

TELFERSCOT RESOURCES INC.

Interim Consolidated Financial Statements

Three Months Ended March 31, 2017 and 2016

(Stated in \$CAD)

(Unaudited - Prepared by Management)

These unaudited interim consolidated financial statements, prepared by management, have not been reviewed by the company's external auditors

TELFERSCOT RESOURCES INC.
Interim Consolidated Statements of Financial Position
As at March 31, 2017 and December 31, 2016
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>March 31</u> <u>2017</u>	<u>December 31</u> <u>2016</u>
ASSETS		
Current:		
Cash	\$ 12,519	\$ 15,562
Prepaid expenses	<u>500</u>	<u>1,500</u>
	\$ 13,019	\$ 17,062
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 114,661</u>	<u>\$ 82,220</u>
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 9)	2,939,629	2,939,629
Contributed surplus	187,804	187,804
Reserve for share based payments (Note 10)	50,750	50,750
Accumulated deficit	<u>(3,279,825)</u>	<u>(3,243,341)</u>
	<u>(101,642)</u>	<u>(65,158)</u>
	\$ 13,019	\$ 17,062

Going concern (Note 1(b))

Commitment (Note 17)

Subsequent event (Note 18)

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

Approved on behalf of the Board:

"Rob Kirtlan" Director

"Stephen Coates" Director

TELFERSCOT RESOURCES INC.
Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
Three Months Ended March 31, 2017 and 2016
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>2017</u>	<u>2016</u> (Restated) (Note 4)
Revenue		
Gain on sale of KCC shares (Note 7)	\$ -	\$ 907,634
Gain on exercise of option (Note 11)	-	34,721
	<u>-</u>	<u>942,355</u>
Expenses		
Office and administration (Note 16(a))	28,533	18,610
Professional fees	4,514	2,920
Shareholder communication and reporting issuer costs	2,437	11,402
Insurance	1,000	1,000
Foreign exchange loss	-	30,817
	<u>36,484</u>	<u>64,749</u>
Net income (loss)	<u>\$ (36,484)</u>	<u>\$ 877,606</u>
Basic income (loss) per share (Note 12)	<u>\$ (0.0003)</u>	<u>\$ 0.0146</u>
Diluted income (loss) per share (Note 12)	<u>\$ (0.0003)</u>	<u>\$ 0.0140</u>
Net income (loss)	\$ (36,484)	\$ 877,606
Item that may be reclassified subsequently to net income (loss)		
Gain on sale of KCC shares (Note 7)	<u>-</u>	<u>(924,887)</u>
Net comprehensive income (loss)	<u>\$ (36,484)</u>	<u>\$ (47,281)</u>

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

TELFERSCOT RESOURCES INC.
Interim Consolidated Statements of Changes in Shareholders' Deficiency
Period from January 1, 2016 to March 31, 2017
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	Share capital		Contributed surplus	Reserve for share based payments	Accumulated deficit (Restated) (Note 4)	Accumulated other comprehensive income (Restated) (Note 4)	Total
	Shares	Amount					
As at January 1, 2016	60,275,000	\$ 3,590,655	\$ 39,749	\$ 148,055	\$ (3,763,118)	\$ 924,887	\$ 940,228
Net income and comprehensive income for period (Note 4)	-	-	-	-	877,606	-	877,606
Realization of gain of change in fair value of KCC shares (Note 7)	-	-	-	-	-	(924,887)	(924,887)
As at March 31, 2016	60,275,000	3,590,655	39,749	148,055	(2,885,512)	-	892,947
Expiry of options (Note 10(a))	-	-	108,166	(108,166)	-	-	-
Surrender of options (Note 10(b))	-	-	39,889	(39,889)	-	-	-
Share based payments (Note 10(c))	-	-	-	50,750	-	-	50,750
Net loss and comprehensive loss for period	-	-	-	-	(357,829)	-	(357,829)
Reduction in stated capital (Note 9(a))	-	(873,935)	-	-	-	-	(873,935)
Issuance of common shares in satisfaction of elections with respect to reduction in stated capital (Note 9(a))	44,581,961	222,909	-	-	-	-	222,909
As at December 31, 2016	104,856,961	2,939,629	187,804	50,750	(3,243,341)	-	(65,158)
Net loss and comprehensive loss for period	-	-	-	-	(36,484)	-	(36,484)
As at March 31, 2017	104,856,961	\$ 2,939,629	\$ 187,804	\$ 50,750	\$ (3,279,825)	\$ -	\$ (101,642)

