ALABAMA GRAPHITE CORP.

Consolidated Financial Statements

For the Years Ended August 31, 2016 and 2015

(Expressed in Canadian dollars)

McGovern, Hurley, Cunningham, LLP
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Alabama Graphite Corp.

We have audited the accompanying consolidated financial statements of Alabama Graphite Corp. and its subsidiary, which comprise the consolidated statement of financial position as at August 31, 2016, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alabama Graphite Corp. and its subsidiary as at August 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter

The consolidated financial statements of Alabama Graphite Corp. for the year ended August 31, 2015, were audited by other auditors who expressed an unmodified opinion on those statements on December 21, 2015.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
December 16, 2016

ALABAMA GRAPHITE CORP.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Notes	August 31, 2016	August 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents		$ 95,665	$ 2,085,925
Receivables		37,601	39,720
Loan receivable	10	60,000	-
Prepaid expenses and deposits		121,520	229,291
Total current assets		314,786	2,354,936
Deposit		-	26,446
Exploration and evaluation assets	5	6,866,760	5,568,200
Equipment	6	2,935	4,315
TOTAL ASSETS		$ 7,184,481	$ 7,953,897
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9, 11	$ 521,343	$ 424,435
Total current liabilities		521,343	424,435
SHAREHOLDERS' EQUITY			
Share capital	7	13,381,873	12,747,179
Contributed surplus	8	3,455,646	3,227,934
Deficit		(10,174,381)	(8,445,651)
Total shareholders' equity		6,663,138	7,529,462
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 7,184,481	$ 7,953,897

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 5, 14 and 15)
Subsequent events (Note 16)

The consolidated financial statements were authorized for issue by the Board of Directors on December 16, 2016 and were signed on its behalf by:

"Don Baxter", Director
Don Baxter

"Daniel Goffaux", Director
Daniel Goffaux

ALABAMA GRAPHITE CORP.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended August 31, 2016 and 2015
(Expressed in Canadian Dollars)

	Notes	2016	2015
Expenses			
Amortization		$ 1,380	$ 1,965
Automobile		22,686	48,045
Consulting	9	757,642	507,374
Interest (recovery)		-	(2,908)
Office and administration		161,809	142,959
Professional fees	9	211,168	190,731
Regulatory and filing		47,759	59,504
Rent		44,548	46,778
Share-based payments	9	221,811	663,657
Travel and investor relations		284,260	213,070
Loss before other items		1,753,063	1,871,175
Interest income		(369)	(2,634)
Gain from foreign exchange		(23,964)	(152,676)
Exploration and evaluation assets written off	5	-	481,990
Net loss and comprehensive loss for the year		$ 1,728,730	$ 2,197,855
Basic and Diluted Loss Per Common Share		$ 0.01	$ 0.02
Weighted Average Number of Common Shares Outstanding - basic and diluted		116,628,197	96,770,973

ALABAMA GRAPHITE CORP.

Consolidated Statements of Changes in Shareholders' Equity

For the Years Ended August 31, 2016 and 2015

(Expressed in Canadian Dollars)

	Share Capital				
	Number of Shares	Amount	Contributed Surplus	Deficit	Total Shareholders' Equity
Balance as at August 31, 2014	82,942,577	$ 8,735,746	$ 2,364,806	$ (6,247,796)	$ 4,852,756
Net loss for the year	-	-	-	(2,197,855)	(2,197,855)
Shares issued for cash	14,375,000	2,875,000	-	-	2,875,000
Warrants exercised	16,706,036	1,592,926	-	-	1,592,926
Share issuance costs paid in cash	-	(257,022)	-	-	(257,022)
Value of agent's warrants	-	(199,471)	199,471	-	-
Share-based payments	-	-	663,657	-	663,657
Balance as at August 31, 2015	114,023,613	$ 12,747,179	$ 3,227,934	$ (8,445,651)	$ 7,529,462
Balance as at August 31, 2015	114,023,613	$ 12,747,179	$ 3,227,934	$ (8,445,651)	$ 7,529,462
Net loss for the year	-	-	-	(1,728,730)	(1,728,730)
Shares issued for cash	3,476,334	521,450	-	-	521,450
Share issuance costs paid in cash	-	(61,955)	-	-	(61,955)
Value of agent's warrants	-	(5,901)	5,901	-	-
Share-based payments	-	-	221,811	-	221,811
Warrants exercised	1,811,000	181,100	-	-	181,100
Balance as at August 31, 2016	119,310,947	$ 13,381,873	$ 3,455,646	$(10,174,381)	$ 6,663,138

ALABAMA GRAPHITE CORP.

