

**CALLINEX MINES INC.**

**Financial Statements  
Years ended September 30, 2017 and 2016**

*(Expressed in Canadian dollars)*



December 13, 2017

## **Independent Auditor's Report**

### **To the Shareholders of Callinex Mines Inc.**

We have audited the accompanying financial statements of Callinex Mines Inc. which comprise the statement of financial position as at September 30, 2017 and September 30, 2016, the statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Callinex Mines Inc. as at September 30, 2017 and September 30, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(signed) "PricewaterhouseCoopers LLP"**

#### **Chartered Professional Accountants**

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# CALLINEX MINES INC.

Statements of Financial Position  
As at September 30, 2017 and 2016  
(Expressed in Canadian dollars)

	Note	2017	2016
		\$	\$
<b>Assets</b>			
Current			
Cash and cash equivalents		5,711,751	4,259,785
Receivables	6, 8 11	507,692	37,217
Prepaid expenses and other assets		187,077	119,030
		<b>6,406,520</b>	4,416,032
Non-current			
Deposits		27,992	27,992
Equipment	7	123,855	28,559
Exploration and evaluation assets	8	16,202,365	12,438,978
		<b>22,760,732</b>	16,911,561
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities	9	509,718	245,225
<b>Shareholders' Equity</b>			
Capital stock	10	58,878,194	51,453,256
Equity reserve	10	5,777,658	5,596,776
Deficit		(42,404,838)	(40,383,696)
		<b>22,251,014</b>	16,666,336
		<b>22,760,732</b>	16,911,561

Commitments – Note 16  
Subsequent events – Notes 8 and 17

## APPROVED BY THE BOARD OF DIRECTORS

Michael Louie ("signed") Director

Nico Civelli ("signed") Director

The accompanying notes are an integral part of these financial statements

## CALLINEX MINES INC.

### Statements of Loss and Comprehensive Loss

Years ended September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

	Note	2017	2016
		\$	\$
Corporate development		825,252	792,296
Depreciation	7	14,588	9,710
Listing and filing fees		74,323	56,615
Management and consulting fees	11	333,329	383,074
Office and administration		354,387	266,616
Professional fees	11	130,982	114,352
Property investigation expenses		-	47,831
Share-based compensation	10c, 11	311,559	461,539
		(2,044,420)	(2,132,033)
Finance income		23,278	6,195
Gain on settlement of accounts payable	9	-	142,200
<b>Loss and comprehensive loss</b>		<b>(2,021,142)</b>	<b>(1,983,638)</b>
<b>Loss per share</b>			
- Basic and diluted		(0.03)	(0.04)
<b>Weighted average number of shares outstanding</b>			
- Basic and diluted		75,195,001	53,217,850

*The accompanying notes are an integral part of these financial statements*

# CALLINEX MINES INC.

## Statements of Cash Flows

Years ended September 30, 2017 and 2016

(Expressed in Canadian dollars)

	2017	2016
	\$	\$
<b>Cash flows (used in) provided by</b>		
<b>Operating activities</b>		
Loss	(2,021,142)	(1,983,638)
Items not affecting cash		
Depreciation	14,588	9,710
Share-based compensation	311,559	461,539
Gain on settlement of accounts payable	-	(142,200)
Net change in non-cash working capital items		
Receivables	(110,475)	(8,525)
Prepaid expenses	(68,047)	(15,638)
Accounts payable and accrued liabilities	(908)	153,340
	<b>(1,874,425)</b>	<b>(1,525,412)</b>
<b>Investing activities</b>		
Exploration and evaluation assets expenditures	(3,626,157)	(2,242,198)
Receipt of mineral exploration assistance	-	160,000
Equipment purchases	(109,884)	(5,000)
	<b>(3,736,041)</b>	<b>(2,087,198)</b>
<b>Financing activities</b>		
Proceeds on shares issued	7,435,001	4,308,000
Share issuance costs	(372,569)	(99,108)
	<b>7,062,432</b>	<b>4,208,892</b>
<b>Increase in cash and cash equivalents</b>	<b>1,451,966</b>	<b>596,282</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>4,259,785</b>	<b>3,663,503</b>
<b>Cash and cash equivalents, end of period</b>	<b>5,711,751</b>	<b>4,259,785</b>
Cash and cash equivalents consist of:		
Cash	2,928,751	1,476,785
Cash equivalents	2,783,000	2,783,000
Cash paid for interest	-	-
Cash received for interest	22,235	123
Cash paid for taxes	-	-

