferable share purchase warrants of the Company (each a "Bonus Warrant") and 360,000 non-transferable finders warrants (each a "finders warrant"). The Bonus Warrants are exercisable for a period of 30 months, and have an exercise price of \$0.89 per warrant ("Exercise Price"). In the event that the volume weighted average trading price of the Company's common shares on the TSX-V is at a 50% premium to the Exercise price, the Company may require the Lender to exercise \$5,000,000 worth of the Bonus Warrants within 10 calendar days of the Company providing written notice to the Lender. The Company calculated the Warrant Exercise Trigger price to be \$1.33 per common share.

The Company also paid the Lender a \$150,000 structuring fee together with legal and other out-of-pocket expenses of \$173,602 incurred in connection with the Facility, along with a third party finder's fee of \$300,000.

The Company considers the Facility a financial instrument comprised of a host loan with embedded derivatives. On inception, the fair value of the embedded derivatives were determined to be \$4,612,257 with the residual of the proceeds received less transaction costs allocated as the fair value of the host loan. On October 24, 2014 the exercise price was set and the warrants met the definition of equity. As a result, \$4,175,700 allocated to the warrant liability was reclassified to equity. The host loan was subsequently measured at amortized cost with an effective interest rate of 40% per annum. The embedded derivatives are measured at fair value with any fair value changes recognized through profit or loss.

On July 31, 2014 the company missed the first scheduled repayment, and the first of five waivers from the lender waiving any and all events of default and, ultimately, extending the repayment date for the initial installment ultimately to April 30, 2015. The remedy to the defaults did not amend the contractual provisions of the facility, other than delay the scheduled repayment date. The notional amount of the repayment remained at 4,181.67 ounces. The delay to the scheduled repayments did not result in a significant modification of the expected cash flows of the facility, and has was not accounted for as a debt extinguishment.

The Company missed the extended repayment date on the first installment of April 30, 2015 and also missed the second scheduled repayment due on May 31, 2015. By agreement, the interest on delayed payment was calculated by multiplying the dollar amount of the gold equivalent deliverable at the time by 2.5% per annum.

For the year ended February 29, 2016, the Company has recorded an interest charge of \$877,251 (2015: \$4,951,912) related to the host loan, a penalty interest charge of \$890,725 related to the first missed payment on July 31, 2014 (2015: \$1,103,956) and a loss of \$360,552 (2015: loss of \$814,779) for the change in fair value of the embedded derivatives.

The company settled \$934,662 of penalty interest with the Lender through the issuance of 3,015,039 shares in the Company on March 10, 2015 (see note 19).

On July 14, 2015, the Company settled the balance of the gold loan facility with 2176423 Ontario Ltd., through the issuance of an aggregate of 74,885,900 common shares of the Company at a price of \$0.27 per common share, and recognised a gain on settlement of \$798,069. As a result of the Debt Settlement, Mr. Eric Sprott is now the "Control Person" (as that term is defined in the policies of the TSX Venture Exchange) of the Company.

Barkerville Gold Mines Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2016 and February 28, 2015

18. GOLD LOAN FACILITY (CONTINUED)

As at February 29, 2016, the Facility is presented as follows:

Accreted principal, net of transaction costs	Principal	Embedded Derivatives	Transaction Costs	Total
March 1, 2014	\$ 16,536,670	\$ (4,502,092)	\$ (608,707)	\$ 11,425,871
Interest expense	6,055,868	-	-	6,055,868
February 28, 2015	\$ 22,592,538	\$ (4,502,092)	\$ (608,707)	\$ 17,481,739
Interest expense	1,767,976	-	-	1,767,976
Settlement of penalty interest (Note 18)	(934,662)	-	-	(934,662)
Derecognition	(23,425,852)	4,502,092	608,707	(18,315,053)
February 29, 2016	\$ -	\$ -	\$ -	\$ -

Derivative liabilities (assets)	Warrants To be Issued	Forward Contracts	Repayment Collar	Total
March 1, 2014	\$ -	\$ 1,172,247	\$ 354,631	\$ 1,526,878
Unrealized (gain)/loss	-	606,154	208,625	814,779
February 28, 2015	\$ -	\$ 1,778,401	\$ 563,256	\$ 2,341,657
Unrealized (gain)/loss	-	23,269	337,283	360,552
Derecognition	-	(1,801,670)	(900,539)	(2,702,209)
February 29, 2016	\$ -	\$ -	\$ -	\$ -

	February 29, 2016	February 28, 2015
Accreted principal, net of unamortized transaction costs	\$ -	\$ 17,481,739
Embedded derivative liabilities (assets)	-	2,341,657
Gold loan liability	-	19,823,396
Current portion of gold loan	-	19,823,396
Long term portion of gold loan	\$ -	\$ -

As at February 29, 2016 the minimum contractual cash flows for the facility are \$nil as the facility was settled in full.

