

DISCOVERY HARBOUR RESOURCES CORP.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
PERIODS ENDED MARCH 31, 2017 and 2016
(Unaudited – Prepared by Management)
(Expressed in Canadian dollars)

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**NOTICE – NO Auditor Review of the Interim
Consolidated Financial Statements**

The accompanying unaudited interim consolidated financial statements of Discovery Harbour Resources Corp. (“the Company”), for the six months ended March 31, 2017, have been prepared by management and have not been the subject of a review by the Company’s external independent auditor.

Discovery Harbour Resources Corp.
Consolidated Statements of Financial Position
(expressed in Canadian dollars)

| | March 31 2017 | September 30 2016 |
|--|------------------|----------------------|
| | | Audited |
| Current | | |
| Cash and cash equivalents | \$3,557 | \$100,535 |
| Accounts and other receivable | 1,736 | 4,685 |
| Prepaid expenses | 500 | 5,459 |
| | <u>5,793</u> | <u>110,679</u> |
| Investments (Note 3) | 8,101 | 16,201 |
| Reclamation bond | 6,220 | 6,220 |
| Exploration and evaluation expenditures (Note 5) and (6) (d)) | 13,519 | - |
| | <u>\$33,633</u> | <u>\$133,100</u> |
| Current | | |
| Accounts payable | \$2,712 | \$2,236 |
| Accrued liabilities | 4,800 | 13,030 |
| Due to related parties (Note 6) | 5,365 | 3,426 |
| | <u>12,877</u> | <u>18,692</u> |
| Shareholders' equity | | |
| Shares capital (Note 7) | 18,398,693 | 18,398,693 |
| Contributed surplus (Note 8) | 1,703,902 | 1,703,902 |
| Accumulated other comprehensive loss | (8,100) | - |
| Deficit, per accompanying statement | (20,073,739) | (19,988,187) |
| | <u>20,756</u> | <u>114,408</u> |
| | <u>\$33,633</u> | <u>\$133,100</u> |

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

Approved on behalf of the Board on May 04, 2017

"Mark Fields"

Director – Mark Fields

"Mike Senn"

Director – Mike Senn

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

Discovery Harbour Resources Corp.
Consolidated Interim Statements of Operations and Comprehensive Operations
(expressed in Canadian dollars)

| | Three Months Ended March 31 2017 | Three Months Ended March 31 2016 | Six Months Ended March 31 2017 | Six Months Ended March 31 2016 |
|--|---|---|---|---|
| Expenses | | | | |
| Accounting and audit (Note 6 (c)) | \$ 12,262 | \$ 12,675 | \$ 21,525 | \$ 26,250 |
| Amortization | - | 163 | - | 184 |
| Bank and interest charges | 362 | 428 | 624 | 905 |
| Consulting fees (Note 6 (a)) | 20,725 | 32,200 | 26,650 | 109,179 |
| Filing fee | 8,267 | 6,879 | 9,267 | 7,689 |
| Foreign exchange | 306 | 13,733 | (695) | 4,925 |
| Investors communication | 628 | - | 4,221 | 3,528 |
| Legal | 6,312 | 2,160 | 10,117 | 4,061 |
| Office and administration | 5,514 | 9,443 | 9,151 | 20,930 |
| Rent (Note 6 (b)) | 1,500 | 1,500 | 3,000 | 3,091 |
| Share transfer agent | 950 | 1,179 | 1,692 | 3,412 |
| Travel | - | - | - | 2,221 |
| | 56,826 | 80,360 | 85,552 | 186,375 |
| Loss before other income (expense) | (56,826) | (80,360) | (85,552) | (186,375) |
| Interest income | - | 135 | - | 135 |
| Net loss for the period | (56,826) | (80,225) | (85,552) | (186,240) |
| Other comprehensive loss | | | | |
| Unrealized (loss) gain on investments | (16,200) | 16,100 | (8,100) | (12,200) |
| Comprehensive loss for the period | \$ (73,026) | \$ (64,125) | \$ (93,652) | \$ (198,440) |
| Loss per share | \$ (0.00) | \$ (0.00) | \$ (0.00) | \$ (0.00) |
| Weighted average number of shares outstanding | 53,393,513 | 53,393,513 | 53,393,513 | 53,393,513 |