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

TELFERSCOT RESOURCES INC.
Interim Consolidated Statements of Cash Flows
Three Months Ended March 31, 2017 and 2016
(Stated in \$CAD)
(Unaudited - Prepared by Management)

	<u>2017</u>	<u>2016</u> (Restated) (Note 4)
Operating activities		
Net income (loss) for period	\$ (36,484)	\$ 877,606
Add (deduct) items not affecting cash:		
Gain on sale of KCC shares	-	(907,634)
	<u>(36,484)</u>	<u>(30,028)</u>
Change in non-cash working capital items		
Accounts receivable	-	(4,259)
Prepaid expenses	1,000	1,000
Accounts payable and accrued liabilities	32,441	(142,486)
Refundable proceeds on cancellation of private placement	-	(200,828)
	<u>(3,043)</u>	<u>(376,601)</u>
Investing activities		
Proceeds on sale of KCC shares	-	1,165,652
	<u>-</u>	<u>1,165,652</u>
Increase (decrease) in cash	(3,043)	789,051
Cash, beginning of period	<u>15,562</u>	<u>110,693</u>
Cash, end of period	\$ <u>12,519</u>	\$ <u>899,744</u>
Non-cash transaction:		
Shares issued to shareholders as part of shareholder distribution (Note 9)	<u>\$ -</u>	<u>\$ 222,909</u>

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

TELFERSCOT RESOURCES INC.
Notes to Interim Consolidated Financial Statements
Three Months Ended March 31, 2017 and 2016
(Stated in \$CAD)
(Unaudited - Prepared by Management)

1. **NATURE OF OPERATIONS AND GOING CONCERN**

(a) **Nature of operations**

Telferscot Resources Inc. ("the Company" or "Telferscot") was incorporated under the Canada Business Corporations Act on May 31, 2010 and was engaged in the acquisition and exploration of resource properties in the Democratic Republic of Congo ("DRC"). It has registered offices at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4, is a reporting issuer in the provinces of Ontario, British Columbia, Alberta and Manitoba, and trades under the symbol "TFS" on the Canadian Securities Exchange ("CSE").

From the beginning of the prior fiscal year to the reporting date, the Company has entered into a series of inter-related agreements and resulting transactions as part of a corporate re-organization and re-capitalization, as follows:

- (i) As announced on May 13, 2015, a proposed transaction with Resideo Properties Inc. (*see note 6(a)*)
- (ii) A private equity placement was completed in June, 2015 for \$150,000 (*see note 6(b)(i)*)
- (iii) A second round of financing in October, 2015, ultimately cancelled in November, 2015 and the funds were returned to investors in January, 2016 (*see note 6(b)(ii)*)
- (iv) On November 11, 2015, the Company announced it had entered into a letter of intent to sell its entire 7.4% interest in KCC for gross proceeds of \$1,165,652 (USD \$854,700) (*see note 7*)
- (v) Cancellation of the Resideo transaction in January, 2016 (*see note 6(c)*)
- (vi) On March 24, 2016, as approved at the Annual General Meeting held on February 25, 2016, the Company announced a distribution of capital of \$0.0145 per share, distributable in cash, common shares or combination thereof (*see note 9(a)*)
- (vii) On May 17, 2016 and further on June 30, 2016 and October 5, 2016, announcements have been made with respect to a proposed transaction with Auxico Resources Canada Inc. ("Auxico") (*see note 5*) that, on completion, will constitute a reverse takeover of the Company by Auxico
- (viii) On January 5, 2017, the Company announced the termination of the proposed transaction with Auxico (*see note 5(d)*)

(b) **Going concern**

The accompanying unaudited interim consolidated financial statements have been prepared using International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern. It would, in this situation, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying unaudited interim consolidated financial statements. Such adjustments could be material.