19. EQUITY

Share Capital

a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value. As at February 29, 2016, 270,542,168 (February 28, 2015: 126,634,706) common shares were outstanding.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the year ended February 29, 2016:

1. The Company completed the debt settlement of penalty interest relating to the gold loan (see note 18). Under the debt settlement, the Company issued an aggregate of 3,015,039 common shares with a fair value of \$783,910 (\$0.26 per share being the quoted market price on issuance date) for settlement of penalty interest payable totalling \$934,662 resulting in a gain on settlement of \$150,752 which was recognized in the consolidated statement of loss and other comprehensive loss.
2. On June 17, 2015, the Company entered into a debt settlement agreement with an arm's length creditor, pursuant to which the Company has settled an aggregate of \$118,201 of indebtedness through the issuance of an aggregate of 422,148 common shares with a fair value of \$109,758 (\$0.26 per share being the quoted market price on issuance date) which resulted in a gain on settlement of \$8,443 which was recognized in the consolidated statement of loss and other comprehensive loss.
3. On June 22, 2015 the Company issued an aggregate 6,250,000 flow through common shares at a price of \$0.32 per common share, for gross proceeds of \$2,000,000.
4. On June 29, 2015, the Company completed a private placement of 6,059,375 flow through units at a price of \$0.32 per flow through unit for gross proceeds of \$1,939,000. Each flow through unit consists of one common share and one half of one common share purchase warrant with each warrant entitling the holder thereof to purchase a common share at a price of \$0.40 until December 29, 2016.

The fair value of the 3,029,687 common share purchase warrants was estimated at \$318,700 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.90%; volatility 118% and an expected life of 18 months.

The Company paid the agent a cash commission of \$116,340, representing 6% of the gross proceeds of the offering and issued 363,563 broker warrant with each broker warrant entitling the agent to purchase one common share at a price of \$0.32 until December 29, 2016.

The fair value of the 363,563 broker warrants was estimated at \$43,000 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.90%; volatility 118% and an expected life of 18 months.

5. On July 14, 2015, the Company settled an aggregate of \$21,017,262 of indebtedness with 2176423 Ontario Ltd., in connection with the Gold Loan Facility as described in note 18. The Company issued an aggregate of 74,885,900 common shares of the Company with a fair value of \$20,219,193 (\$0.27 per share being the quoted market price on issuance date) in connection with the settlement, which resulted in a gain on settlement of \$798,069 which was recognized in the consolidated statement of loss and other comprehensive loss.

19. EQUITY (CONTINUED)

Share Capital (continued)

6. On July 23, 2015 the Company completed a private placement of 9,375,000 flow through units at a price of \$0.32 per flow through unit, for gross proceeds of \$3,000,000. Each flow through unit consists of one common share of the Company and one-half of one common share purchase warrant with each warrant entitling the holder thereof to purchase a common share at an exercise price of \$0.40 until January 23, 2017.

The fair value of the 4,687,500 common share purchase warrants was estimated at \$501,300 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.88%; volatility 119% and an expected life of 18 months.

7. On October 7, 2015, under the terms of the Settlement Agreement between the Company and Istana as described in note 14, the Company issued an aggregate 800,000 common shares of the Company with a fair value of \$200,000 (\$0.25 per share being the quoted market price on issuance date) in settlement of the outstanding advance royalty payments of \$237,500 less cash payments of \$150,000, which resulted in a loss on settlement of \$112,500 which was recognized in the consolidated statement of loss and other comprehensive loss.
8. On December 23, 2015, the Company completed a private placement of 18,750,000 flow through common shares at a price of \$0.32 per flow through share for gross proceeds of \$6,000,000 with Osisko Gold Royalties Ltd.
9. On December 23, 2015, the Company completed a private placement of 11,000,000 flow through units at a price of \$0.32 per flow through unit, for gross proceeds of \$3,520,000. Each flow through unit consists of one common share of the Company and one-half of one common share purchase warrant with each warrant entitling the holder thereof to purchase one common share at an exercise price of \$0.40 until December 23, 2017. A finder's fee equal to 5% of the gross proceeds of the flow through private placement was paid.

The fair value of the 5,500,000 common share purchase warrants was estimated at \$678,000 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.50%; volatility 111% and an expected life of 24 months.

10. On February 5, 2016, the Company completed a private placement of 13,250,000 flow through common shares at a price of \$0.32 per flow through share for gross proceeds of \$4,240,000 with Osisko Gold Royalties Ltd.

Flow through premium liability

For the purposes of calculating the tax effect of any premium related to the issuances of the flow-through shares, the Company reviewed the share price of the Company's common shares and compared it to determine if there was a premium paid on the shares. As a result, the Company recognized \$1,889,000 as a flow-through premium liability on issuance in connection with the private placements in notes (3), (4), (6), (8), (9) and (10) above. The amount was reduced and \$1,823,000 was recorded as other income upon filing of renunciation documents with the Canada Revenue Agency which occurred during the year ended February 29, 2016.