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

Discovery Harbour Resources Corp.
Consolidated Interim Statements of Changes in Shareholders' Equity
(expressed in Canadian dollars)

| | Number of Shares | Share Capital | Contributed Surplus | Deficit | Comprehensive Loss | Other Shareholder's Equity |
|--------------------------------------|---------------------|---------------|------------------------|-----------------|-----------------------|----------------------------------|
| Balance, September 30, 2016 | 53,393,513 | \$ 18,398,693 | \$ 1,703,902 | \$ (19,988,187) | \$ - | \$ 114,408 |
| Loss for the period | - | - | - | (85,552) | - | (85,552) |
| Unrealized (loss) gain on investment | - | - | - | - | (8,100) | (8,100) |
| Balance, March 31, 2017 | 53,393,513 | \$ 18,398,693 | \$ 1,703,902 | \$ (20,073,739) | \$ (8,100) | \$ 20,756 |

| | Number of Shares | Share Capital | Contributed Surplus | Deficit | Comprehensive Loss | Other Shareholder's Equity |
|--------------------------------------|---------------------|---------------|------------------------|-----------------|-----------------------|----------------------------------|
| Balance, September 30, 2015 | 53,393,513 | \$ 18,398,693 | \$ 1,703,902 | \$ (18,571,051) | \$ (84,900) | \$ 1,446,644 |
| Loss for the period | - | - | - | (186,240) | - | (186,240) |
| Unrealized (loss) gain on investment | - | - | - | - | (12,200) | (12,200) |
| Balance, March 31, 2016 | 53,393,513 | \$ 18,398,693 | \$ 1,703,902 | \$ (18,757,291) | \$ (97,100) | \$ 1,248,204 |

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

Discovery Harbour Resources Corp.
Consolidated Interim Statements of Cash Flows
(expressed in Canadian dollars)

| | Three Months Ended March 31 2017 | Three Months Ended March 31 2016 | Six Months Ended March 31 2017 | Six Months Ended March 31 2016 |
|---|---|---|---|---|
| Cash flows from (used in) | | | | |
| Operating activities | | | | |
| Net loss for the period | \$ (56,826) | \$ (80,225) | \$ (85,552) | \$ (186,240) |
| Items not affecting cash: | | | | |
| Amortization | - | 163 | - | 184 |
| | <u>(56,826)</u> | <u>(80,062)</u> | <u>(85,552)</u> | <u>(186,056)</u> |
| Changes in non-cash working capital items: | | | | |
| (Increase) decrease in accounts and other receivable | (649) | 4,263 | 2,949 | 1,702 |
| (Increase) decrease in prepaid expenses | 2,438 | (2,329) | 4,959 | 5,426 |
| Increase (decrease) in accounts payable and accrued liabilities | (10,484) | (12,860) | (7,754) | (17,461) |
| Net cash used in operating activities | <u>(65,521)</u> | <u>(90,988)</u> | <u>(85,398)</u> | <u>(196,389)</u> |
| Investing activities | | | | |
| Term deposits | - | 106,231 | - | 97,311 |
| Reclamation bond | - | 32 | - | 32 |
| Exploration and evaluation expenditures | - | (17,938) | (13,519) | (29,363) |
| Net cash used in investing activities | <u>-</u> | <u>88,325</u> | <u>(13,519)</u> | <u>67,980</u> |
| Financing activities | | | | |
| Increase (decrease) in due to related parties | 2,373 | 27 | 1,939 | 8,668 |
| | <u>2,373</u> | <u>27</u> | <u>1,939</u> | <u>8,668</u> |
| Increase in cash and cash equivalents during the period | <u>(63,148)</u> | <u>(2,636)</u> | <u>(96,978)</u> | <u>(119,741)</u> |
| Cash and cash equivalents, beginning of the period | <u>66,705</u> | <u>16,993</u> | <u>100,535</u> | <u>134,098</u> |
| Cash and cash equivalents, end of the period | <u>\$ 3,557</u> | <u>\$ 14,357</u> | <u>\$ 3,557</u> | <u>\$ 14,357</u> |
| Interest paid | \$ - | \$ - | \$ - | \$ - |
| Income tax paid | \$ - | \$ - | \$ - | \$ - |

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

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Discovery Harbour Resources Corp. (“the Company”) was incorporated on March 11, 2009 under the British Columbia Business Corporation Act and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (“TSX Venture Exchange”). On November 22, 2010, the Company completed its Qualifying Transaction (“QT”) pursuant to the policies of the TSX Venture Exchange and is classified as a Tier 2 Venture Issuer. On April 2, 2013, the Company completed a reverse takeover transaction with CVC Cayman Ventures Corp.

The registered address, head office, principal address and records office of the Company are located at Suite 1400 – 1111 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4M3.

The Company is in the process of exploring its resource properties and has not determined whether these properties contain mineral reserves which are economically recoverable. The recoverability of amounts shown for exploration and evaluation expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and future profitable production from the property or proceeds from its disposition.

At March 31, 2017, the Company had working capital deficiency of \$(7,084) (September 30, 2016 - \$91,987), had not yet achieved profitable operations, has accumulated losses of \$20,073,739 (September 30, 2016 - \$19,988,187), since its inception and expects to incur further losses in the development of its business, all of which casts significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to conduct its planned work program on its mineral properties, meet its on-going levels of corporate overhead and commitments, keep its property in good standing and discharge its liabilities as they come due. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge liabilities in the normal course of business. Although the Company presently has sufficient financial resources to undertake its currently planned work programs and has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance and Basis of Presentation

These interim consolidated financial statements including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in the below.