TELFERSCOT RESOURCES INC.
Notes to Interim Consolidated Financial Statements
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(Stated in \$CAD)
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1. **NATURE OF OPERATIONS AND GOING CONCERN, CONTINUED**

(b) **Going concern, continued**

As at March 31, 2017, the Company has no source of operating cash flow and had an accumulated deficit of \$3,279,825 (December 31, 2016 - \$3,243,341). Working capital as at March 31, 2017 was a deficiency of \$101,642 compared to \$65,158 as at December 31, 2016. Net comprehensive loss for the three month period ended March 31, 2017 was \$36,484 (2016 - \$47,281). Operations since inception have been funded from the issuance of share capital, exercise of warrants and sale of assets.

With the closing of the sale of the Company's 7.4% interest in KCC on March 3, 2016 (*see note 7*) and the completion of the cash distributions to shareholders on April 29, 2016 (*see note 9(a)*), the Company anticipates it will have sufficient cash on hand to service its liabilities and fund public company operating costs for the immediate future. However, under current market conditions, there is uncertainty as to how long these funds will last, and whether they will be sufficient to execute on any new transaction for the public shell. In order to continue active operations, the Company will need to (i) arrange future financing will largely depend upon prevailing capital market conditions and the continued support of its shareholder base (*see note 18*), and (ii) be successful in its action to realize upon the \$150,000 break fee arising from the termination of the Auxico transaction (*see note 5(d)*). These factors create material uncertainties that cast significant doubt as to the propriety of the use of the going concern assumption upon which these unaudited interim consolidated financial statements have been prepared.

2. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Statement of compliance**

These unaudited interim consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" as issued by the IASB, and accordingly do not include all the information required for full annual financial statements by IFRS. They have been prepared using the same accounting policies that were described in note 2 to the Company's annual consolidated financial statements for the year ended December 31, 2016 which were prepared in accordance with IFRS as issued by the IASB.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016 and reflect the same accounting policies and methods of computation applied therein.

The unaudited interim consolidated financial statements have not been reviewed by the Company's external auditors and were authorized for issuance by the Board of Directors on May 30, 2017.

(b) **Basis of presentation**

The unaudited interim consolidated financial statements have been prepared on the historical cost basis as modified by the measurement at fair value of financial assets classified as fair value through profit and loss ("FVTPL").

TELFERSCOT RESOURCES INC.
Notes to Interim Consolidated Financial Statements
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(c) **Consolidation**

All entities in which the Company has a controlling interest, specifically when it has the power to direct the financial and operational policies of these companies to obtain benefit from their operations, have been fully consolidated.

The unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, 9581189 Canada Inc., an inactive shell company incorporated with respect to the Resideo transaction (*see note 6*).

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions were eliminated in preparing the unaudited interim prior year financial statements.

(d) **Functional currency and foreign currency translation**

Functional and presentation currency

The unaudited interim consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the corporate offices located in Canada.

Foreign currency translation

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the exchange rate at the end of the reporting period with all foreign currency adjustments being expensed.

(e) **Cash**

Cash consists of deposits held with banks.

(f) **Accumulated other comprehensive income**

Net comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Certain gains and losses arising from changes in fair value are temporarily recorded outside the consolidated statements of income (loss) in accumulated comprehensive income ("AOCI") as a separate component of consolidated shareholders' deficiency. Other comprehensive income (loss) includes any unrealized gains and losses on available-for-sale securities.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(g) **Provisions**

A provision is recognized on the consolidated statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) **Share based payments**

The Company offers a share option plan for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured using the Black-Scholes option pricing model based upon the number of awards expected to vest. Compensation expense is recognized upon vesting over the tranche's vesting period by increasing the reserve for share based payments. Any consideration paid on exercise of share options is credited to share capital.