During the year ended February 28, 2015:

1. The Company issued 13,783,000 shares at a price of \$0.50 per share for proceeds of \$6,891,500 under a private placement. The Company paid finder's fees of \$298,224 in relation to this private placement.
2. The Company completed a shares for debt settlement during the three month period ended May 31, 2014, where the Company issued 3,000,000 common shares of the Company with a fair value of \$1,557,390 (\$0.52 per share being the quoted market price on issuance date) for settlement of trade and other payables totalling \$1,500,000. Loss on settlement of \$57,390 was recognized in consolidated statement of loss and other comprehensive loss.

19. EQUITY (CONTINUED)

Share Capital (continued)

b) Option Plan Details

The Company has an incentive Stock Option Plan (“the Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with the Plan, the vesting of options is at the complete discretion of the Board other than in respect of any particular options granted to a service provider who is performing Investor Relations Activities, which will vest in stages over twelve months with no more than one quarter (1/4) of such option vesting in any three month period.

The following is a summary of changes in options outstanding for the year ended February 29, 2016 and year ended February 28, 2015:

	Number of options	Weighted average exercise price per share
Balance, February 28, 2014	10,985,171	\$1.01
Forfeited/Expired	(5,213,512)	\$0.90
Balance, February 28, 2015	5,771,659	\$1.10
Granted	13,296,161	\$0.27
Exercised	(100,000)	\$0.27
Forfeited/Expired	(3,961,159)	\$1.10
Balance, February 29, 2016	15,006,661	\$0.37

A summary of the Company’s options outstanding and exercisable at February 29, 2016 is presented as follows:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
27/09/2010	27/09/2015	\$ 1.16	195,947	-	-	(195,947)	-	-	-
26/11/2010	26/11/2015	\$ 1.42	448,261	-	-	(448,261)	-	-	-
01/04/2011	01/04/2016	\$ 1.22	213,956	-	-	(129,956)	84,000	84,000	0.09
20/06/2011	20/06/2016	\$ 1.66	295,790	-	-	(168,290)	127,500	127,500	0.31
22/07/2011	22/07/2016	\$ 1.66	503,705	-	-	(426,205)	77,500	77,500	0.39
12/08/2011	31/07/2016	\$ 1.52	317,500	-	-	(317,500)	-	-	-
01/02/2012	01/02/2017	\$ 0.89	1,779,000	-	-	(880,000)	899,000	899,000	0.93
29/06/2012	29/06/2017	\$ 1.21	240,000	-	-	(105,000)	135,000	135,000	1.33
23/10/2013	23/10/2018	\$ 0.87	1,777,500	-	-	(990,000)	787,500	787,500	2.65
15/07/2015	15/07/2017	\$ 0.27	-	651,161	-	-	651,161	651,161	1.38
15/07/2015	15/07/2020	\$ 0.27	-	8,980,000	(100,000)	(300,000)	8,580,000	8,580,000	4.38
14/10/2015	14/10/2020	\$ 0.29	-	3,090,000	-	-	3,090,000	3,090,000	4.63
22/12/2015	22/12/2020	\$ 0.2475	-	575,000	-	-	575,000	575,000	4.82
			5,771,659	13,296,161	(100,000)	(3,961,159)	15,006,661	15,006,661	3.91

Subsequent to year end, 211,500 options with a weighted average of \$1.49 expired unexercised.

19. EQUITY (CONTINUED)

Share Capital (continued)

On July 15, 2015, the Company granted an aggregate of 8,980,000 options to purchase common shares of the Company exercisable at a price of \$0.27 per share for a period of five years, to certain directors, officers, employees and consultants and 401,161 options exercisable at a price of \$0.27 per share for a period of two years to the former CEO to settle the obligation as described in Note 20 and 250,000 options exercisable at a price of \$0.27 per share for a period of two years to Andrew Rees, former director of the Company. The common shares issuable upon exercise of the options are subject to a four month hold period from the original date of grant.

The fair value of the 9,631,161 options was estimated at \$1,916,100 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.39% - 1.63%; volatility 98% - 129% and an expected life of 2 - 5 years.

On October 14, 2015, the Company granted an aggregate of 2,590,000 options to purchase common shares of the Company exercisable at a price of \$0.29 per share for a period of five years, to certain directors, officers, employees and consultants and 500,000 options to purchase common shares of the Company exercisable at a price of \$0.29 per share for a period of two years to the former CFO to settle the obligation as described in Note 20. The common shares issuable upon exercise of the options are subject to a four month hold period from the original date of grant.

The fair value of the 3,090,000 options was estimated at \$586,500 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 0.86% - 1.56%; volatility 99% - 116% and an expected life of 2 - 5 years.

On December 22, 2015, the Company granted an aggregate of 575,000 options to purchase common shares of the Company exercisable at a price of \$0.2475 per share for a period of five years, to certain directors. The common shares issuable upon exercise of the options are subject to a four month hold period from the original date of grant.

The fair value of the 575,000 options was estimated at \$101,900 using the Black-Scholes pricing model with the following assumptions: dividend yield 0%; risk free interest 1.51%; volatility 99% and an expected life of 5 years.