Consolidated Statements of Cash Flows
For the Years Ended August 31, 2016 and 2015
(Expressed in Canadian Dollars)

	2016	2015
OPERATING ACTIVITIES		
Net loss for the year	$ (1,728,730)	$ (2,197,855)
Add items not affecting cash:		
Amortization	1,380	1,965
Exploration and evaluation assets written off	-	481,990
Share-based payments	221,811	663,657
Changes in non-cash working capital items:		
Receivables	2,119	(10,647)
Prepaid expenses and deposits	134,217	(220,310)
Accounts payable and accrued liabilities	193,696	(41,815)
Net cash flows from operating activities	(1,175,507)	(1,323,015)
FINANCING ACTIVITIES		
Loans payable (repaid)	-	(257,952)
Shares issued for cash	702,550	4,467,926
Share issuance costs	(61,955)	(257,022)
Net cash flows from financing activities	640,595	3,952,952
INVESTING ACTIVITIES		
Deposit	-	(4,730)
Loan receivable	(60,000)	-
Acquisition of exploration and evaluation assets	(41,970)	(27,609)
Exploration and evaluation expenditures incurred	(1,353,378)	(1,798,570)
Net cash flows from investing activities	(1,455,348)	(1,830,909)
Change in cash and cash equivalents during the year	(1,990,260)	799,028
Cash and cash equivalents, beginning of the year	2,085,925	1,286,897
Cash and cash equivalents, end of the year	$ 95,665	$ 2,085,925
Supplemental Cash Flow Information:		
Value of agent's warrants (Note 7)	$ 5,901	$ 199,471
Exploration and evaluation expenditures in accounts payable and accrued liabilities	$ 244,458	$ 341,246

1. Nature and Continuance of Operations

Alabama Graphite Corp. (the "Company") was incorporated under the Business Corporation Act of British Columbia on April 13, 2006. On August 28, 2012, the Company changed its name to Alabama Graphite Corp. and commenced trading under the trading symbol ALP. As a result of European investor interest in the Company, the Company also has its common shares quoted on the Frankfurt Stock Exchange for trading under the symbol, 1AG.F since October 19, 2012. On May 5, 2014, the Company delisted its common shares from the CSE and started trading its common shares on the TSX Venture Exchange (the "TSXV") under the same symbol ALP. On the same day, the Company also commenced trading on the OTCQB venture stage marketplace under the symbol ABGPF. On June 23, 2014, the Company up-graded its listing from the OTCQB and commenced trading on the OTCQX under the same symbol.

The Company's office and principal office is located at 100 King Street West, Suite 5700, Toronto, ON M5X 1C7.

The Company is in the business of acquiring, exploring and developing graphite mineral properties. The Company is currently engaged in exploration and evaluation of the graphite properties in Alabama, USA and northern Ontario, Canada. There has been no determination whether the Company's exploration and evaluation assets contain mineral reserves and resources that are economically viable. The Company has a National Instrument 43-101 compliant preliminary economic assessment for its Coosa Graphite Property in Alabama which was filed on SEDAR on November 30, 2015.

Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration for such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims and non-compliance with regulatory and environment requirements.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. At August 31, 2016, the Company had an accumulated deficit of $10,174,381 (2015 - $8,445,651) and a working capital deficiency of $206,557 (2015 – a working capital of $1,930,501). The Company incurred losses of $1,728,730 during the year ended August 31, 2016 (2015 - $2,197,855). The Company's ability to continue as a going concern is dependent upon its ability to raise adequate financing (see Note 16) and generate profitable operations in the future. While the Company believes that it has sufficient working capital to support ongoing operations for the ensuing twelve months, these conditions indicate the existence of uncertainty that may cast doubt about the Company's ability to continue as a going concern.

2. Basis of Presentation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

2. Basis of Presentation (continued)

Basis of preparation

These consolidated financial statements have been prepared on an accrual basis, except for cash flow information, and are based on historical costs, except for those financial instruments carried at fair value. They are presented in Canadian dollars, which is the Company's functional currency.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies:

The following are critical 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 consolidated financial statements:

- Income, value added, withholding and other taxes – The Company is subject to income, value added, withholding and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.
- Assets' carrying values and impairment charges – In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.
- Impairment of exploration and evaluation assets – While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which mineral property interests are being used are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mineral property interests, costs to sell the properties and the appropriate discount rate. Reductions in graphite price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable graphite reserves or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

2. Basis of Presentation (continued)

Significant accounting judgments, estimates and assumptions (continued)

- Share-based payments – Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of the grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Foreign currency translation

These consolidated financial statements are presented in Canadian dollars which is the parent company's functional currency. The functional currency of the subsidiary that has operations in United States is the Canadian dollar.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of loss and comprehensive loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of loss and comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

3. Significant Accounting Policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Alabama Graphite Company, Inc. ("AGC"). All significant inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, were eliminated on consolidation.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

3. Significant Accounting Policies (continued)

Share-based payments

The Company has adopted an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to contributed surplus. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Financial instruments

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

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. The Company does not have any derivative financial assets and liabilities.