For other equity settled transactions, the Company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the Company measures their value by reference to the fair value of the equity instruments granted.

(i) **Income (loss) per share**

Basic income (loss) per share amounts are calculated by dividing net income (loss) for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted income (loss) per share amounts are calculated by dividing the net earnings attributable to common shareholders by the weighted average number of shares outstanding during the reporting period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if anti-dilutive.

(j) **Critical accounting estimates and judgements**

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and judgements about the future that affect the amounts recorded in the unaudited interim consolidated financial statements. These estimates and judgements are based on the Company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and judgements.

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Notes to Interim Consolidated Financial Statements
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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(k) **Financial instruments**

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity investments (“HTM”), or available-for-sale financial assets (“AFS”), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when its contractual rights to the asset’s cash flows expire or if substantially all the risks and rewards of the asset are transferred.

Financial assets at FVTPL

A financial asset is classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as FVTPL. A financial asset is classified as FVTPL if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed as incurred. The Company has classified cash as FVTPL.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off during the period in which they are identified. 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 profit or loss when the loans and receivables are derecognized or impaired, as well as through the depreciation process. The Company has classified accounts receivable as loans and receivables.

AFS financial assets

Non derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive income (loss) and accumulated in the AFS reserve. Impairment losses are recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income (loss) is reclassified from accumulated other comprehensive income to profit or loss. The Company has designated its investment in a private company as AFS.

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2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(k) **Financial instruments, continued**

Impairment of financial assets

The Company assesses at each reporting date whether 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 that can be reliably estimated.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

A provision for impairment is made in relation to accounts receivable, and an impairment loss is recognized in profit or loss when there is objective evidence that the Company will not be able to collect all of the amounts due under the original terms. With the exception of AFS equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company's other financial liabilities include accounts payables and accrued liabilities and refundable proceeds on cancellation of private placement.

Financial liabilities are classified as FVTPL if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) unless they are designated as effective hedging instruments. Gains or losses on liabilities classified as FVTPL are recognized in profit or loss.

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(Stated in \$CAD)
(Unaudited - Prepared by Management)

2. **SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

(k) **Financial instruments, continued**

Financial hierarchy

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1:** valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2:** valuation techniques based on 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:** valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3. **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

As at the date of authorization of these unaudited interim consolidated financial statements, the IASB has issued the following revised standards which are not yet effective:

- (a) **IFRS 9: "Financial Instruments: Classification and Measurement of Financial Assets and Financial Liabilities"** was issued by the IASB in July, 2014 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". In addition, IFRS 7 "Financial Instruments: Disclosures" was amended to include additional disclosure requirements on transition to IFRS 9. The mandatory effective date of applying these standards is for annual periods beginning on or after January 1, 2018. The standard uses a single approach to determine whether a financial asset is measured at amortized cost or fair value. The approach is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used. The standard requires that for financial liabilities measured at fair value, any changes in an entity's own credit risk are generally to be presented in other comprehensive income instead of net earnings. A new hedge accounting model is included in the standard, as well as increased disclosure requirements about risk management activities for entities that apply hedge accounting.
- (b) **IFRS 16 "Leases"** was issued in January 2016 and will ultimately replace IAS 17 "Leases". IFRS 16 specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessees accounting model, requiring lessees to recognize assets and liability for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019 and must be applied retrospectively.

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3. **ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE, CONTINUED**

(c) **IAS 7 "Statement of Cash Flow"** has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

The Company has not early adopted these standards, but management is currently assessing the impact of their application in the unaudited interim consolidated financial statements. Management has assessed the other standards not yet effective and determined they are unlikely to have a material impact on the unaudited interim consolidated financial statements.