(b) Principles of consolidation

These consolidated financial statements include the financial statements of the Company and of the entities it controls, its wholly-owned subsidiaries, 0845837 B.C. Ltd.(active) and Discovery Harbour (USA) LLC (dormant). All significant inter-company balances and transactions have been eliminated.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(c) **Foreign currency translation**

The functional currency of the Company and its subsidiary, as determined by management, is the Canadian dollar and this is also the currency in which it presents these financial statements. The Company recognizes transactions in currencies other than the Canadian dollar (foreign currencies) at the rates of exchange prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the period end exchange rates are recognized in the consolidated statement of operation and comprehensive operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(d) **Financial instruments**

The Company recognizes a financial asset or financial liability when it becomes a party to the instrument's contractual provisions. It initially measures financial assets and financial liabilities at their fair value, adding or deducting directly attributable transaction costs (except for transaction costs directly attributable to acquiring financial assets or financial liabilities at fair value through profit or loss, which it recognizes immediately in profit or loss).

The Company's financial instruments and their classifications, described further below, are as follows:

| | |
|---|---|
| Financial assets: | Classification: |
| Cash and cash equivalents | Fair value through profit or loss |
| Term deposit | Fair value through profit or loss |
| Accounts and other receivable | Loans and receivables |
| Investments | Fair value through profit or loss or Available-for-sale |
| Financial liabilities: | Classification: |
| Accounts payable and due to a related party | Other financial liabilities |

Financial assets

The Company recognizes and derecognizes all financial assets on the trade date. It derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of its ownership to another entity. It classifies financial assets into the following specified categories: financial assets 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. It determines the classification at the time of initial recognition, depending on the nature and purpose of the financial assets. The Company does not currently have any financial assets in the held-to-maturity or available-for-sale categories.

The Company's accounting policy for the category of assets and liabilities presently recognized by the Company is as follows:

Fair value through profit or loss

This category comprises assets acquired or incurred for the purpose of selling or repurchasing it in the near future. The Company measures financial assets at FVTPL at fair value, recognizing any gains or losses arising from this measurement in the Statement of Loss and Comprehensive Loss.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) **Financial instruments** (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company measures loans and receivables at amortized cost using the effective interest method, less any impairment, except for short-term receivables for which recognizing interest would be immaterial. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the instrument's expected life (or, where appropriate, a shorter period) to the net carrying amount on initial recognition.

Financial liabilities

The Company classifies financial liabilities as either financial liabilities at FVTPL or other financial liabilities. The Company does not currently have any financial liabilities in the at FVTPL category.

Other financial liabilities

The Company initially measures other financial liabilities, consisting of accounts payable and amounts due to related parties, at their fair value, net of transaction costs, and subsequently at amortized cost using the effective interest method, recognizing interest expense on an effective yield basis.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of financial assets

The Company assesses financial assets, other than those at FVTPL, for indications of impairment at the end of each reporting period. For financial assets carried at amortized cost, the amount of any impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- The likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. 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.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(d) **Financial instruments** (continued)

Financial instruments recorded at fair value

Financial instruments recorded at fair value on the statement 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);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(e) **Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand, and short-term deposits with an original maturity of three months or less and which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts. Cash may also be invested in guaranteed investment certificates that are available on demand by the Company for its program. The Company does not invest in any asset-backed deposits/investments.

(f) **Exploration and evaluation expenditures**

The Company capitalizes all costs of acquiring, retaining, evaluating and exploring resource properties or an interest in such properties. Such costs include, but are not limited to, geological consulting, drilling and related expenses, sampling, assay expenditures, geophysical studies and other exploration costs directly related to the development of such properties. The Company expenses costs incurred before obtaining the legal rights to explore an area. It also writes off the accumulated capitalized costs relating to non-productive properties in which it abandons an interest.

The Company expects to amortize the capitalized costs in the future, over the estimated useful life of the producing properties, on a method relating recoverable reserve volumes to production volumes. The current carrying amount, based on capitalized costs, does not necessarily reflect present or future fair values.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete the development of the properties, and on future production or proceeds of disposition.

The Company reviews the recoverability of the carrying values of its exploration and evaluation expenditures at each reporting period.

It recognizes an impairment loss when the carrying value exceeds the recoverable amount, estimated with reference to facts and circumstances including current exploration results and management's assessment of the future probability of receiving positive cash flows from successfully developing or selling the property. Since the Company is in the exploration stage, it has not yet conclusively determined whether the properties have economically recoverable reserves.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Equipment

The Company records equipment at cost less accumulated depreciation and accumulated impairment losses. It recognizes depreciation to write off the cost of assets less their residual values over their useful lives, using the following methods and rates:

Furniture and fixtures - 20% declining balance

The Company capitalizes depreciation of equipment used in evaluating and exploring its properties, and recognizes depreciation of all other equipment as part of profit or loss. The Company reviews the estimated useful lives, residual values and depreciation method at each year end, accounting for the effect of any changes in estimate on a prospective basis.