Site rehabilitation obligations

Site rehabilitation obligations are recognized when a legal or constructive obligation arises. The liability is recognized at the present value of management's best estimate of the site rehabilitation obligation. The estimate is discounted to the present value using a discount rate specific to the obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. The liability is accreted to its present value at each reporting period, and the capitalized cost is amortized on the same basis as the related asset. Upon settlement of the liability, the Company may incur a gain or loss.

Exploration and evaluation assets

Costs incurred before the legal rights to undertake exploration and evaluation activities were acquired are expensed as incurred. The Company capitalizes all costs related to mineral exploration properties on a property-by-property basis. Such costs include mineral property acquisition costs, exploration, evaluation and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. At the development stage, as when the mineral reserves are proven or the permit to operate the mineral property is received and financing to complete the development has been obtained, the capitalized costs of mineral property interests will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Management of the Company reviews the recoverability of the capitalized mineral properties at each reporting date and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property.

The amount shown for exploration and evaluation assets represents costs incurred net of write-downs and recoveries, and is not intended to represent present or future values.

3. Significant Accounting Policies (continued)

Impairment of assets

The carrying amounts of the Company's equipment and exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated on the declining balance method at the following rate:

Automobile	30% per annum

Additions during the year are amortized at one-half the annual rate.

Basic and diluted loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions including the exercise of options and warrants that would be anti-dilutive.

The calculation also excludes common shares that are being held in escrow at period end where the terms of release are dependent on requirements other than the passage of time. Diluted loss per share for the periods presented exclude the effects of the outstanding stock options and warrants as they were determined to be anti-dilutive.

3. Significant Accounting Policies (continued)

Income taxes

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

4. Accounting Standards Issued But Not Yet Effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below. The Company intends to adopt these standards when they become effective.

Standard effective for annual periods beginning on or after January 1, 2016

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

4. Accounting Standards Issued But Not Yet Effective (continued)

IAS 1 – Presentation of Financial Statements ("IAS 1") was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration aply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016.

5. Exploration and Evaluation Assets

Coosa Property, Alabama, USA

Pursuant to an agreement dated August 1, 2012 (the "Lease Agreement"), the Company has leased the mineral rights in respect of an area with a potential for graphite (the "Coosa Property") in Coosa County, Alabama, USA. In addition, the Company received an option of first refusal (the "Option") to lease the mineral rights in and to an adjacent area comprising approximately 27,515 acres.

Under the terms of the Lease Agreement, the Company leases the Coosa Property for successive renewable 5-year terms (not to exceed 70 years) in consideration for an initial cash payment of US$30,000 (paid) and annual advance royalty payments of US$10,000 commencing from July 1, 2015 (paid July 1, 2015 and July 1, 2016). The Company paid US$1,000 in respect of the grant of the Option. The Company has also agreed to pay the lessor a net smelter return royalty ("NSR") of 2% from the commercial production and sale of graphite from the properties, as well as royalties for precious metals and rare earths commercially produced and sold from the properties.

In connection with the Lease Agreement, the Company is also committed to paying or issuing additional future consideration on the following basis:

(a) US$320,000 in cash (paid) for introducing the Coosa Property to the Company;
(b) 500,000 common shares of the Company (the "Finder's Shares") once the Company has secured the surface rights to the Coosa Property which shares are escrowed with 1/3 to be released after every 6 months;
(c) US$100,000 upon receipt by the Company of a bankable feasibility study in respect of the leased property;
(d) US$150,000 upon full permitting of the leased property; and
(e) Net smelter royalties of 0.5% up to an aggregate amount of US$150,000 upon commencement of graphite operations on the Coosa Property.

For a period of five years after the date of the Lease Agreement and provided that the Company continues the exploration activities, the lessor will provide to the Company a right of first refusal to acquire any and all mineral interests that lessor owns, controls or represents in Coosa County, Alabama.

In November 2012, the Company paid US$48,537 to exercise its right of first refusal to lease an additional 27,515 acres, bringing the total mineral acres under lease to 41,535 acres. The terms of this agreement are identical to the mineral lease dated August 1, 2012 such that the Company has prepaid for three years of the lease which is structured in five-year renewable tranches for the period of 70 years. The Company also issued 25,000 common shares of the Company valued at $16,000 pursuant to the option lease agreement.