4. **RESTATEMENT OF COMPARATIVES**

Net income (loss) for the three month period ended March 31, 2016 has been restated to subsequently reclassify the change in fair value of KCC shares (*see note 7*) from other comprehensive income after actual realization of the gain. The change in fair value had initially been recognized in other comprehensive income during the year ended December 31, 2015. As detailed below, the restatement amended the movement through the unaudited interim consolidated statements of net income (loss) and comprehensive income (loss), the unaudited interim consolidated statements of changes in shareholders' deficiency and the unaudited interim consolidated statements of cash flows for the three month period ended March 31, 2016. However, it has resulted in no change in any of the closing net amounts or balances in any of the above statements or in the unaudited interim consolidated statement of financial position as of December 31, 2016.

	<u>As originally reported</u>	Impact of restatement	<u>As restated</u>
	\$	\$	\$
Gain (loss) on sale of KCC shares	(17,253)	924,887	907,634
Net income (loss)	(47,281)	\$ 924,887	877,606
Gain on sale of KCC shares subsequently reclassified from other comprehensive income to net income upon actual realization of gain (Note 7)	-	(924,887)	(924,887)
Net comprehensive loss	(47,281)	\$ -	(47,281)
Basic income (loss) per share	(0.0008)	-	0.0146

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5. **AUXICO RESOURCES CANADA INC.**

- (a) On May 17, 2016, the Company announced the signing of a binding Letter of Intent (“LOI”) to acquire the issued and outstanding shares of Auxico Resources Canada Inc. (“Auxico”). The LOI called for the issuance of up to 23,500,000 shares of the Company following a consolidation of Telferscot shares to equal not more than 3,000,000 issued and outstanding immediately prior to completion. As of May 30, 2017, the Company had 104,856,961 shares outstanding following the return of capital (*see note 9*).

Auxico’s principal project is the Zamora Property, located in the State of Sinaloa, Mexico, approximately 85km southeast of the city of Culiacan. Zamora covers 3,376 hectares and hosts 15 silver/gold mines and exploration prospects.

- (b) On June 30, 2016, the Company announced that it had entered into an amalgamation agreement (the "Amalgamation Agreement") with Auxico as per the LOI (*see note 5(a)*). On October 5, 2016, the Company signed an amendment to the Amalgamation Agreement to extend the closing date to December 31, 2016.

Pursuant to the Amalgamation Agreement, and on the effective date of the Amalgamation Agreement, the following was to occur:

- (i) Following a 35:1 share consolidation to be approved by shareholders, Telferscot was to issue 23,900,000 fully paid, issued and outstanding common shares from treasury (the “Exchange Shares”) to Auxico shareholders, being one (1) Exchange Share for each one (1) Auxico share issued and outstanding as of the execution of the Amalgamation Agreement and all such Auxico shares shall be cancelled;
- (ii) Auxico was in the process of completing a financing whereby Auxico was to issue secured convertible debentures (the “Debentures) being convertible into 5,000,000 Auxico shares for gross proceeds of US\$2,000,000. Telferscot was to assume the obligations of Auxico pursuant to the Debentures. Further to such assumption, Telferscot was to reserve for issuance 5,000,000 Exchange Shares;
- (c) Closing of the Auxico transaction was subject to a number of conditions, including the completion of satisfactory due diligence, receipt of any required shareholder, regulatory and third-party consents, completion of ongoing audits, the CSE having conditionally accepted the re-listing of Telferscot’s common shares and the satisfaction of other customary closing conditions.
- (d) On January 5, 2017, the Company announced that a number of conditions precedent to the closing of the proposed Auxico transaction still remained outstanding. Accordingly, the agreement with Auxico was terminated and pursuant to the terms of the transaction, the Company has initiated legal proceedings against Auxico seeking to claim its break fee of \$150,000.

No amount has been recorded in these unaudited interim consolidated financial statements with respect to this break fee as any potential recovery, whether in whole or in part, remains uncertain at this time.