An item of equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

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

(h) Loss per share

The Company calculates basic loss per share by dividing the loss for the year by the weighted average number of common shares outstanding during the year. It calculates diluted loss per share in a similar manner, except that it increases the weighted average number of common shares outstanding, using the treasury stock method, to include common shares potentially issuable from the assumed exercise of stock options and other instruments, if dilutive. In the Company's case, these potential issuances are "anti-dilutive" as they would decrease the loss per share; consequently, the amounts calculated for basic and diluted loss per share are the same.

(i) Income taxes

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

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(j) **Impairment of long-lived assets**

At the end of each reporting period, the Company reviews the carrying amounts of its equipment and finite life intangible assets, including deferred evaluation and exploration expenditures, to determine whether any indication exists that any of those assets have suffered an impairment loss. If any such indication exists, it estimates the asset's recoverable amount to determine the extent of the impairment loss (if any). Where it is not possible to estimate an individual asset's recoverable amount, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where it can identify a reasonable and consistent basis of allocation, it also allocates corporate assets to individual cash-generating units, or otherwise allocates them to the smallest group of cash-generating units for which it can identify a reasonable and consistent allocation basis.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the Company discounts estimated future cash flows to their present value using a pre-tax discount rate. This rate reflects current market assessments of the time value of money and also reflects the risks specific to the asset (unless these risks are reflected in the estimates of future cash flows).

If the Company estimates an asset or cash-generating unit's recoverable amount to be less than its carrying amount, it reduces the carrying amount to the recoverable amount, recognizing an impairment loss immediately in profit or loss. Where an impairment loss subsequently reverses, the Company increases the asset or unit's carrying amount to the revised estimate of its recoverable amount, without exceeding the carrying amount that would have been existed if no impairment loss had been recognized in prior years. It recognizes a reversal of an impairment loss immediately in profit or loss.

(k) **Revenue recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales tax or duty. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

Revenue is recognized as interest accrues (using the effective interest rate - that is, the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Other income

Revenue from other income is recognized upon completion of the services for which the measurement of the consideration can be reasonably assured and the ultimate collection is reasonably assured.

(l) **Provisions including asset retirement obligations**

The Company recognizes a provision when it has a present obligation (legal or constructive) as a result of a past event, it is probable it will be required to settle the obligation, and it can make a reliable estimate of its amount. The amount it recognizes as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the surrounding risks and uncertainties. Where it measures a provision using the cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, calculated using a pre-tax discount rate reflecting the risks specific to the liability.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(l) **Provisions including asset retirement obligations** (continued)

The Company adjusts the liability at the end of each reporting period for the unwinding of the discount rate and for changes to the discount rate or to the amount or timing of the estimated cash flows underlying the obligation.

In particular, as a result of exploring, developing and operating its mineral properties, the Company may incur legal or constructive obligations to incur asset retirement or site restoration costs. It measures these obligations at its best estimate of their net present value and capitalizes their cost to the related asset's carrying amount.

As at March 31, 2017, the Company, given the early stage of exploration on its mineral properties, has no reclamation costs and therefore no provision for asset retirement obligations has been made.

(m) **Share based payment transactions**

The Company's share option plan allows the Company's employees and consultants to acquire shares of the Company. The Company measures equity-settled share-based payments issued under the stock option plan at the fair value of the equity instruments at the grant date. The Company calculates the fair value using the Black-Scholes option valuation model and expenses this amount over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, crediting the amounts to contributed surplus. It revises its estimate of the number of equity instruments expected to vest at the end of each reporting period, recognizing the impact of revising the original estimates, if any, in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other paid-in capital. When options are exercised, the Company credits the proceeds, together with the amount originally credited to contributed surplus, to share capital.

In the case of consultants, the value of the options is measured based on fair value of goods or services provided, unless it cannot be reliably determined.

(n) **Significant accounting judgments and estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the depreciation of equipment, valuation of share-based payments and recognition of deferred income tax amounts and provision for restoration, rehabilitation and environmental costs.

Critical judgments and estimates exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Economic recoverability and probability of future economic benefits of mineral properties

Management has determined that exploration and evaluation expenditures incurred which were capitalized have future economic benefits and are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geological and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

2. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(n) **Significant accounting judgments and estimates** (continued)

Determination of functional currency

The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

Valuation of share-based payments

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

(o) **Future accounting changes**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after October 1, 2016 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded from the list below.

IFRS 9, Financial Instruments: Classification and Measurement, issued in December 2009, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2018. The Company is currently evaluating the potential impact of the adoption of IFRS 9.

Discovery Harbour Resources Corp.
Notes to the Interim Consolidated Financial Statements
Periods Ended March 31, 2017 and 2016
(expressed in Canadian dollars)

3. INVESTMENTS

| | Cost March 31 2017 | Fair Value March 31 2017 | Fair Value September 30 2016 |
|--|--------------------------|--------------------------------|------------------------------------|
| <u>Shares – Available for sale</u> | | | |
| Red Oak Mining Corp. (a public company)* | 462,000 | 8,100 | 16,200 |
| Stratus Aeronautics Inc. (a private company)** | 330,000 | 1 | 1 |
| | \$ 792,000 | \$ 8,101 | \$ 16,201 |

* The investments in Red Oak Mining Corp. (previously Universal Wing Technologies Inc.) is classified as Available for Sale and measured at fair value. During the year ended September 30, 2016, the Company wrote off unrealized loss of \$97,200 (2015 - \$Nil) on its available for sale investments.