A summary of the Company's options outstanding and exercisable at February 28, 2015 is presented as follows:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
4/16/2009	4/16/2014	\$ 0.45	1,003,661	-	-	(1,003,661)	-	-	-
7/17/2009	7/17/2014	\$ 0.38	66,266	-	-	(66,266)	-	-	-
8/28/2009	8/28/2014	\$ 0.60	456,306	-	-	(456,306)	-	-	-
9/18/2009	9/18/2014	\$ 0.62	78,287	-	-	(78,287)	-	-	-
10/29/2009	10/29/2014	\$ 1.25	576,490	-	-	(576,490)	-	-	-
2/2/2010	2/2/2015	\$ 1.00	1,869,208	-	-	(1,869,208)	-	-	-
9/27/2010	9/27/2015	\$ 1.16	235,947	-	-	(40,000)	195,947	195,947	0.58
11/26/2010	11/26/2015	\$ 1.42	548,261	-	-	(100,000)	448,261	448,261	0.74
4/1/2011	4/1/2016	\$ 1.22	283,956	-	-	(70,000)	213,956	213,956	1.09
6/20/2011	6/20/2016	\$ 1.66	480,790	-	-	(185,000)	295,790	295,790	1.31
7/22/2011	7/22/2016	\$ 1.66	568,705	-	-	(65,000)	503,705	503,705	1.40
8/12/2011	8/12/2016	\$ 1.52	317,500	-	-	-	317,500	317,500	1.45
2/1/2012	2/1/2017	\$ 0.89	2,329,000	-	-	(550,000)	1,779,000	1,779,000	1.93
6/29/2012	6/29/2017	\$ 1.21	289,980	-	-	(49,980)	240,000	240,000	2.33
10/23/2013	10/23/2018	\$ 0.87	1,880,814	-	-	(103,314)	1,777,500	1,777,500	3.65
			10,985,171	-	-	(5,213,512)	5,771,659	5,771,659	2.20

19. EQUITY (CONTINUED)

Share Capital (continued)

c) Share Purchase Warrants

The following is a summary of changes in warrants from February 28, 2014 to February 29, 2016:

	Number of Warrants	Weighted average exercise price per warrant
Balance, February 28, 2014 and February 28, 2015	9,360,000	\$ 0.89
Issue of warrants (Note 19(a)(4), 19(a)(6) and 19(a)(9))	13,217,187	0.40
Issue of broker warrants (Note 19(a)(4))	363,563	0.32
Balance, February 29, 2016	22,940,750	\$ 0.60

As at February 29, 2016, the Company had outstanding warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
April 9, 2016 (*)	\$0.89	9,360,000
December 29, 2016	\$0.40	3,029,687
December 29, 2016 - broker warrants	\$0.32	363,563
January 23, 2017	\$0.40	4,687,500
December 23, 2017	\$0.40	5,500,000
Balance, February 29, 2016		22,940,750

(*) Subsequent to February 29, 2016, 9,360,000 warrants expired unexercised.

As at February 28, 2015, the Company had outstanding warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
April 9, 2016	\$0.89	9,360,000
Balance, February 28, 2015		9,360,000

Share -Based Payments Reserve

Share-based payment reserve represents employee entitlements to share-based awards that have been charged to the loss and other comprehensive loss in the periods during which the entitlements were accrued and have not yet been exercised

Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss is comprised of the cumulative net change in the fair value of available-for-sale financial assets, net of taxes, until the investments are sold or impaired.

20. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions during the year ended February 29, 2016:

a) Standard Drilling & Engineering Ltd.

Costs incurred in connection with the Company's operations as outlined in the table below, were paid to Standard Drilling & Engineering Ltd., a company controlled by a former director:

	2016	2015
Exploration costs	\$nil	\$586,591
Deferred development costs	\$nil	\$22,885
Reclamation costs	\$nil	\$17,229
Administration fees	\$nil	\$40,000
Mine operating costs	\$nil	\$53,941
Inventory	\$nil	\$115,750
Cost of goods sold	\$30,856	\$604,170

b) Rent

Costs of \$nil (2015: \$160,049), incurred in connection with the Company's office lease were paid to Pub Co Management Ltd., a company controlled by a former director. During the year ended February 28, 2015, the company recovered \$50,000 from Pub Co Management Ltd, and wrote off the remaining balance of \$53,076

c) Finder's fees

Finder's fees of \$nil (2015: \$237,500), related to the private placement completed during the year was paid to a company controlled by a director before the director became a related party to the Company.

d) Legal fees

Legal fees in the amount of \$16,715 (2015: \$nil) were charged by a law firm in which a partner is a director of the Company.

e) Consulting

Consulting fees of \$nil (2015: \$15,000) was paid to a company controlled by a director before the director became a related party to the Company.

f) Purchase of equipment and chemicals

Equipment in the amount of \$200,000 (2015: \$nil) and chemicals in the amount of \$31,613 (2015: \$nil) were purchased from a company whose former CEO is a director of the Company. The equipment was recorded as part of property, plant and equipment and the chemicals were expensed in cost of goods sold for the period.

g) Key Management Compensation

Key management personnel compensation comprised:

	Year ended February 29, 2016	Year ended February 28, 2015
Short term employee benefits, director fees	\$ 1,358,574	\$ 804,238
Severance	321,900	480,000
Share based payments	1,939,800	108,500
	<u>\$ 3,620,274</u>	<u>\$ 1,392,738</u>

20. RELATED PARTY TRANSACTIONS (CONTINUED)

g) Key Management Compensation (continued)

During the year ended February 28, 2015, the Company entered into a settlement agreement with the former CEO where the Company will pay \$20,000 per month plus benefits for two years starting August 2014 and grant 401,161 options in the next grant (issued on July 15, 2015). In addition, the Company will reimburse the former CEO all the ongoing legal fees related to BCSC claims against the former CEO.

h) Balance payable:

The amounts payable to related parties, are summarized as follows:

	February 29, 2016	February 28, 2015
Due to other companies with certain common directors	\$ -	\$ 773,302
Other amounts due to related parties	110,375	604,100
	<u>\$ 110,375</u>	<u>\$ 1,377,402</u>

At February 29, 2016 and February 28, 2015, the balance payable to companies with certain common directors includes ongoing exploration, reclamation and deferred development costs incurred by the Company. The balance is payable on demand, unsecured and on normal commercial terms.

Other amounts due to related parties at February 29, 2016 include unpaid severance of \$100,000 (February 28, 2015: \$340,000) and the obligation to issue nil options valued at \$nil (February 28, 2015: 401,161 options valued at \$108,500) to the former CEO, administration fees payable of \$nil (February 28, 2015: \$80,000) to the directors for attending meetings, and \$10,375 (February 28, 2015: \$nil) payable to a company controlled by an officer of the Company. The balance is payable on demand, interest free, and unsecured.

The options to the former CEO were issued on July 15, 2015. The fair value of the options as at February 28, 2015 was estimated using a Black-Scholes option pricing model with the following assumptions: 1. Volatility: 121%; 2. Dividend yield: 0%; 3. Risk Free Rate: 1.06%; and Expected life: 2 years.

The options to the former CFO issuable under the terms of his termination (500,000 options), were issued on October 14, 2015. The fair value of the options as at August 31, 2015 was estimated using a Black-Scholes option pricing model with the following assumptions: 1. Volatility: 116%; 2. Dividend yield: 0%; 3. Risk Free Rate: 0.86%; and Expected life: 2 years.

In connection with the Partial Revocation Order ("PRO") the Company received on December 5, 2012, the Company received approval for the PRO to allow the Company's former CEO to loan the Company up to \$2.44 million to be used toward payment of outstanding accounts payable and for costs associated with the NI43-101 Technical Report (the "Loan"). As at February 29, 2016, the Company owed \$nil (February 28, 2015: \$nil) to the Company's former CEO by means of the PRO. The amounts bore interest at 20% per annum with all such interest payable in full to the lender on repayment of the principal, which was on the date which was six months from the date of the loan. The interest rate was reduced to 10% after one year as the loan remained outstanding for a period greater than one year from the date of advancement. During the year ended February 28, 2015, the loan balance was reassigned to Standard Drilling & Engineering Ltd., a company controlled by the Company's former CEO. All the terms on Loan remained unchanged.

As at February 29, 2016 there was a \$nil balance outstanding (2015: \$52,240), and during the year \$nil interest has been recorded (February 28, 2015: \$9,059). The loan terms were designed to reflect those available from a non-related party for an entity under similar circumstances, with amounts due collateralized by all of the Company's personal property, assets and undertakings.

During the year ended February 29, 2016, a director paid corporate administration and exploration expenditures on behalf of the Company and was reimbursed a total of \$nil (2015: \$1,632,230).

As at February 29, 2016, \$1,775 is recorded as a receivable from a Company in which a director of Barkerville Gold Mines Ltd. is the CEO. The amount is receivable in connection with sale of equipment and shipping costs charged during the year ended February 29, 2016. During the year ended February 29, 2016, the Company charged \$5,151 in relation to rent and \$30,000 in connection with sale of equipment and shipping costs.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these consolidated financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	Financial Assets at Fair Value through Profit or Loss		Loans and Receivables		Available for Sale Investments	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Cash and cash equivalents	\$ 25,090,664	\$ 476,958	\$ -	\$ -	\$ -	\$ -
Amounts receivable	-	-	161,281	5,094,589	-	-
Available for sale investments	-	-	-	-	10,481,193	2,760
Reclamation deposits	-	-	3,395,800	3,395,800	-	-
Total Financial Assets	\$ 25,090,664	\$ 476,958	\$ 3,557,081	\$ 8,490,389	\$10,481,193	\$ 2,760
					February 29, 2016	February 28, 2015
Financial liabilities at amortized cost:						
Trade and other payables				\$ 2,207,913	\$ 9,993,337	
Due to related parties				110,375	1,377,402	
Lease payable				104,124	139,824	
Gold loan facility (Note 18)				-	17,481,739	
Financial liabilities at fair value:						
Derivative liability (Note 18)				-	2,341,657	
Total Financial Liabilities				\$ 2,422,412	\$ 31,333,959	

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's management.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The Company is exposed to foreign exchange rate fluctuation due to the payment terms of its gold facility loan. A 5% increase/decrease to the Canadian Dollar to United States Dollar foreign exchange rate would have a \$nil increase/decrease to the Company's net loss for the year ended February 29, 2016 (2015: \$761,000).