On October 12, 2014, the Company obtained a permit to conduct surface exploration in Coosa County, Alabama, which expired on September 30, 2015. In accordance with the permit, the Company paid US$50,000 to the owner of the surface rights. This is in addition to the US$20,000 performance bond paid previously.

5. Exploration and Evaluation Assets (continued)

Chilton County Properties, Alabama, USA

Chestnut Creek Property

On August 5, 2014, the Company entered into a mining lease agreement whereby the Company acquired a 100% right to explore, develop and mine the Chestnut Creek Property located in Chilton County, Alabama for a period of 10 years renewable every five years thereafter for a maximum of 70 years. The Chestnut Creek Property comprises of approximately 1,160 acres located about 4 miles west of Coosa County line. In consideration, the Company has agreed to pay a NSR on graphite and vanadium (2%), precious metals (8%) and other minerals (5%) mined from the property. In addition, the Company has also agreed to payments as follows:

(1) US$17,400 on signing (paid);
(2) US$5 per acre per year starting on June 1, 2015 for the first ten years (paid to date);
(3) At a rate to be negotiated every five years thereafter.

The Company has the right to purchase back one half of the graphite NSR for a one-time payment of US$1,000,000. This right of re-purchase, if exercised, will not affect the other royalties.

Bama Property, Alabama

On July 1, 2014, the Company entered into a mining lease agreement whereby the Company acquired a 100% right to explore, develop and mine the Bama Property located in Chilton County, Alabama for a period of 10 years renewable every five years thereafter for a maximum of 70 years. The Bama Property comprises of approximately 200 acres located about 4 miles west of Coosa County. In consideration, the Company has agreed to pay a NSR on graphite and vanadium (2%), precious metals (8%) and other minerals (5%) mined from the property. In addition, the Company has also agreed to pay advance royalties, recoverable from payment of royalties, as follows:

(1) US$4,000 on signing (paid);
(2) A non-refundable payment of US$45 per acre (US$9,000) upon execution of the lease as payment for the first five years of the lease (paid to date);
(3) US$10 per acre each year for the next five years commencing July 1, 2019; and
(4) Payment per acre rate to increase by US$5 per acre every five years thereafter.

5. Exploration and Evaluation Assets (continued)

Hearst Graphite Project, Northern Ontario, Canada

On August 16, 2013, the Company entered into an agreement to acquire a 100% interest in the Hearst Graphite Project ("Hearst Project") owned by Benton Resources Inc. ("Benton"), and located in Northern Ontario. The 16 claim units comprising the acquired property are located just east of the Zenyatta Albany deposit.

On August 22, 2013, the Company paid $8,000 in cash and issued 2,000,000 of its common shares, valued at $0.20 per share to Benton in exchange for the Hearst Project. Pursuant to the terms of the agreement, 500,000 of the shares issued to Benton were subject to a 10-month trading restriction expiring on June 22, 2014, another 500,000 shares were subject to a 16-month trading restriction expiring on December 22, 2014 and 500,000 shares were subject to a 22-month trading restriction expiring on June 22, 2015.

Benton will also hold a 2% NSR interest from all ore production at the Hearst Project, subject to the right of the Company under the agreement to buy back 50% of Benton's NSR interest for $1,000,000.

As of August 31, 2015, the Company decided to write off the Hearst Graphite Project in order to concentrate its efforts on the graphite properties in Alabama.

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

During the year ended August 31, 2016, the Company incurred expenditures for exploration and evaluation assets as follows:

	Coosa County Property Alabama	Chilton County Properties Alabama	Hearst Graphite Project Ontario	Total
Acquisition Costs				
Balance, August 31, 2015	$ 579,774	$ 33,464	$ -	$ 613,238
Additions:				
Option payments - cash	41,970	-	-	41,970
Balance, August 31, 2016	621,744	33,464	-	655,208
Deferred Exploration Costs				
Balance, August 31, 2015	4,599,441	355,521	-	4,954,962
Additions:				
Environmental and reclamation	31,316	-	-	31,316
Equipment rental	22,952	-	-	22,952
Excavation	35,664	-	-	35,664
Field supplies	37,214	-	-	37,214
Geological consultants	359,955	-	-	359,955
Mapping	260	-	-	260
Metallurgical and assays	137,432	-	-	137,432
Preliminary economic assessment	590,557	-	-	590,557
Permitting and legal	33,497	-	-	33,497
Transportation and travelling	7,743	-	-	7,743
	1,256,590	-	-	1,256,590
Balance, August 31, 2016	5,856,031	355,521	-	6,211,552
Total Exploration and Evaluation Assets	$ 6,477,775	$ 388,985	$ -	$ 6,866,760

(Expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

During the year ended August 31, 2015, the Company incurred expenditures for exploration and evaluation assets as follows:

	Coosa County Property Alabama	Chilton County Properties Alabama	Hearst Graphite Project Ontario	Total
Acquisition Costs				
Balance, August 31, 2014	$ 566,859	$ 18,770	$ 438,000	$ 1,023,629
Add:				
Option payments - cash	12,915	14,694	-	27,609
	12,915	14,694	-	27,609
Less:				
Written-off			(438,000)	(438,000)
	-	-	- 438,000	- 438,000
Balance, August 31, 2015	579,774	33,464	-	613,238
Deferred Exploration Costs				
Balance, August 31, 2014	2,815,146	-	43,990	2,859,136
Additions:				
Core logging and surveying	13,702	2,979	-	16,681
Drilling	511,898	-	-	511,898
Environmental and reclamation	7,638	3,194	-	10,832
Equipment rental	61,005	30,627	-	91,632
Excavation	181,183	68,667	-	249,850
Field and road works	75,426	16,878	-	92,304
Field supplies	33,288	1,887	-	35,175
Geological consultants	511,689	22,748	-	534,437
Metallurgical and assays	230,672	147,926	-	378,598
Permitting and legal	45,710	14,099	-	59,809
Repair and maintenance	2,671	11,028	-	13,699
Security	-	3,098	-	3,098
Surface exploration right	56,515	23,830	-	80,345
Transportation and travelling	52,898	8,560	-	61,458
	1,784,295	355,521	-	2,139,816
Less:				
Written-off	-	-	(43,990)	(43,990)
	-	-	(43,990)	(43,990)
Balance, August 31, 2015	4,599,441	355,521	-	4,954,962
Total Exploration and Evaluation Assets	$ 5,179,215	$ 388,985	$ -	$ 5,568,200

(Expressed in Canadian Dollars)

6. Equipment

		Automobile
Cost:		
Balance, August 31, 2014, 2015 and 2016	$	11,025
Accumulated amortization:		
Balance, August 31, 2014		4,745
Additions		1,965
Balance, August 31, 2015		6,710
Additions		1,380
Balance, August 31, 2016		8,090
Net book value, August 31, 2016		2,935
Net book value, August 31, 2015	$	4,315

7. Share Capital

Authorized

Unlimited number of common shares without par value.

Issued and fully paid

At August 31, 2016, there were 119,310,947 issued and fully paid common shares (2015 - 114,023,613).

<u>During the year ended August 31, 2016:</u>

On May 19, 2016, the Company completed a private placement of 3,476,334 units at a price of $0.15 per unit for total proceeds of $521,450 (a corporation controlled by a director and officer of the Company subscribed for 670,000 units for gross proceeds of $100,500). Each unit comprised of one common share of the Company and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.20 per share until May 19, 2018. In connection with the private placement, the Company paid cash compensation in the amount of $17,675 and issued 117,833 agent's warrants. Each agent's warrant entitles the holder to purchase one unit at a price of $0.15 per unit on or before May 19, 2017. Each unit consists of one common share of the Company and one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share of the Company at a price of $0.20 per share until May 19, 2018.

During the year ended August 31, 2016, 1,811,000 warrants were exercised at the price of $0.10 per share.

<u>During the year ended August 31, 2015:</u>

On June 30, 2015, the Company completed a private placement of 14,375,000 units at a price of $0.20 per unit for total proceeds of $2,875,000 (various directors and officers subscribed for 227,500 units for gross proceeds of $45,500). Each unit comprised of one common share of the Company and one-half of one common share purchase warrant. Each one whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.35 per share until June 30, 2018. In the event that the closing price of the Company's common share is $0.75 or greater per common share during any 20 consecutive trading day period at any time subsequent to four months and one day after June 30, 2015, the warrants will expire at the sole discretion of the Company on the 30th day after the date on which the Company provides notice of such accelerated expiry to

(Expressed in Canadian Dollars)

7. Share Capital (continued)

the holders of the warrants. In connection with the private placement, the Company paid cash compensation in the amount of $215,625 and issued 1,078,125 agent's warrants. Each agent's warrant entitles the holder to purchase one Compensation Unit at a price of $0.20 per Compensation Unit on or before June 30, 2018. Each Compensation Unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant ("Compensation Unit Warrant") entitles the holder to purchase one common share of the Company at a price of $0.35 per share until June 30, 2018.