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6. **RESIDEO PROPERTIES INC.**

- (a) On May 13, 2015, the Company announced that it had entered into a letter of intent with Resideo Properties Inc. ("Resideo") to acquire the business of Resideo following the completion of due diligence and a formal purchase agreement (the "Acquisition"). Resideo is a privately held Canadian company originally set up to acquire a portfolio of single-family and multi-tenant residential properties in the Detroit, Michigan area.
- (b) The proposed Acquisition necessitated Telferscot to complete several corporate actions including a refinancing (*see note 6(b)(ii)*), and a consolidation of the Company's shares. The details of the inter-related transactions that were completed were as follows:
 - (i) On June 22, 2015, the Company closed the first tranche of the previously announced financing through the issuance of 30,000,000 common shares at \$0.005 for total proceeds of \$150,000.
 - (ii) The Company received an additional \$220,000 in subscriptions for a private placement of convertible notes (the "Subscriptions"). However, as a result of the sale of the Company's interest in KCC (the "Sale"), as described in note 7, and the cancellation of the Acquisition with Resideo, the private placement was cancelled and the Company agreed with the holders that the Subscriptions would be returned. Of the \$220,000 received, \$19,172 was repaid by December 31, 2015 with the remaining \$200,828 being recorded as refundable proceeds on cancellation of private placement on the consolidated statement of financial position. The Subscriptions were repaid in full by March 3, 2016.
- (c) On January 28, 2016, the Company announced that the proposed Resideo acquisition, as announced on May 13, 2015, had been terminated following notice from Resideo that as a result of USD exchange rate fluctuations and general adverse capital markets conditions, it was unable to complete the transaction as contemplated.

7. **INVESTMENT IN PRIVATE COMPANY**

On November 11, 2015, the Company entered into a Letter of Intent to sell its 2,775 common shares (or 7.4% interest) in Kolwezi Copper Corp. ("KCC") for \$1,165,652 (USD \$854,700) (the "Sale"). A definitive agreement was entered into on January 11, 2016. The Sale closed in two tranches, as follows: (i) the sale of the first tranche of 575 KCC shares closed coincident with the execution of the definitive agreement, whereupon the Company received sales proceeds in cash of \$258,176 (USD \$177,100); (ii) the sale of the second tranche of 2,200 KCC shares closed on March 2, 2016, whereupon the Company received sales proceeds in cash of \$907,476 (USD \$677,600).

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7. **INVESTMENT IN PRIVATE COMPANY, CONTINUED**

The carrying value of the investment was written up by \$924,887 to reflect its fair value as at December 31, 2015 (*see note 4*).

As of the reporting date, the nature of the investment and the related historical accounting are detailed below:

	March 31 2017	December 31 2016
Balance, beginning of period	\$ -	\$ 1,182,905
Sale of investment	-	(1,182,905)
Balance, end of period	\$ -	\$ -

The KCC share sale resulted in recognition of a gain on sale of \$907,634 in the three month period ended March 31, 2017, after giving affect to the restatement described in note 4.

8. **ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31 2017	December 31 2016
Trade accounts payable (Note 16(a)(i))	\$ 83,241	\$ 5,975
Accrued professional fees and other	22,420	70,245
Accrued director fees (Note 16(b))	9,000	6,000
	\$ 114,661	\$ 82,220

9. **SHARE CAPITAL**

Continuity schedules for the Company's share capital and other equity instruments are disclosed in the unaudited interim consolidated statements of changes in shareholders' deficiency for the period from January 1, 2016 to March 31, 2017. The only equity transaction in this period was the reduction in stated capital as detailed below:

- (a) On March 24, 2016, the Company announced a distribution to shareholders of record on March 10, 2016 ("Shareholders") of \$0.0145 per share ("Distribution") as and by way of a reduction in the stated capital of the Company. Shareholders had the option, at their election, to receive the Distribution in the form of common shares issued from treasury (default), cash or a combination thereof. On April 29, 2016, the Company returned cash of \$651,026 and issued 44,581,961 common shares (valued at \$0.005 per share, or \$222,909 in total) for combined consideration distributed of \$873,935 in satisfaction of elections received from shareholders with respect to the Distribution.

10. **STOCK OPTIONS AND SHARE BASED PAYMENTS**

The Company's shareholders have approved a stock option plan, the purposes of which are to (i) encourage common share ownership in the Company for directors, officers, consultants and employees, (ii) provide additional incentive for superior performance by such individuals, and (iii) enable the Company to attract and retain valued directors, officers and employees.