Supplemental Cash Flow Information – Note 15

*The accompanying notes are an integral part of these financial statements*

## CALLINEX MINES INC.

### Statements of Changes in Equity

Years ended September 30, 2017 and 2016

(Expressed in Canadian dollars)

	Common shares	Capital Stock	Equity reserve	Deficit	Total
	#	\$	\$	\$	\$
<b>Balance, September 30, 2015</b>	<b>47,654,472</b>	<b>47,115,364</b>	<b>4,586,672</b>	<b>(38,400,058)</b>	<b>13,301,978</b>
Shares issued in consideration for:					
Cash, pursuant to:					
- Private placement	14,000,000	4,200,000	-	-	4,200,000
- Exercise of warrants	240,000	108,000	-	-	108,000
Share issuance costs	-	(99,108)	-	-	(99,108)
Exploration and evaluation assets	300,000	129,000	400,000	-	529,000
Share-based compensation	-	-	610,104	-	610,104
Loss	-	-	-	(1,983,638)	(1,983,638)
<b>Balance, September 30, 2016</b>	<b>62,194,472</b>	<b>51,453,256</b>	<b>5,596,776</b>	<b>(40,383,696)</b>	<b>16,666,336</b>
Shares issued in consideration for:					
Cash, pursuant to:					
- Private placements	9,870,000	5,026,000	-	-	5,026,000
- Exercise of warrants	5,246,336	2,360,851	-	-	2,360,851
- Exercise of options	155,000	83,656	(35,506)	-	48,150
Share issuance costs	-	(372,569)	-	-	(372,569)
Exploration and evaluation assets	832,900	327,000	(200,000)	-	127,000
Share-based compensation	-	-	416,388	-	416,388
Loss	-	-	-	(2,021,142)	(2,021,142)
<b>Balance, September 30, 2017</b>	<b>78,298,708</b>	<b>58,878,194</b>	<b>5,777,658</b>	<b>(42,404,838)</b>	<b>22,251,014</b>

The accompanying notes are an integral part of these financial statements

# CALLINEX MINES INC.

Notes to the financial statements  
For the years ended September 30, 2017 and 2016  
*(Expressed in Canadian dollars)*

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## 1. Nature of operations

Callinex Mines Ltd. ("Callinex" or the "Company") was incorporated on April 21, 2011 under the British Columbia Business Corporations Act for the purpose of receiving certain cash, equipment, common shares, and exploration and evaluation assets from Callinan Royalties Corporation (formerly Callinan Mines Limited) ("Callinan") in exchange for common shares of the Company by way of a plan of arrangement as approved by the shareholders of Callinan on June 7, 2011. The effective date of the transaction with Callinan was July 13, 2011. Subsequent to the plan of arrangement, the Company is directly engaged in the exploration of mineral properties in Canada.

The Company's head office and registered and records office address is 1555 – 555 West Hastings Street, Vancouver, British Columbia, Canada V6B 4N4.

## 2. Basis of presentation

The 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 IFRS Interpretations Committee ("IFRIC"). The financial statements have been prepared under the historical cost convention except certain financial instruments carried at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

These financial statements were approved by the board of directors for use on December 13, 2017.

## 3. Summary of significant accounting policies

### a) Cash and cash equivalents

Cash and cash equivalents include cash on deposit and highly liquid short term interest bearing investments.

### b) Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

Equipment	30%
Office Furniture	20%
Computer Equipment	30%
Buildings are depreciated straight-line, over 25 years	
Leasehold improvements are depreciated straight-line, over 5 years.	

Additions during the year are depreciated at one-half the annual rates.

## **CALLINEX MINES INC.**

Notes to the financial statements

For the years ended September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

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Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in loss in the statement of comprehensive loss.

Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

### **c) Exploration and evaluation assets**

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

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

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is reclassified to development properties. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

### **d) Future reclamation costs**

The Company recognizes liabilities for legal or constructive obligations associated with the required reclamation costs of mineral interests (exploration and evaluation assets) and equipment. The net present value of future reclamation cost estimates is capitalized to the related asset along with a corresponding increase in the reclamation provision in the period incurred. Pre-tax discount rates that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the reclamation provision. The increase in the provision due to the passage of time is recognized as interest expense.