**The investment in Stratus is classified as Available for Sale and measured at cost as this investment does not have a quoted market price in an active market. During the year ended September 30, 2014, the Company wrote down its investment to \$1.

4. EQUIPMENT

| | Furniture and Fixtures | | Total |
|--------------------------------------|---------------------------|--------|-----------|
| Cost | | | |
| Balance at September 30, 2015 | \$ | 21,281 | \$ 21,281 |
| Additions | | - | - |
| Balance at September 30, 2016 | \$ | 21,281 | \$ 21,281 |
| Additions | | - | - |
| Balance at March 31, 2017 | \$ | 21,281 | \$ 21,281 |
| Accumulated amortization | | | |
| | Furniture and Fixtures | | Total |
| Balance at September 30, 2015 | \$ | 20,852 | \$ 20,852 |
| Additions | | 429 | 429 |
| Write-offs | | - | - |
| Balance at September 30, 2016 | \$ | 21,281 | \$ 21,281 |
| Additions | | - | - |
| Write-offs | | - | - |
| Balance at March 31, 2017 | \$ | 21,281 | \$ 21,281 |
| Net carrying amounts | | | |
| | Furniture and Fixtures | | Total |
| At September 30, 2016 | \$ | - | \$ - |
| At March 31, 2017 | \$ | - | \$ - |

Discovery Harbour Resources Corp.
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5. EXPLORATION AND EVALUATION EXPENDITURES

| | Nevada Gold Project | | Total |
|--|------------------------|--------|-----------|
| Deferred Exploration Expenditures | | | |
| Balance on September 30, 2016 | \$ | - | \$ - |
| Drilling | | - | - |
| Travel | | - | - |
| Telecommunications | | - | - |
| Field & Camp Costs | | - | - |
| Fuel | | - | - |
| Repair & Maintenance | | - | - |
| Consulting | | - | - |
| Freight | | - | - |
| Assays and Lab Process | | - | - |
| Claim staking | | - | - |
| Mob-Demob | | - | - |
| Air Craft – Fixed Wing | | - | - |
| Others | | - | - |
| Survey | | - | - |
| Helicopter | | - | - |
| Write-off | | - | - |
| Balance on March 31, 2017 | | - | - |
| Property Acquisitions | | | |
| Balance on September 30, 2016 | \$ | - | \$ - |
| Acquisition | | 13,519 | 13,519 |
| Balance on March 31, 2017 | | 13,519 | 13,519 |
| Exploration and evaluation expenditures on March 31, 2017 | \$ | 13,519 | \$ 13,519 |

Discovery Harbour Resources Corp.
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5. EXPLORATION AND EVALUATION EXPENDITURES (continued)

| | 2 Bar | Total |
|--|------------|------------|
| Deferred Exploration Expenditures | | |
| Balance on September 30, 2015 | \$ 848,507 | \$ 848,507 |
| Drilling | - | - |
| Travel | - | - |
| Telecommunications | 217 | 217 |
| Field & Camp Costs | - | - |
| Fuel | - | - |
| Repair & Maintenance | - | - |
| Consulting | 12,797 | 12,797 |
| Freight | - | - |
| Assays and Lab Process | 15,995 | 15,995 |
| Claim staking | 6,586 | 6,586 |
| Mob-Demob | - | - |
| Air Craft – Fixed Wing | - | - |
| Others | - | - |
| Survey | - | - |
| Helicopter | - | - |
| Write-off | (884,102) | (884,102) |
| Balance on September 30, 2016 | - | - |
| Property Acquisitions | | |
| Balance on September 30, 2015 | \$ 137,425 | \$ 137,425 |
| Write-off | (137,425) | (137,425) |
| Balance on September 30, 2016 | - | - |
| Exploration and evaluation expenditures on September 30, 2016 | \$ - | \$ - |

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5. EXPLORATION AND EVALUATION EXPENDITURES (continued)

(a) 2Bar (Nevada, USA)

On June 20, 2014, the Company entered into an Exploration License with Option to Purchase for eleven patented mining claims with Blind Mice Mining Company Inc. (“Blind”), whereby the Blind granted the Company an option (the “Option”) to acquire 100% ownership of the 2BAR project (the “Property”) located in the Table Mountain Mining District, Churchill County, Nevada.