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10. **STOCK OPTIONS AND SHARE BASED PAYMENTS, CONTINUED**

Stock option activity during the period from January 1, 2016 to March 31, 2017 was as follows:

	Three month period ended March 31, 2017		Year ended December 31, 2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	10,150,000	\$ 0.007	2,383,333	\$ 0.150
Expired unexercised (Note 10(a))	-	-	(1,100,000)	0.150
Surrender of options (Note 10(b))	-	-	(1,283,333)	0.150
Grant of options (Note 10(c))	-	-	10,150,000	0.007
Outstanding, end of period	10,150,000	\$ 0.007	10,150,000	\$ 0.007

As at March 31, 2017, the issued and outstanding options to acquire common shares of the Company were as follows:

Grant date	Number of options		Exercise price (\$)	Remaining life	Expiry date
	Granted	Exercisable			
October 5, 2016	10,150,000	10,150,000	0.007	4.76	October 4, 2021

- (a) The 1,100,000 options issued on July 27, 2011 expired unexercised on July 27, 2016, resulting in the transfer of \$108,166 from the reserve for share based payments to contributed surplus.
- (b) In conjunction with the capital restructuring resulting from the Amalgamation Agreement with Auxico (*see note 5(b)*), all options issued and outstanding as at September 30, 2016 were surrendered by the option holders on October 5, 2016, resulting in the transfer of \$39,889 from the reserve for share based payments to contributed surplus.
- (c) On October 5, 2016, the Board of Directors approved the grant of 10,150,000 stock options at an exercise price of \$0.00714 with a 5-year term to the related corporation described in note 16(a)(i). The options vested immediately upon grant and will survive the Amalgamation Agreement with Auxico (*see note 5(b)*), but will be subject to the same share consolidation as described in note 5(b)(ii). The fair value of these options was calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 0.69%, (2) expected volatility of 260%, (3) expected life of 5 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.005, resulting in the recognition of share based payments expense of \$50,750 for the year ended December 31, 2016.

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11. **GAIN ON EXERCISE OF OPTION**

On January 12, 2016, the Company entered into a currency hedge to lock in the CAD equivalent of the USD sales proceeds due on the sale of the second tranche of 2,200 KCC shares (*see note 7*). Under a "Call CAD/Put USD" currency option, the Company, as buyer, had the option to call for the purchase of CAD \$958,500 at a price of USD \$675,000, an effective strike price of CAD \$1.42|USD \$1.00. The option premium was \$13,452 (USD \$9,301) and the option was set to expire on March 1, 2016. The Company exercised on its option prior to expiry, resulting in a gain, net of expenses, of \$34,721.

12. **INCOME (LOSS) PER SHARE**

Basic income (loss) per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding in the three month period ended March 31, 2017 was 104,856,961 (2016 - 60,275,000).

For the three month period March 31, 2017, diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive. For the purpose of calculating diluted earnings per share for the three month period ended March 31, 2016, the Company assumed the exercise of dilutive options. The assumed proceeds from these instruments was regarded as having been received from the issue of ordinary shares at the average market price of ordinary shares during the period. The difference between the number of ordinary shares issued and the number of ordinary shares that would have been issued at the average market price of ordinary shares during the period was be treated as an issue of ordinary shares for no consideration.

As at March 31, 2017, the following potentially dilutive equity instruments were outstanding: (1) 10,150,000 options (March 31, 2016 - 2,383,333). The fully diluted number of common shares outstanding in the three month period ended March 31, 2017 was 115,006,961 (2016 - 62,658,333).

13. **FINANCIAL RISK FACTORS**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and currency risk. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

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13. **FINANCIAL RISK FACTORS, continued**

(a) **Credit risk**

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable, which previously consisted of refundable HST ITC's.