For the years presented, the Company has estimated that future reclamation costs are minimal.

### **e) Foreign exchange**

The Company's functional and presentation currency is the Canadian dollar. Transactions denominated in other currencies are translated into their Canadian dollar equivalents at exchange rates prevailing at the transaction date. Carrying values of monetary assets and liabilities denominated in foreign currencies are adjusted at the statement of financial position date to reflect exchange rates prevailing at that date. Non-monetary assets and liabilities are translated at historical exchange rates. Gains and losses on translation are included in determining net loss for the year.



# **CALLINEX MINES INC.**

Notes to the financial statements

For the years ended September 30, 2017 and 2016

*(Expressed in Canadian dollars)*

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## **f) Impairment of long-lived assets**

At each reporting date the carrying amounts of the Company's long-lived assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year. Impairment is normally assessed at the level of cash-generating units, which are identified as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## **g) Share-based compensation**

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting instalment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as share-based compensation expense. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

## **h) Income taxes**

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

## **i) Loss per share**

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. When calculating diluted loss per share, potentially dilutive instruments do not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

# CALLINEX MINES INC.

Notes to the financial statements  
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## **j) Flow-through shares**

Canadian income tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow-through shares in excess of the market value of the shares without flow-through features is credited to other liabilities and included in income tax recovery at the same time the qualifying expenditures are made.

## **k) Financial instruments**

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to-maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net income or loss. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets and / or liabilities classified as either "held-to-maturity", "loans and receivables", or "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

The Company classifies the fair value of financial instruments according to a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

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

## **4. Future Accounting standards and pronouncements**

The following standards, which are applicable to the Company, were issued but not yet effective. The Company is currently evaluating the impact of the standards on its financial statements.

### **IFRS 9 - Financial instruments**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's 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. IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in OCI, and guidance on financial liabilities and derecognition of financial instruments. IFRS 9 will be effective for the Company for the fiscal year beginning October 1, 2018. Adoption of this standard is expected to have minimal impact on the Company's financial statements.

### **IFRS 16 - Leases**

This standard specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has an insignificant

# CALLINEX MINES INC.

Notes to the financial statements  
For the years ended September 30, 2017 and 2016  
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value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and will be effective for the Company for the fiscal year beginning October 1, 2019. The adoption of IFRS 16 is expected to increase the leased assets and liabilities of the Company.

## 5. Critical accounting estimates and judgments

### a) Judgments

The preparation of these financial statements requires making judgments that affect the amounts reported. Accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

#### Impairment

The carrying amount of the Company's exploration and evaluation assets does not necessarily represent present or future values, and these assets have been accounted for under the assumption that the carrying value will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and future profitable production or proceeds from the disposition of the exploration and evaluation assets themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

Management reviewed exploration and evaluation assets for the years ended September 30, 2017 and 2016 and did not identify any impairment indicators.

### b) Significant Estimates

There were no key assumptions made concerning the future or other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

## 6. Receivables

	September 30, 2017	September 30, 2016
	\$	\$
Mineral exploration assistance program receivable	360,000	-
GST receivable	137,598	28,166
Interest receivable	7,094	6,051
Other (Note 11)	3,000	3,000
	507,692	37,217

## CALLINEX MINES INC.

Notes to the financial statements

For the years ended September 30, 2017 and 2016

(Expressed in Canadian dollars)

### 7. Equipment

	<b>Equipment</b>	<b>Office Furniture</b>	<b>Computer Equipment</b>	<b>Building</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Cost</b>					
Balance, September 30, 2015	90,880	8,868	43,310	-	143,058
Additions	5,000	-	-	-	5,000
Balance, September 30, 2016	95,880	8,868	43,310	-	148,058
Additions	10,800	-	47,840	51,244	109,884
<b>Balance, September 30, 2017</b>	<b>106,680</b>	<b>8,868</b>	<b>91,150</b>	<b>51,244</b>	<b>257,942</b>
<b>Accumulated depreciation</b>					
Balance, September 30, 2015	80,055	2,406	27,328	-	109,789
Depreciation	3,623	1,292	4,795	-	9,710
Balance, September 30, 2016	83,678	3,698	32,123	-	119,499
Depreciation	5,134	1,034	7,564	856	14,588
<b>Balance, September 30, 2017</b>	<b>88,812</b>	<b>4,732</b>	<b>39,687</b>	<b>856</b>	<b>134,087</b>
<b>Net book value</b>					
September 30, 2016	12,202	5,170	11,187	-	28,559
<b>September 30, 2017</b>	<b>17,868</b>	<b>4,136</b>	<b>51,463</b>	<b>50,388</b>	<b>123,855</b>