General terms of the Agreement are:

- Three year option period with annual payment schedule of: (all amounts in US\$)

| <u>ANNIVERSARY</u> | <u>OPTION PAYMENT</u> |
|---|----------------------------------|
| Upon Execution (within two days of signing) | \$50,000 (Paid in 2014 year-end) |
| First Anniversary | \$50,000 (Paid in 2015 year-end) |
| Second Anniversary | \$50,000 (Not paid) |
| Third Anniversary-Purchase | <u>\$2,100,000</u> |
| Total Purchase Price | \$2,250,000 |
- The Company may exercise its Option to purchase 100% ownership of the Property at any time by paying the \$2,250,000 purchase price, less any option payments made previous to its decision to exercise the Option;
- Upon exercise of the Option by payment of the total purchase price of \$2,250,000, the Company will own 100% of the Property and all attendant mining rights to the claims. There are no royalties due to the landowner;
- The Company is granted exclusive rights to explore the property for three (3) years from the date of entry into the Agreement; and
- The Company may terminate the Agreement at any time.

The Company also paid a finder’s fee of US\$10,000 in connection with the granting of the Option during the year ended September 30, 2014.

During the year ended September 30, 2016, the Company has terminated the Option agreement with Blind, and the exploration and evaluation expenditures of \$1,021,527 were written off.

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5. EXPLORATION AND EVALUATION EXPENDITURES (continued)

(b) Nevada Gold Project, USA

On November 18th, 2016, the Company entered into an Exploration License and Option To Purchase Agreement (the "Agreement or Option") with Genesis Gold Corporation ("GGC") to acquire a 100% interest in two gold projects in the State of Nevada, USA (the "Projects / Project or Properties / Property"). The general terms of the Agreement are as follows:

1. In order to keep this Agreement in good standing, the Company shall make advanced royalty payments to GGC as follows (all amounts in US\$):

| Royalty | Advance Minimum | Caldera | Jersey Valley | Total |
|--|------------------------|----------------|----------------------|--------------|
| On signing (Paid) | | \$5,000 | \$5,000 | \$10,000 |
| 90 Days after signing | | \$15,000 | \$15,000 | \$30,000 |
| 1 st Anniversary | | \$30,000 | \$30,000 | \$60,000 |
| 2 nd Anniversary | | \$50,000 | \$50,000 | \$100,000 |
| 3 rd Anniversary | | \$75,000 | \$75,000 | \$150,000 |
| 4 th Anniversary | | \$100,000 | \$100,000 | \$200,000 |
| 5 th Anniversary | | \$125,000 | \$125,000 | \$250,000 |
| 6 th Anniversary and thereafter | | \$150,000 | \$150,000 | \$300,000 |

Beginning with the payment due on the fifth Anniversary date, all annual payments will be adjusted at the rate of inflation shown in the U.S. Consumer Price Index ("CPI") using the CPI on the fourth Anniversary date as the basis for adjustment for the remainder of the Agreement term. All dollar values are stated in U.S. currency.

2. As further consideration for granting the Option, the Company shall make additional payments as follows:
 - a) During the term of the Option, the Company shall pay rentals for the unpatented mining claims to the Bureau of Land Management sufficient to keep the properties in good standing. Should the Company decide to terminate the Option on any part of the Property on or after 15 June of any year, the Company will be responsible for making rental payments in that year.
 - b) Within 6 months of the date of signing of this Agreement, the Company will use its best efforts to issue to GGC 200,000 share purchase warrants at the Company's then current share price, plus CAD\$0.05. Such issuance shall be subject to approval by the TSX Venture Exchange.
3. GGC will grant the Company the exclusive and irrevocable option to purchase a 100% interest in one or both projects comprising the Property during the term of this Agreement. The total purchase price to be paid is three million dollars (US\$3,000,000) for each project comprising the Property. Beginning with the fifth Anniversary date, the purchase price will also be adjusted at the rate of inflation shown in the CPI using the CPI on the fourth Anniversary date as the basis for adjustment for the remainder of the term.
4. In addition to the purchase price, GGC shall retain, when the gold price is less than US\$1,600, a 2% net smelter return royalty, and where the gold price is equal to or more than US \$1,600, a net smelter royalty of 3%.
5. There are no work commitments.

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5. EXPLORATION AND EVALUATION EXPENDITURES (continued)

(b) Nevada Gold Project, USA (continued)

On February 17, 2017, the Company reached an agreement with GGC to extend the term of the Exploration License and Option To Purchase Agreement to acquire a 100% interest in two gold projects in the State of Nevada, USA.

As was set forth in the original Agreement, the Company was allowed ninety days from November 18, 2016, during which it was to raise capital for exploration of the Caldera and Jersey Valley gold projects. The ninety days anniversary of the signing (February 18, 2017) also required the Company pay the second Advance Royalty payment of US\$15,000.00.

On February 17, 2017, the Company entered a three month extension Agreement with GGC for the purpose of funding these projects and to extend the date of the second royalty payment to May 18, 2017. The remaining terms of the original Exploration License and Option To Purchase Agreement remain unchanged, except as per the terms of the a second amendment as described in the Subsequent Events of these Financial Statements

6. RELATED PARTY TRANSACTIONS

- (a) During the period ended March 31, 2017, the Company incurred consulting fees of \$10,690 (March 31, 2016: \$43,745) with the directors of the Company.