As a result of an audit completed in September, 2016 by Canada Revenue Agency, the Company has written off its cumulative HST ITC's as at September 30, 2016 totalling \$56,134. The HST ITC's were disallowed by CRA on the grounds that the Company had not been engaged in any commercial activities (for excise tax purposes only) during the period under audit as it had effectively been functioning as an investment holding company since the April, 2013 refinancing of its investment in Kolwezi Copper Corp. that reduced its interest in that project to 7.4% (*see note 7*).

As at March 31, 2017, cash of \$12,519 (December 31, 2016 - \$15,562) was held with reputable financial institutions from which management believes the risk of loss to be minimal.

(b) **Liquidity risk**

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost (*see note 1(b)*). The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at March 31, 2017, the Company had a working capital deficiency of \$101,642 (December 31, 2016 - \$65,158). All of the Company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

(c) **Sensitivity analysis**

The Company operates in Canada and has a presentation and functional currency of CAD dollars. As at March 31, 2016, the Company had a USD denominated bank account (into which the KCC share sale proceeds were deposited) that was subject to foreign exchange fluctuations against the CAD dollar. As at March 31, 2017, the USD denominated bank account only had nominal funds on deposit such that the Company had virtually no foreign currency risk.

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13. **FINANCIAL RISK FACTORS, continued**

(d) **Fair value hierarchy**

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments, financial instruments classified as loans and receivables and other financial liabilities approximate their carrying amounts due to their short term maturities. Fair value amounts represent point in time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the unaudited interim consolidated statement of financial position, have been prioritized into three levels as per their fair value hierarchy.

The fair value of the Company's financial instruments where financial measurement is required are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Level one		
Cash	12,519	15,562

14. **CAPITAL MANAGEMENT**

The Company's objective when managing capital is to maintain adequate levels of funding to maintain head office corporate and administrative functions. The Company considers its capital to be its shareholders' equity. The Company manages its capital structure in an effort to provide sufficient funding for its development projects. Funds are primarily secured through equity capital raised by way of private placements and exercise of warrants.

There can be no assurances that the Company will be able to continue raising equity capital in this manner. The Company's Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There have been no changes in the Company's approach to capital management since the year-end. The Company is not subject to externally imposed capital requirements.

15. **SEGMENTED INFORMATION**

The Company conducts its business in a single operating segment that, subsequent to the sale of the KCC shares (*see note 7*), consists of operating solely as a public shell.

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16. **RELATED PARTY TRANSACTIONS (INCLUDING KEY MANAGEMENT COMPENSATION)**

- (a) (i) Telferscot is billed a monthly fee of \$5,000 (plus applicable HST) for management and administrative services, including the corporate secretary, office rent and regular administrative functions. During the three month period ended March 31, 2017, the Company incurred total fees of \$16,950 (2016 - \$15,000). As at March 31, 2017, accounts payable and accrued liabilities include \$22,600 (December 31, 2016 - \$5,650) in respect of such fees (*see also note 8*).

On October 5, 2016, the Board of Directors approved the grant of 10,150,000 options to this related corporation (*see note 10(c)*).

- (ii) Telferscot is billed a monthly fee of \$2,500 (plus applicable HST) by a company controlled by the CFO for services of the CFO. During the three month period ended March 31, 2017, the Company incurred total fees of \$8,475 (2016 - \$Nil). As at March 31, 2017, accounts payable and accrued liabilities include \$11,300 (December 31, 2016 - \$Nil) in respect of such fees (*see also note 8*).
- (b) Each independent director receives a quarterly honorarium of \$1,500. Fees recorded for the three month period ended March 31, 2017 were \$3,000 (2016 - \$3,000). As at March 31, 2017, accounts payable and accrued liabilities include \$9,000 (December 31, 2016 - \$6,000) in respect of such fees.

17. **COMMITMENT**

The Company has a contract for management and administrative services (*see note 16(a)(i)*) with a six-month notice period that is billed on a monthly basis at a rate of \$5,000.

18. **SUBSEQUENT EVENT**

On May 11, 2017, the Company closed a non-brokered private placement in which a total of 10,000,000 common shares were issued at a price of \$0.01 per share for gross proceeds of \$100,000.