# CALLINEX MINES INC.

Notes to the financial statements  
For the years ended September 30, 2017 and 2016  
(Expressed in Canadian dollars)

## 8. Exploration and evaluation assets

	Flin Flon	Point Leamington	Nash Creek	Superjack	Other	Total
	\$	\$	\$	\$	\$	\$
<b>September 30, 2015</b>	<b>8,438,986</b>	-	-	-	<b>1,366,183</b>	<b>9,805,169</b>
Acquisition	-	525,000	114,800	114,800	-	754,600
Assaying	25,237	-	-	-	-	25,237
Camp costs	60,643	-	-	-	-	60,643
Consulting	36,682	4,898	5,617	4,898	-	52,095
Drilling	1,145,213	-	-	-	-	1,145,213
Geologists	99,200	2,700	-	-	-	101,900
Geochemical	24,687	-	-	-	-	24,687
Geophysical	255,862	6,692	1,243	18,117	-	281,914
Other	22,068	4,865	-	-	-	26,933
Permitting	13,672	6,673	1,980	1,916	1,781	26,022
Recovery	-	-	-	(14,000)	-	(14,000)
Share-based compensation	64,997	27,856	27,856	27,856	-	148,565
	1,748,261	578,684	151,496	153,587	1,781	2,633,809
<b>September 30, 2016</b>	<b>10,187,247</b>	<b>578,684</b>	<b>151,496</b>	<b>153,587</b>	<b>1,367,964</b>	<b>12,438,978</b>
Acquisition	83,044	-	73,750	73,750	-	230,544
Assaying	11,788	18,745	90,432	15,773	-	136,738
Camp costs	130,482	-	9,890	11,471	-	151,843
Consulting	10,292	-	17,670	-	-	27,962
Drilling	1,973,716	-	405,677	344,928	-	2,724,321
Geologists	146,458	-	56,151	38,121	-	240,730
Geochemical	77,061	-	-	-	-	77,061
Geophysical	241,295	1,000	53,154	46,895	212	342,556
Other	22,329	300	20,475	21,677	-	64,781
Permitting	12,310	-	25,345	6,390	902	44,947
Recovery	(360,000)	-	(12,000)	437	(11,362)	(382,925)
Share-based compensation	73,380	-	18,869	12,580	-	104,829
	2,422,155	20,045	759,413	572,022	(10,248)	3,763,387
<b>September 30, 2017</b>	<b>12,609,402</b>	<b>598,729</b>	<b>910,909</b>	<b>725,609</b>	<b>1,357,716</b>	<b>16,202,365</b>

### Flin Flon Area

#### Pine Bay project

Callinex owns a 100% interest, subject to a 1% Net Smelter Return ("NSR") royalty and a 5.12% Net Profits Interest, in the Pine Bay Project.

#### Flin Flon project

Callinex owns a 100% interest, subject to a 2% NSR royalty of which 1% may be purchased for \$1,000,000, in the Flin Flon Project.

#### Gossan Gold project

Callinex owns a 100% interest, subject to a 2% NSR royalty, in the Gossan Gold Project.

## **CALLINEX MINES INC.**

Notes to the financial statements  
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### Big Island project

On March 20, 2017 the Company acquired a 100% interest in the Tara Lake VMS Deposit ("Big Island Project") near the Flin Flon Project.

Consideration for the Big Island Project is to be as follows:

- (i) \$50,000 cash and 100,000 common shares within five days following the effective date of the agreement (paid; issued 100,000 common shares at the fair value of \$29,500)
- (ii) \$50,000 cash and 100,000 common shares on the first anniversary of the agreement
- (iii) \$50,000 cash and 100,000 common shares on the second anniversary of the agreement
- (iv) \$50,000 cash and 150,000 common shares on the third anniversary
- (v) \$65,000 cash and 300,000 common shares on the fourth anniversary

The Big Island Project is subject to a 1% NSR Royalty which can be repurchased for \$1,000,000.