As at March 31, 2017, \$5,365 (September 30, 2016 - \$3,426) was owing to companies controlled by directors and officers of the Company.

- (b) During the period ended March 31, 2017, payment of rent of \$3,000 (March 31, 2017: \$2,500) pertains to rent paid to a company related by a common officer for shared office premises.
- (c) During the period ended March 31, 2017, the Company incurred accounting fees of \$19,500 (March 31, 2016: \$26,250) with a company owned by an officer of the Company.
- (d) At March 31, 2017, the Company incurred consulting fees of \$nil included in exploration expenses (September 30, 2016: \$3,707) with directors of the Company.

All related party transactions are in the normal course of operations and have been measured at the agreed to amounts, which is the amount of consideration established and agreed to by the related parties.

7. SHARE CAPITAL

-
- (a) Authorized: Unlimited common shares and preferred shares without par value
Issued : 53,393,513 common shares (September 30, 2016: 53,393,513 common shares)
-

- (b) The Company issued shares pursuant to private placements as follows:

None

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7. SHARE CAPITAL (continued)

(c) Warrants

As at March 31, 2017, the Company had warrants outstanding enabling holders to acquire the following:

| (i) | Number of Warrants | Exercise Price | Expiry Date |
|-----|--------------------|----------------|----------------|
| | 4,050,000 | \$0.10 | April 24, 2017 |
| | 4,050,000 | | |

(ii) A summary of the Company's issued and outstanding share purchase warrants as at December 31, 2016 and year ended September 30, 2016 and changes during those periods are presented below:

| | |
|-------------------------------|------------------|
| Balance, September 30, 2016 | 15,050,000 |
| Expired | (11,000,000) |
| Balance March 31, 2017 | 4,050,000 |

(d) Share based payments

(i) As at March 31, 2017, the Company had stock options outstanding enabling holders to acquire the following:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|-------------------|
| 120,000 | \$0.30 | July 5, 2020 |
| 55,000 | \$0.41 | November 23, 2020 |
| 2,800,000 | \$0.10 | March 23, 2020 |
| 2,975,000 | | |

(ii) A summary of the status of the Company's stock options as at March 31, 2017 and changes during those periods is presented below:

| | Options Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|-------------------------------|---------------------|---------------------------------|---|
| Balance, September 30, 2016 | 2,975,000 | \$ 0.11 | 3.50 years |
| Granted | - | - | - |
| Exercised | - | - | - |
| Expired/Cancelled | - | - | - |
| Balance March 31, 2017 | 2,975,000 | \$0.11 | 3.00 years |

The Company has adopted an incentive stock option plan (the "Plan"). Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than the price permitted by any stock exchange on which the common shares are then listed or other regulatory body having jurisdiction.

Discovery Harbour Resources Corp.
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8. STOCK-BASED COMPENSATION AND CONTRIBUTED SURPLUS

The following table reconciles the Company's contributed surplus:

| | | |
|---|-----------|------------------|
| Balance, September 30, 2015 | \$ | 1,703,902 |
| Balance, March 31, 2017 and September 30, 2016 | \$ | 1,703,902 |

The Company did not grant any options during the period ended March 31, 2017 and year ended September 30, 2016.

9. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its mineral property and to maintain a flexible capital structure which optimises the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity. The 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.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets. As at March 31, 2017, the Company has not entered into any debt financing. Subsequent to March 31, 2017, the Company has entered into debt agreement as per Note 12 (a).

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

10. FINANCIAL INSTRUMENTS AND RISK FACTORS:

(a) Fair values

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The fair value of transactions is classified according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy level.

The company's cash and cash equivalents, term deposit and investment in shares have been valued using Level 1 inputs. Share purchase warrants included in investments have been valued using Level 3 inputs. The carrying value of accounts and other receivables, due from a related party, due to related parties, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

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10. FINANCIAL INSTRUMENTS AND RISK FACTORS: (continued)

The fair value of the Company's financial instruments has been classified within the fair value hierarchy as at March 31, 2017 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|-----------|---------|---------|-----------|
| Financial Assets | | | | |
| Cash and cash equivalents | \$ 3,557 | \$ - | \$ - | \$ 3,557 |
| Term deposit | - | - | - | - |
| Investments | 8,100 | - | 1 | 8,101 |
| | \$ 11,657 | \$ - | \$ 1 | \$ 11,658 |

(b) Credit risk

Credit risk is the loss associated with a counter-party's inability to fulfil its payment obligations. The Company's credit risk is attributable to GST receivable from Canadian Federal government and term deposits. The credit risk is minimized by placing cash and term deposits with major Canadian financial institutions. All transactions executed by the Company in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Management believes that the credit risk concentration with respect to financial instruments above is remote.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash. The Company's cash and cash equivalents are held in business accounts which are available on demand for the Company's programs and are not invested in any asset-backed deposits or investments.