Interest Rate Risk:

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Equity Price Risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Lions Gate Energy Inc. is not a source of market risk.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents, reclamation deposits and amounts receivable. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The reclamation bonds are maintained with financial institutions by the Province and can be released upon the Company fulfilling its reclamation obligations.

As at February 29, 2016, the company has once receivable from one customer that accounted for 86% of all receivables owing. There were no significant concentration of credit risk as at February 29, 2016.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of \$25,090,664 (February 28, 2015: \$476,958), reclamation deposits of \$3,395,800 (February 28, 2015: \$3,395,800), and amounts receivable of \$161,281 (February 28, 2015: \$5,094,589), and available for sale investments of \$10,481,193 (February 28, 2015: \$2,760).

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable. As at February 29, 2016, the Company had a working capital of \$24,771,520 (February 28, 2015: \$26,020,057 working capital deficit).

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities as at February 29, 2016 and February 28, 2015:

	Book Value at February 29, 2016	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	\$ 2,207,913	\$ 2,207,913	\$ -	\$ -	\$ 2,207,913
Due to related parties	110,375	110,375	-	-	110,375
Lease payable	104,124	34,000	70,124	-	104,124
Gold loan facility	-	-	-	-	-
Total	\$ 2,422,412	\$ 2,352,288	\$ 70,124	\$ -	\$ 2,422,412

	Book Value at February 28, 2015	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	\$ 9,993,337	\$ 9,993,337	\$ -	\$ -	\$ 9,993,337
Due to related parties	1,377,402	1,377,402	-	-	1,377,402
Lease payable	139,824	34,000	105,824	-	139,824
Gold loan facility	19,823,396	21,219,417	-	-	21,219,417
Total	\$ 31,333,959	\$ 32,624,156	\$ 105,824	\$ -	\$ 32,729,980

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for amounts receivable, trade and other payables and due to related parties, approximate their fair value due to their short-term nature.

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value Measurements, using:					
	Level 1		Level 2		Level 3	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Financial Assets						
Cash and cash equivalents	\$ 25,090,664	\$ 476,958	\$ -	\$ -	\$ -	\$ -
Reclamation deposits	3,395,800	3,395,800	-	-	-	-
Available for sale investments	10,481,193	2,760	-	-	-	-
Financial Liabilities						
Derivative liabilities	-	-	-	(2,341,657)	-	-
	\$ 38,967,657	\$ 3,875,518	\$ -	\$ (2,341,657)	\$ -	\$ -

Available for sale investments

The available-for-sale investment is based on quoted prices and is therefore considered to be Level 1.

Current derivative liabilities

The derivative liabilities is the repayment in excess of the \$15,000,000 gold loan facility with 10% interest per annum when the gold price is between US\$1,200 and US\$1,650 per ounce on the repayment date (note 18). The fair value of the Company's derivative liabilities is calculated using forward gold prices and gold option prices traded on the Chicago Mercantile Exchange and is considered to be a Level 2 fair value measurement.

Barkerville Gold Mines Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2016 and February 28, 2015

22. MINE OPERATING EXPENSES

Mine Operating Expenses for the Company for the years ended February 29, 2016 and February 28, 2015 consist of the following components by nature:

	Years ended	
	February 29, 2016	February 28, 2015
Consulting fees	\$ 78,257	\$ 292,525
Depreciation	476,965	210,451
Employee salaries and benefits	985,897	844,927
Environmental	863,292	367,391
Office and administration	326,251	560,477
Repairs and maintenance	181,530	205,040
Site Reclamation and closure costs	1,043,633	1,418,411
Travel	12,062	67,246
Stock based compensation	191,100	-
Assessment and tax	222,112	-
Utilities	257,978	260,000
Total mine operating expenses	\$ 4,639,077	\$ 4,226,468

23. EXPLORATION EXPENSES

Exploration expenses for the Company for the years ended February 29, 2016 and February 28, 2015 consist of the following components by nature:

	Years ended	
	February 29, 2016	February 28, 2015
Administration fees	\$ 1,273,607	\$ 156,827
Assaying	1,350,995	813,022
Assessment and tax	39,959	38,120
Consulting fees	488,011	440,960
Depreciation	161,572	80,046
Environmental and permitting	90,160	(31,498)
Equipment and rentals	179,559	265,405
Drilling	6,137,256	448,007
Travel	51,346	28,627
Employee salaries and benefits	1,740,466	789,079
Repairs and maintenance	324,115	491,053
Recovery of exploration expenditures	(1,471,961)	-
Stock based compensation	203,100	-
Geophysics	271,290	-
Site reclamation and closure costs	891,031	29,167
Royalty	12,500	250,000
Total exploration expenses	\$ 11,743,006	\$ 3,798,815