### Government assistance

The Company participates in the Government of Manitoba Mineral Exploration Assistance Program ("MEAP"). During the year ended September 30, 2017, the Company recorded MEAP recovery of \$360,000 (2016 - \$nil) representing \$200,000 of MEAP for the summer of 2017 exploration program and \$160,000 of MEAP for the summer of 2016 exploration program. As at September 30, 2017, \$360,000 of MEAP was included in accounts receivable. Subsequent to September 30, 2017, the Company received \$159,534 from the Government of Manitoba for the 2016 MEAP.

### **Superjack and Nash Creek projects**

The Company completed a purchase agreement to acquire 100% of the Superjack and Nash Creek VMS deposits and exploration data on May 18, 2016.

Consideration for the properties is to be as follows:

- (i) \$150,000 in cash or shares on or before the first anniversary (issued 300,000 common shares at the fair value of \$97,500)
- (ii) \$25,000 cash and \$125,000 in cash or common shares on or before the second anniversary
- (iii) \$25,000 in cash on or before the third anniversary
- (iv) \$125,000 due in cash or common shares within 10 days of the Company completing a preliminary economic assessment on the Nash Creek project

Consideration for the exploration data is to be as follows:

- (i) \$100,000 cash (paid)
- (ii) \$150,000 in cash or common shares (issued 300,000 common shares at fair value of \$129,000)
- (iii) \$50,000 cash on or before the first anniversary (paid)

In the event that common shares are issued to settle any of the above payments, the number of common shares to be issued is fixed, as per the contract, by dividing the amount of cash to be paid by \$0.50. In the event that the Company fails to make any of the payments noted above, ownership of the properties will revert back to the vendor provided the vendor delivers written notice of the default and the Company does not remedy the default within 30 days of the notice.

### **Pt. Leamington project**

The Company completed a purchase agreement to acquire a 100% ownership of the Pt. Leamington VMS deposit and exploration data on July 29, 2016.

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Consideration for the sale of the property is to be as follows:

- (i) 50% reimbursement of first annual permitting fees (paid \$15,000)
- (ii) \$100,000 in cash or common shares on the first anniversary (issued 216,450 common shares at the fair value of \$63,853)
- (iii) \$200,000 in cash or common shares on the second anniversary

Consideration for the sale of the exploration data is to be as follows:

- (i) \$100,000 cash (paid)
- (ii) \$100,000 in cash or common shares on the first anniversary (issued 216,450 common shares at the fair value of \$63,853)

In the event that common shares are issued to settle any of the above payments, the number of common shares to be issued is fixed, as per the contract, by dividing the amount of cash to be paid by \$0.462. At September 30, 2017, the remaining \$200,000 payable in cash or the fixed number of common shares at the Company's option had been recorded to the equity reserve as the Company does not have a present obligation to settle the transaction in cash.

### Other

The Company has an interest in other properties. The other properties are in good standing and do not require any further commitments. These include the Neuron property, Sneath Lake property, Coles Creek property, Fox River property, Moak Lake property, Norris Lake property, the Herblet Lake property and the Island Lake properties.

Subsequent to September 30, 2017, the Company signed an option agreement in relation to the Neuron property (refer to note 17).

### 9. Accounts payable and accrued liabilities

	September 30 2017	September 30 2016
	\$	\$
Accounts payable	367,674	167,691
Accrued liabilities	133,044	68,534
Related party payables (Note 11)	9,000	9,000
	509,718	245,225

During the year ended September 30, 2016 the Company settled an account payable with a vendor resulting in a gain on settlement of \$142,200.

### 10. Share capital

#### a) Authorized:

Unlimited common shares with no par value

#### b) Financings

During the year ended September 30, 2017, the Company completed the following financings:

- i) On November 22, 2016 the Company closed a private placement consisting of 8,050,000 non-flow through units at \$0.50 per unit and 1,820,000 flow through shares at \$0.55 per share for

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aggregate gross proceeds of \$5,026,000. Each non-flow through unit consisted of one non-flow through common share and one-half of one share purchase warrant. Each Warrant entitles the holder to acquire one non-flow through common share at a price of \$0.75 for a period of three years. The Company incurred cash share issuance costs of \$372,569 in respect of this placement.