During the year ended August 31, 2015, 14,017,000 warrants were exercised at the price of $0.10 per share and 2,589,286 broker's warrants were exercised at the price of $0.07 per broker's warrant unit ("BW Unit") and 99,750 broker's warrant unit warrants ("BW Warrant") were also exercised at the price of $0.10 per share for total proceeds of $1,592,926.

Stock options

On December 16, 2011, the Company adopted a new stock option plan pursuant to which it may grant incentive stock options to directors, officers, employees and consultants of the Company or any affiliate thereof. As a 10% rolling plan, the aggregate number of common shares issuable as options under the plan may be up to 10% of the Company's issued and outstanding common shares on the date on which the option is granted, less common shares reserved for issuance on exercise of options then outstanding under the plan. The term of any options will be fixed by the board of directors at the time such options are granted. The exercise price of any options will be determined by the board of directors, in its sole discretion, but shall not be less than the greater of closing market price of the Company's common shares on: (i) the day proceeding the day on which the directors grant such options; and (ii) the date of grant of the options. Vesting requirements may be imposed as determined by the directors. All options will be non-assignable and non-transferable.

Disinterested shareholder approval must be obtained for: (i) any grant of options to insiders exceeding 10% of the Company's issued common shares (calculated on a fully diluted basis); (ii) any grant of options to insiders within a one-year period exceeding 10% of the Company's issued common shares (calculated on a fully diluted basis); (iii) any grant of options to any one individual within a 12-month period exceeding 5% of the Company's issued common shares (calculated on a fully diluted basis); and (iv) any reduction in the exercise price of an option previously granted to an insider of the Company.

The changes in stock options during the years ended August 31, 2016 and 2015 are as follows:

	Year Ended August 31, 2016		Year Ended August 31, 2015	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	9,180,000	$ 0.22	6,270,000	$ 0.22
Granted	4,050,000	0.18	3,400,000	0.27
Expired or forfeited	(6,159,000)	0.23	(490,000)	0.36
Options outstanding, end of year	7,071,000	$ 0.21	9,180,000	$ 0.22

(Expressed in Canadian Dollars)

7. Share Capital (continued)

Stock options (continued)

Stock options outstanding and exercisable at August 31, 2016 are as follows:

Expiry Date	Number of Options Outstanding	Exercise Price	Exercisable
October 21, 2016	290,000	$0.105 to $0.35	290,000
October 23, 2016	50,000	$0.45	50,000
November 6, 2016	500,000	$0.155 to $0.27	500,000
May 19, 2018	2,550,000	$0.155	2,083,750
August 8, 2018	400,000	$0.15	400,000
September 3, 2018	280,000	$0.35	280,000
January 20, 2019	36,000	$0.105	36,000
February 3, 2019	605,000	$0.145	605,000
July 18, 2019	400,000	$0.18	291,668
June 12, 2020	1,460,000	$0.27	1,460,000
June 17, 2020	500,000	$0.27	233,334
	7,071,000	$0.21	6,229,752
Weighted average remaining contractual life			2.26 years

During the year ended August 31, 2016, stock options were granted to officers, employees and consultants to acquire 2,650,000 shares at $0.155 per share for a period of two years, 2,275,000 options vested immediately with the remaining 375,000 options vesting quarterly in equal amounts over a two year period. The Company also granted stock options to a director to acquire 400,000 shares at $0.15 per share for a period of two years, these options vested immediately. The fair value recorded for the stock options granted was $180,134. The Company extended the term of 290,000 stock options, exercisable at prices in the range from $0.105 to $0.35 per share that were to be cancelled on January 22, 2016 due to termination of services by an officer, to October 22, 2016. On November 6, 2016, the Company cancelled 500,000 stock options exercisable at prices in the range from $0.155 to $0.27 per share due to the termination of the services by an officer. The Company cancelled 3,154,000 stock options exercisable at prices in the range from $0.105 to $0.27 per share due to the termination of services by an officer and granted 1,000,000 stock options to the former officer and director exercisable at $0.25 per share for a period of two years. These options were cancelled on August 23, 2016.

During the year ended August 31, 2015, stock options were granted to officers, employees and consultants to acquire 3,400,000 shares at $0.27 per share for a period of five years, 3,000,000 options vested immediately with the remaining 400,000 options vesting equally every six months over the following three years. The fair value recorded for the stock options granted during the year was $610,420.