Barkerville Gold Mines Ltd.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2016 and February 28, 2015

24. CORPORATE ADMINISTRATION EXPENSES

Corporate administration expenses for the Company for the years ended February 29, 2016 and February 28, 2015 consist of the following components by nature:

	Years ended	
	February 29, 2016	February 28, 2015
Consulting fees	\$ 297,310	\$ 255,707
Depreciation	63,237	68,492
Employee salaries and benefits	1,739,460	1,699,441
Legal, audit & accounting	1,102,122	516,348
Office and administration	287,799	569,958
Shareholder communications and advertising	76,488	83,720
Stock based compensation	2,061,300	108,500
Travel and related expenses	180,930	162,302
Total corporate administration expenses	\$ 5,808,646	\$ 3,464,468

25. FINANCE EXPENSE

The finance expense for the Company for the years ended February 29, 2016 and February 28, 2015 consist of the following components by nature:

	Years ended	
	February 29, 2016	February 28, 2015
Accretion on provision for site reclamation and closure (Note 17)	\$ 105,848	\$ 381,043
Bank charges, interest charges and commissions	-	59,328
Interest and accretion on debt (Note 18)	1,767,976	6,055,868
Total finance expense expense	\$ 1,873,824	\$ 6,496,239

26. CAPITAL MANAGEMENT

The company monitors its cash and cash equivalents, available for sale investments, common shares, warrants, stock options, and the gold loan as capital. The Company's objectives when maintaining capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business. There were no changes in the Company's approach to capital management during the year.

Under the terms of the Gold Loan Facility, the Company was required to maintain a minimum working capital amount of \$1,500,000 commencing August 1, 2014 (Note 18), prior to the settlement on July 7, 2015. During the year ended February 28, 2015, the lender agreed to waive any events of default under the agreement until April 30, 2015. On July 7, 2015, the Company settled the debt outstanding under the Gold Loan Facility through the issuance of an aggregate of 74,885,900 common shares (see notes 18 and 19 for details).

The Company's capital consists of the following:

	February 29, 2016	February 28, 2015
Working Capital Surplus (Deficit)	\$ 27,863,598	\$ (26,020,057)
Short term gold loan facility	-	19,823,396
Share capital	164,976,771	126,810,456
Share-based payments reserve	28,940,017	24,814,417
Accumulated other comprehensive income	(46,780)	(16,560)
Accumulated Deficit	(158,530,041)	(150,470,067)
Capital	\$ 63,203,565	\$ (5,058,415)

27. SEGMENTED REPORTING

An operating segment is defined as a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Company's chief operating decision maker, and for which discrete financial information is available. The Company has determined that it has one reportable operating segment, the acquisition, exploration, development and production of gold mineral properties, all of which occurs within Canada. The Company's corporate head office earns nominal revenue that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment. The Company's revenue is derived through a refining agreement with a single refiner.

28. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of ordinary shares outstanding during the period.

	Year ended February 29, 2016	Year ended February 28, 2015
Loss attributed to ordinary shareholders	\$(8,059,974)	\$(21,307,854)
Weighted average number of common shares	197,734,501	125,108,314
Basic and diluted loss per share	\$ (0.04)	\$ (0.17)
Weighted Average Number of Common Shares		
Issued Common Shares at March 1	126,634,706	109,851,706
Effect of shares issued for private placements	20,417,820	12,881,266
Effect of shares issued for settlement of debt	50,681,975	2,375,342
Weighted average number of common shares		
- basic and diluted	197,734,501	125,108,314

As at February 29, 2016, there are 15,106,661 (February 28, 2015: 5,771,659) options, 22,577,187 (February 28, 2015: 9,360,000) share purchase warrants, and 363,563 (February 28, 2015: nil) broker warrants outstanding. The effect of shares issuable on the exercise of options, share purchase warrants, and broker warrants was anti-dilutive for the year ended February 29, 2016 and year ended February 28, 2015 as the Company had a net loss for the period.

29. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from consolidated statements of cash flows. During the year ended February 29, 2016, items not impacting cash flows included in trade and other payable is \$nil (2015: \$1,919,250); related to mineral properties and deferred development costs; \$309,758 (2015: \$1,500,000) related to the settlement of debt through issuance of shares; \$934,662 (2015: nil) related to the settlement of penalty interest on the gold loan facility; and \$21,017,262 (2015: nil) for settlement of the gold loan facility. These transactions are excluded from the consolidated statement of cash flows.

30. COMMITMENT & CONTINGENCIES

The company is committed to certain purchase obligations as follows:

2016	\$ 34,000
2017	34,000
2018	36,124
2019	-
2020	-
	<u>\$ 104,124</u>

Flow-through shares

As at February 29, 2016, the Company is committed to spending approximately \$10,695,000 by December 31, 2016 in connection with its flow-through offerings (February 28, 2015 - \$nil).