During the year ended September 30, 2016, the Company completed the following financings:

- ii) On May 11, 2016 and May 13, 2016 the Company closed private placements consisting of 7,000,000 non-flow-through units at \$0.30 per unit and 7,000,000 flow-through shares at \$0.30 per flow-through share for gross proceeds of \$4,200,000. The non-flow-through units consisted of one common share and one half of one share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of \$0.45 for a period of two years. The Company incurred cash share issuance costs of \$99,108 in respect of this placement.

### c) Stock options

The Company has a Stock Option Plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSXV). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and upon resignation or termination expire within 90 days, or 30 days for a person engaged in investor relations activities, or within reasonable discretion of the board. Options granted to employees, management and directors vest immediately, unless otherwise specified by the Board of Directors. Investor relation options vest over 12 months with no more than one quarter of the options vesting in any three month period.

The balance of options outstanding and related information for the years ended September 30, 2017 and 2016 are as follows:

	<b>Number of options</b>	<b>Weighted average exercise price (per share)</b>	<b>Weighted average remaining life (years)</b>
Balance September 30, 2015	3,150,000	\$0.34	3.60
Granted	3,400,000	\$0.36	
Cancelled	(90,000)	\$0.29	
Expired	(350,000)	\$0.55	
Balance September 30, 2016	6,110,000	\$0.34	3.72
Granted	2,125,000	\$0.36	
Exercised	(155,000)	\$0.31	
Cancelled	(150,000)	\$0.60	
Forfeited	(550,000)	\$0.37	
Balance September 30, 2017	7,380,000	\$0.34	3.28
Unvested	(1,850,000)	\$0.34	4.87
<b>Exercisable, September 30, 2017</b>	<b>5,530,000</b>	<b>\$0.34</b>	<b>2.76</b>



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The weighted average fair value of the options granted during the year ended September 30, 2017 was \$0.35 (2016 - \$0.26).

For the year ended September 30, 2017, the Company recorded share-based compensation expense of \$416,388 (2016 - \$610,104) of which \$104,829 was allocated to exploration and evaluation assets. The fair value of these options on the date of grant was determined using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

	2017	2016
Risk free interest rate	1.55%	1.00%
Expected life	5 years	5 years
Expected volatility	100%	99%
Expected forfeiture	Nil	Nil
Expected dividends	Nil	Nil

The balance of options outstanding as at September 30, 2017 was as follows:

Expiry date	Average Exercise price	Remaining life (years)	Options Outstanding	Unvested	Vested
August 6, 2018	\$0.30	0.85	550,000	-	550,000
October 28, 2018	\$0.37	1.08	150,000	-	150,000
May 7, 2019	\$0.42	1.60	100,000	-	100,000
September 5, 2019	\$0.29	1.93	1,060,000	-	1,060,000
September 12, 2019	\$0.29	1.95	250,000	-	250,000
October 15, 2019	\$0.29	2.04	75,000	-	75,000
January 20, 2020	\$0.29	2.31	50,000	-	50,000
May 14, 2020	\$0.29	2.62	150,000	-	150,000
December 18, 2020	\$0.33	3.22	1,395,000	-	1,395,000
August 8, 2021	\$0.38	3.86	1,725,000	-	1,725,000
December 12, 2021	\$0.60	4.20	100,000	75,000	25,000
June 28, 2022	\$0.32	4.75	125,000	125,000	-
September 6, 2022	\$0.33	4.94	1,300,000	1,300,000	-
September 13, 2022	\$0.38	4.96	150,000	150,000	-
February 27, 2022	\$0.33	4.41	100,000	100,000	-
August 21, 2022	\$0.32	4.89	100,000	100,000	-
			7,380,000	1,850,000	5,530,000

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### d) Share purchase warrants

The balance of warrants outstanding and related information for the years ended September 30, 2017 and 2016 are as follows

	Number of warrants	Weighted average exercise price (per share)	Weighted average Remaining life (years)
Balance September 30, 2015	3,865,609	\$0.44	1.36
Issued	3,500,000	\$0.45	
Exercised	(240,000)	\$0.45	
Expired	(1,052,691)	\$0.40	
Balance September 30, 2016	6,072,918	\$0.45	1.28
Issued	4,025,000	\$0.75	
Exercised	(5,246,336)	\$0.45	
Expired	(826,582)	\$0.45	
<b>Balance September 30, 2017</b>	<b>4,025,000</b>	<b>\$0.75</b>	<b>2.15</b>

Pursuant to the terms of the warrants issued under the Company's private placement financings completed on July 30, 2015 and May 11, 2016, if the average volume weighted average trading price of the Company's shares on the TSX Venture Exchange is above \$0.60 per share for a period of any fifteen trading days, the Company was entitled to accelerate the expiry date of the warrants. On December 5, 2016 the Company elected to provide such notice and a total of 5,246,336 warrants were exercised for gross proceeds of \$2,360,851.