As at March 31, 2017, the Company had cash and cash equivalents of \$3,557 (September 30, 2016 - \$100,535) to settle current liabilities of \$12,877 (September 30, 2016 - \$18,692). All of the Company's significant liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) Market risk

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

i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. If interest rates decrease, the Company will generate smaller interest revenue. Presently the Company is not at risk of realizing a loss as a result of a decline in the fair value of its financial instruments because of the short-term nature of the investments.

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10. FINANCIAL INSTRUMENTS AND RISK FACTORS: (continued)

(d) Market risk (continued)

ii) Foreign currency risk

The Company's functional currency for the parent company and its subsidiaries is the Canadian dollar and major expenditures are transacted in Canadian dollars. The Company is also subject to foreign exchange risk for transactions in its properties located in USA.

iii) Commodity price risk

The Company's future success is linked to the price of minerals, because the value of mineral resources and the Company's future revenues are tied to prices of minerals. Worldwide production levels also affect the prices. The prices of minerals are occasionally subject to rapid short-term changes due to speculative activities.

11. SEGMENTED INFORMATION

The Company operates in one reportable operating segment - mineral exploration. As at March 31, 2017, the Company's resource properties are located in Canada and USA and its corporate assets are located in Canada. The Company is in the exploration stage and, accordingly, has no reportable segment revenues during the period ended March 31, 2017.

Total assets by geographic region are as follows:

March 31, 2017

| | Canada | USA | Total |
|---|-----------------|-----------------|-----------------|
| Current assets | \$5,793 | \$ - | \$5,793 |
| Resource properties and deferred exploration expenses | - | 13,519 | 13,519 |
| Reclamation bond | - | 6,220 | 6,220 |
| Investments | 8,101 | - | 8,101 |
| | \$13,894 | \$19,739 | \$33,633 |

September 30, 2016

| | Canada | USA | Total |
|---|------------------|----------------|------------------|
| Current Assets | \$110,679 | \$ - | \$110,679 |
| Resource properties and deferred exploration expenses | - | - | - |
| Reclamation bond | - | 6,220 | 6,220 |
| Investments | 16,201 | - | 16,201 |
| Equipment | - | - | - |
| | \$126,880 | \$6,220 | \$133,310 |

12. SUBSEQUENT EVENTS

- (a) The Company closed the non-brokered private placement (the “**Financing**”), announced on March 24, 2017, of an unsecured convertible debenture (the “**Debenture**”) in the principal amount of \$100,000 with Richard Gilliam, a director and significant shareholder of the Company. The Debenture will be convertible, at the option of the holder, into common shares (each, a “**Share**”) of the Company on the following terms.

The conversion price will be equal to the greater of \$0.05 per Share or the subscription price for each share in the most recently completed private placement of the Company during the term of the Debenture. The Debenture matures twelve (12) months from the date of the closing of the Financing and bears no interest. Proceeds of the Financing are anticipated to be used for general working capital.

All securities issued pursuant to the Financing will be subject to a statutory hold period expiring four months and one day after closing of the Financing. Richard Gilliam is considered a “related party” within the meaning of Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”) and the Financing is therefore considered to be a “related party transaction” within the meaning of MI 61-101. The Financing, however, is exempt from the valuation requirement of MI 61-101 by virtue of the exemption contained in section 5.5(b) as the Company’s shares are not listed on a specified market and from the minority shareholder approval requirements of MI 61-101 by virtue of the exemption contained in section 5.7(a) of MI 61-101 in that the fair market value of the consideration of the Debenture issued to the related party did not exceed 25% of the Company’s market capitalization. This News Release is being filed less than 21 days before the closing of the Financing because the Company wishes to complete the Financing in a timely manner.

- (b) The Company entered into a second amendment agreement with Genesis Gold Corp. with respect to the terms to acquire the Caldera project. The terms of the original exploration licence and option-to-purchase agreement are as described in Note 6, Exploration and Evaluation Expenditures and announced in a press release dated Nov. 23, 2016, which were first amended February 17, 2017.

The second amendment included the following:

- The due date for the second advance royalty payment of \$15,000 (U.S.) has been extended to June 30, 2017.
- The net smelter return royalty has been reduced from a sliding scale between 2 per cent and 3 per cent down to 2 per cent and fixed at a 2-per-cent net smelter return royalty.
- The \$3-million purchase price contemplated has been eliminated. Instead, the payments will consist solely of the annual advance royalty payments, and such net smelter return royalty as would be due. The company will receive title to the property when the sum of the advance royalty payments reaches \$400,000 (U.S.).

The company shall issue to Genesis Gold 500,000 share purchase warrants exercisable within three years of the date of grant. Each warrant entitles the holder to purchase one common share of the company for five cents.

Except as amended, the original agreement remains unchanged. The original agreement, as amended, remains subject to TSX-V and regulatory approvals.

Additionally, Discovery Harbour has elected not to proceed with the option to acquire the Jersey Valley property.

- (c) 4,050,000 warrants with an expiry date of April 24, 2017 were expired unexercised.