30. COMMITMENT & CONTINGENCIES (CONTINUED)

CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal, tax, environmental and regulatory matters are outstanding from time to time. By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

The Company has been made aware of a complaint filed in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County, Florida, between Jack Kachkar, as plaintiff, and the Company, and approximately seventy (70) other persons, as defendants, being Case No. 15-27567-CA-27. The Claim relates to a convertible debenture financing that occurred in 2006. The claim does not specify the quantum of damages allegedly suffered by the plaintiff and has not been formally served on the Company. If and when the Company is formally served with the complaint, the Company will vigorously defend itself against the claim.

While the outcomes of this matter is uncertain, based upon the information currently available, the Company does not believe that these matters in aggregate will have a material adverse effect on its consolidated financial position, cash flows or results of operations. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of these changes in its consolidated financial statements in the appropriate period relative to when such changes occur.

31. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current years' presentation. These reclassifications did not affect prior years' net losses.

32. DEFERRED INCOME TAX

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2016	2015
Net loss before taxes	\$ (9,926,274)	\$ (22,237,854)
Income taxed at local statutory rates: 26.00% (2015: 26%)	(2,581,000)	(5,782,000)
Non-deductible expenses - stock based compensation	638,000	28,000
Non-deductible expenses - accretion expenses and other	129,000	1,519,000
Flow-through shares renounced	1,804,000	-
Flow-through premium liability	(1,823,000)	-
Impact of BCMETC adjustments	(552,000)	(492,000)
Impact of initial recognition exemption	-	(289,000)
Other	(143,300)	(88,000)
Unrecognized deferred tax assets	662,000	4,174,000
Deferred Income tax recovery	\$ (1,866,300)	\$ (930,000)

32. DEFERRED INCOME TAX (CONTINUED)

The significant components of the Company's estimated deferred tax assets and liabilities are as follows:

	2016	2015
	26.00%	26.00%
Deferred income tax assets:		
Losses carried forward	\$ 12,508,000	\$ 12,363,000
Mineral properties and property, plant and equipment	10,992,000	10,722,000
Un-deducted financing costs	231,000	285,000
Provision for site reclamation and other	2,145,000	1,844,000
Unrecognized deferred tax assets	(25,876,000)	(25,214,000)
Total deferred income tax assets	-	-
Deferred income tax liabilities:		
Property, plant and equipment	(185,700)	(229,000)
Total deferred income tax liabilities	\$ (185,700)	\$ (229,000)

As at February 29, 2016, the Company has non-capital loss carry-forwards for income tax purposes of approximately \$48,099,000 (2015: \$47,542,000) that expires in various amounts from 2025 to 2036.

33. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to February 29, 2016:

- (i) On April 8, 2016, the Company announced that it has been served with a proposed class action lawsuit that has been commenced in the Ontario Superior Court of Justice relating to an August 12, 2012, technical report prepared by Peter T. George, P. Geo, concerning a mineral resource estimate for the Cariboo Gold Project. The Notice of Action also names the Company's former President and CEO, James Francis Callaghan, former CFO, Minaz Dhanani, the author of the Technical Report Peter T. George and his consulting company, Geoex Limited.

The representative plaintiff is requesting various orders and declarations in the Notice of Action, including \$9,900,000 in damages, based on alleged misrepresentations in violation of Canadian securities regulatory requirements relating to the mineral resource estimate that was announced on June 28, 2012, and incorporated into various disclosure documents, including but not limited to, the Technical Report. The Company has retained counsel and intends to vigorously defend its interest and protect its rights.

- (ii) On April 26, 2016, the Company completed a private placement for an aggregate of 22,183,500 flow-through common shares at a price of \$0.70 per flow through share for aggregate gross proceeds of \$15,528,450.

- (iii) On May 2, 2016, the Company and Williams Creek Gold Limited ("Williams Creek") announced that the companies have entered into a definitive arrangement agreement dated April 29, 2016 (the "Agreement").

Pursuant to the terms of the Agreement, Barkerville has agreed to issue an aggregate of 6,800,000 common shares of Barkerville in exchange for all of the issued and outstanding common shares of Williams Creek held by Williams Creek shareholders (the "Transaction").

Pursuant to the Agreement, Barkerville has agreed to advance Williams Creek an aggregate amount of up to CD\$500,000, available in multiple draws bearing interest at an effective annual rate of 5% per annum (the "Loan") evidenced by a grid promissory note. The Loan will be secured against the assets of Williams Creek. Subject to the approval of the TSXV, Barkerville shall have the right, at its option, at any time following the

33. EVENTS OCCURRING AFTER THE REPORTING DATE (CONTINUED)

termination of the Agreement under the terms and conditions thereof, to convert the Loan into common shares of Williams Creek at a conversion price equal to \$0.02. The parties further agreed that Williams Creek will not give effect to any conversion, if, after giving effect to such conversion, Barkerville would own or exercise control or direction over greater than 19.9% of the total outstanding common shares of Williams Creek immediately after giving effect to such conversion

The Arrangement is subject to the approval of the Supreme Court of British Columbia and all applicable regulatory authorities, including the TSXV and the conditions set out in the Agreement. Barkerville and Williams Creek expect to close the transaction on or about August 5, 2016.