As at September 30, 2017 there were a total of 4,025,000 warrants outstanding with an exercise price of \$0.75 and expiry date of November 22, 2019.

### e) Equity reserve

	Funding by Callinan	Options and warrants	Other	Total
	\$	\$	\$	\$
Balance, September 30, 2015	2,660,523	1,926,149	-	4,586,672
Exploration and evaluation asset acquisition	-	-	400,000	400,000
Share-based compensation	-	610,104	-	610,104
Balance, September 30, 2016	2,660,523	2,536,253	400,000	5,596,776
Exploration and evaluation asset acquisition	-	-	(200,000)	(200,000)
Exercise of options	-	(35,506)	-	(35,506)
Share-based compensation	-	416,388	-	416,388
Balance, September 30, 2017	2,660,523	2,917,135	200,000	5,777,658

### f) Flow-through shares

The Company was committed to incurring on or before December 31, 2017 qualifying Canadian exploration expenses as defined under the *Income Tax Act, Canada* ("Qualifying CEE") in the amount of \$3,101,000 with respect to the flow-through share financings completed on May 11, 2016 and November 22, 2016. None of the Qualifying CEE will be available to the Company for future deduction

## CALLINEX MINES INC.

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from taxable income. As at September 30, 2017 the Company had incurred all of the required Qualifying CEE.

### 11. Related party transactions

Compensation paid or payable to the Company's Board of Directors and corporate officers for services provided during the years ended September 30, 2017 and 2016 was as follows:

	2017	2016
	\$	\$
Professional fees	26,840	23,651
Management and consulting	268,500	260,643
Share-based compensation	200,607	341,053
	495,947	625,347

As at September 30, 2017, a total of \$3,000 (September 30, 2016 - \$3,000) from related parties is included in accounts receivables and \$9,000 (September 30, 2016 - \$9,000) was owed to related parties and is included in accounts payable and accrued liabilities.

### 12. Income taxes

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2017	2016
	26%	26%
	\$	\$
Statutory tax rate		
Loss for the year before taxes	(2,021,142)	(1,983,638)
Expected income tax recovery at statutory rate	(525,497)	(515,746)
Add (deduct)reconciling items:		
(Recognition) / non-recognition of tax losses	(225,887)	(126,963)
Permanent differences	114,060	140,779
Impact of flow through expenditures	637,324	501,930
Income tax recovery as booked	-	-

The income tax recovery above represents deferred tax only.

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The significant components of the Company's net deferred tax assets and liabilities as at September 30, 2017 and 2016 are as follows:

	2017	2016
	\$	\$
Deferred tax assets:		
Equipment	16,000	42,000
Share issue costs	99,000	36,000
Capital loss carry forward and other	74,000	75,000
Non-capital losses carried forward	2,447,000	1,947,000
Deferred tax assets	2,636,000	2,100,000
Deferred tax liabilities:		
Exploration and evaluation assets	(2,169,000)	(1,504,000)
Unrecognized net deferred tax assets	467,000	596,000

The potential benefit of deferred tax assets arising from carry forward non-capital losses, capital losses and deductible temporary differences that are in excess of the deferred tax liabilities has not been recognized in these financial statements as it is not considered probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

As at September 30, 2017, the Company has an estimated \$9,410,000 of non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. Their expiry dates range from 2031 – 2037.

	\$
2031	353,000
2032	1,658,000
2033	1,383,000
2034	1,289,000
2035	1,154,000
2036	1,709,000
2037	1,864,000
	<u>9,410,000</u>

### 13. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, deposits, and accounts payable and accrued liabilities. The Company designated its cash and cash equivalents, receivables and deposits as loans and receivables. The accounts payable and accrued liabilities are designated as other financial liabilities.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

#### Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at large Canadian financial institutions in interest bearing accounts. The Company's receivables consists mainly of input tax credits receivable due from the Government of Canada. The Company does not believe it is exposed to significant credit risk.