(Expressed in Canadian Dollars)

7. Share Capital (continued)

Stock options (continued)

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended August 31, 2016	Year Ended August 31, 2015
Risk-free interest rate	0.85%	1.00%
Expected dividend yield	0%	0%
Expected stock price volatility	74%	162%
Expected life of options (years)	2	5
Weighted average fair value of options granted	$0.07	$0.18
Weighted average exercise price of options granted	$0.15	$0.27

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Volatility is based on the historical trend of the share prices of the Company. Changes in the subjective assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

Warrants

The changes in warrants during the years ended August 31, 2016 and 2015 are as follows:

	Year Ended August 31, 2016		Year Ended August 31, 2015	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of year	15,917,032	$0.16	25,015,707	$0.13
Granted	3,594,167	0.20	8,265,625	0.19
Issued from exercised BW Units	-	-	2,589,286	0.10
Exercised	(1,811,000)	0.10	(16,706,036)	0.10
Expired or forfeited	-	-	(3,247,550)	0.32
Warrants outstanding, end of year	17,700,199	$0.23	15,917,032	$0.16

(Expressed in Canadian Dollars)

7. Share Capital (continued)

Warrants (continued)

The following table summarizes the warrants outstanding at August 31, 2016:

Expiry Date	Number of Warrants	Exercise Price
November 21, 2016	260,000	$0.10
January 31, 2017 (BW Warrants)	2,664,536	$0.10
January 31, 2017	2,915,871	$0.10
May 19, 2017 (Compensation Units)	117,833	$0.15
May 19, 2018	3,476,334	$0.20
June 30, 2018 (Compensation Units)	7,187,500	$0.35
June 30, 2018	1,078,125	$0.20
	17,700,199	$0.23
Weighted average remaining contractual life	1.27 years	

The fair value for agent's warrants granted during the year ended August 31, 2016 was $5,901.

The fair value for agent's warrants granted during the year ended August 31, 2015 was $199,471.

The fair value of the agent's warrants granted was estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted average assumptions:

	Year Ended August 31, 2016	Year Ended August 31, 2015
Risk-free interest rate	0.85%	0.47% - 1.05%
Expected dividend yield	0%	0%
Expected stock price volatility	73%	164.69% - 172.57%
Expected life of warrants (years)	1.0	3.0 - 6.0
Weighted average fair value of warrants granted	$0.05	$0.12
Weighted average exercise price of warrants granted	$0.15	$0.25

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Volatility is based on the historical trend of the share prices of the Company. Changes in the subjective assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

(Expressed in Canadian Dollars)

8. Contributed Surplus

Contributed surplus includes the accumulated fair value of options and agent/broker warrants. Contributed surplus records items recognized as share-based compensation expense and the fair value of warrants until such time that the stock options and warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the options or warrants expire unexercised, the amount recorded will stay in contributed surplus.

9. Related Party Transactions

Related party balances

The following amounts due to related parties are included in accounts payable and accrued liabilities:

	August 31, 2016	August 31, 2015
Directors and officers of the Company	$ 137,541	$ 13,363

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the years ended August 31, 2016 and 2015, the Company incurred the following charges with related parties:

	2016	2015
Accounting fees to a private company controlled by the former CFO of the Company	$ 5,250	$ 15,950
Accounting fees to a private company controlled by the current CFO of the Company	92,619	-
Consulting fees to directors and officers of the Company	758,008	396,357
Share-based payments to officers and directors of the Company	159,516	598,545
	$ 1,015,393	$1,010,852

See also Notes 7, 10, 15 and 16.

10. Loan Receivable

The loan receivable is due from a private company controlled by the VP, Investor Relations and is unsecured, non-interest bearing and payable on demand. The loan was repaid in full on October 4, 2016.

11. Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents held in bank accounts. The majority of cash and cash equivalents are deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies.

11. Financial Risk Management (continued)

As at August 31, 2016, the Company had receivables in the amount of $37,601 (2015 - $39,720) which is represented by a refund due from the Canada Revenue Agency for harmonized sales tax input credits. The Company also had a loan receivable balance outstanding of $60,000 (2015 - $Nil), which was repaid subsequent to August 31, 2016. The Company considers credit risk with respect to these receivables as low.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. As at August 31, 2016, all of the Company's financial liabilities are due within one year.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company's United States subsidiary is exposed to currency risk as it incurs expenditures that are denominated in United States dollars while its functional currency is the Canadian dollar. As at August 31, 2016, the Company's subsidiary holds a bank balance in the amount of US$24,493 and is indebted to suppliers in the amount of US$9,333. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal.

Capital management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended August 31, 2016 and August 31, 2015.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of six months.

As of August 31, 2016, the Company may not be compliant with the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

(Expressed in Canadian Dollars)

11. Financial Risk Management (continued)

Classification of financial instruments

The Company's financial instruments are classified into the following categories: loans and receivables, held to maturity and other financial liabilities.

Financial assets included in the statements of financial position are as follows:

Loans and Receivables		August 31, 2016		August 31, 2015
Cash and cash equivalents	$	95,665	$	2,085,925
Loan receivable		60,000		-
Deposit		-		26,446
	$	155,665	$	2,112,371

Financial liabilities included in the statements of financial position are as follows:

Other Financial Liabilities		August 31, 2016		August 31, 2015
Accounts payable and accrued liabilities	$	521,343	$	424,435
	$	521,343	$	424,435

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount due to their short-term nature. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

(Expressed in Canadian Dollars)

12. Income Taxes

a) Provision for income taxes

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

	2016 $	2015 $
(Loss) before income taxes	(1,728,730)	(2,197,855)
Expected income tax recovery based on statutory rate	(458,000)	(582,000)
Adjustment to expected income tax benefit:		
Share-based payments	56,000	-
Expenses not deductible for tax purposes	-	328,000
Other	(191,000)	-
Change in foreign exchange rates	(26,000)	-
Difference in tax rates	(64,000)	(96,000)
Change in benefit of tax assets not recognized	683,000	350,000
Deferred income provision (recovery)	-	-

b) Unrecognized deductible temporary differences

	2015 $	2014 $
Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:		
Non-capital loss carry-forwards, Canada	4,818,000	4,064,000
Non-capital loss carry-forwards, United States	1,784,000	1,503,000
Exploration and evaluation assets, Canada	482,000	482,000
Exploration and evaluation assets, United States	1,091,000	121,000
Share issue costs, Canada	305,000	373,000
Total	8,480,000	6,543,000

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can use the benefits.

Non-capital loss carry-forwards available in the United States of US$1,360,000 (2015 - US$1,142,000) expire from 2032 to 2036.

Non-capital loss carry-forwards available in the Canada expire from 2030 to 2036. The other temporary differences do not expire under current legislation.

13. Segmented Information

The Company's equipment and exploration and evaluation assets are located in Alabama, USA.

14. Environmental Contingencies

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

15. Commitments

The Company is required to make the following payments, in addition to the commitments outlined in Note 5 that are related to the mineral properties:

(a) Monthly payments to officers of the Company in the amount of $33,667 and quarterly payments to an officer of the Company in the amount of $15,000; and

(b) Monthly payments to consultants to the Company in the amount of $8,000.

The Company is party to certain consulting contracts with two corporations controlled by officers of the Company that provide for aggregate contingent payments of up to approximately $284,000 upon the occurrence of a change of control. As a triggering event has not taken place, the contingent payments have not been reflected in these consolidated financial statements.

16. Subsequent Events

(a) On September 2, 2016, stock options were granted to officers, employees and consultants to acquire 4,500,000 common shares at an exercise price of $0.16 per share for a period of three years, 4,350,000 options vested immediately with the remaining 150,000 options vesting quarterly in equal amounts over a three year period.

(b) On September 6, 2016, the Company completed a private placement of 4,916,745 units at a price of $0.15 per unit for total proceeds of $737,512 (an officer of the Company subscribed for 33,334 units for gross proceeds of $5,000). Each unit is comprised of one common share of the Company and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.20 per share until September 6, 2018.

(c) On September 19, 2016, the Company granted incentive stock options to purchase up to 400,000 common shares to a consultant. All options vested immediately. An aggregate of 200,000 of the options entitle the consultant to acquire one common share at a price of $0.16 per share for a period of 24 months and the remaining 200,000 of the options entitle the consultant to acquire one common share at a price of $0.19 per share for a period of 24 months.

(d) On September 21, 2016, the Company completed a private placement of 7,124,338 units at a price of $0.15 per unit for total proceeds of $1,068,651 (officers and directors of the Company subscribed for 2,363,338 units for gross proceeds of $354,500). Each unit comprised of one common share of the Company and one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at an exercise price of $0.20 per share until September 21, 2018.

16. Subsequent Events (continued)

(e) Subsequent to August 31, 2016, 835,000 incentive stock options having an exercise price in the range of $0.145 to $0.45 expired without being exercised and warrants to acquire 260,000 common shares having an exercise price of $0.10 per share expired without being exercised.

(f) Subsequent to August 31, 2016, 150,000 warrants were exercised to acquire 150,000 common shares at an exercise price of $0.10 per share and 5,000 stock options were exercised to acquire 5,000 common shares at an exercise price of $0.105 per share.

(g) Subsequent to August 31, 2016 and in conjunction with the signing of a new contract, the Company paid a loyalty bonus to a corporation controlled by the President and CEO in the amount of $300,000. The proceeds of the bonus was used to participate in the financing described in Note 16(d).