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## Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through its capital management as outlined in Note 14 to these financial statements. Accounts payable relating to exploration and evaluation assets and other accounts payable and accrued liabilities have contractual maturities of 30 days or are due on demand, and are subject to normal trade terms. As at September 30, 2017, the Company had a cash balance of \$5,711,751 to settle current liabilities of \$509,718 which is sufficient to cover funding requirements for administrative operations as currently planned for at least the next twelve months.

## Market risk

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

### a) Interest rate risk

The Company has cash balances and no interest-bearing debt liabilities. The Company's current policy is to invest excess cash in short-term deposit certificates issued by its banking institutions. The short-term deposit certificates are cashable on demand.

The Company monitors the investments in short term deposits and is satisfied with the credit ratings of its banks. The Company has no investments in asset backed commercial paper or similar investments.

### b) Foreign currency risk

The Company conducts the majority of its business in Canada, and is therefore not exposed to significant foreign currency risk.

## 14. Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its exploration and evaluation assets, to acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, options, equity reserve and deficit. The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issuing new debt, or acquiring or disposing of assets, and controlling the capital expenditures program. The Company is not subject to externally imposed capital requirements.

The Company's mineral property interests are in the exploration stage. As such, the Company is dependent on external financing to develop its properties and fund its activities. In order to carry out its planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed and if available, and may even dispose of some or all of its mineral property interests.

Management reviews its capital management policies on an ongoing basis. There were no changes in the Company's approach to capital management during the year ended September 30, 2017.

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### 15. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flow. As at, and during the years ended September 30, 2017 and 2016, the following transactions were excluded from the statements of cash flows:

	2017	2016
	\$	\$
<b>Non-cash investing and financing transactions</b>		
Share-based compensation included in exploration and evaluation assets	104,829	148,565
Shares issued for mineral property option agreements	327,000	129,000
Exploration and evaluation recovery included in accounts receivable	360,000	-
Exploration and evaluation assets included in accounts payable and accrued liabilities	421,301	155,990

### 16. Commitments

In addition to any commitments pursuant to mineral property interest obligations (Note 8), the Company had entered into a lease agreement for its office premises. Subsequent to September 30, 2017, the Company entered into a lease renewal agreement. The lease will expire on October 31, 2023. The annual lease commitment is as follows:

Fiscal year ended September 30, 2018	\$63,600
Fiscal year ended September 30, 2019	\$64,700
Fiscal year ended September 30, 2020	\$64,800
Fiscal year ended September 30, 2021	\$64,800
Fiscal year ended September 30, 2022	\$64,800

### 17. Subsequent events

#### *Neuron Graphite Project*

On October 27, 2017, the Company signed an option agreement with Global Li-Ion Graphite Corp. ("LION") (CSE: LION) whereby LION can acquire a 100% interest in the Neuron property located in Northern Manitoba by paying \$200,000 in cash and issuing 2,000,000 LION common shares. Callinex has received the initial considerations of \$200,000 cash and 1,000,000 common shares of LION.

LION has the option to acquire a 100% interest in the Neuron property by making the balance of the agreed payment of 1,000,000 common shares of LION within 24 months from the date of the option agreement. Callinex will receive an additional milestone payment of 3,000,000 shares if an economic study is completed on the Neuron property or any claims within a 20km area of interest.

#### *Restricted Share Units*

On October 18, 2017, the shareholders approved the adoption of a restricted share unit ("RSU") plan., which provides for the grant of RSUs to directors, officers, consultants and employees of the Company. Upon vesting, the RSUs provide for the issuance of common shares to the participants. The Company also amended the Stock Option Plan, and the total number of shares issuable under the RSU plan and the Amended Stock Option Plan cannot exceed 15,659,741 shares of the Company.

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On October 18, 2017, the Company granted a total of 7,285,000 restricted share units (“RSUs”) to the CEO, the VP of Corporate Development and the VP of Exploration. Of the RSUs granted, 6,700,000 vest on a monthly basis over three years from the grant date and 585,000 RSUs vest as to 10% on the grant date and an additional 15% every six months thereafter.

### *Stock options*

On November 10, 2017, the Company granted 300,000 stock options to consultants of the Company at an exercise price of \$0.37 per share up to November 10, 2022.