



FINANCIAL REVIEW

Fiscal Year Ended December 31, 2016



(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF MEDGOLD RESOURCES CORP.

We have audited the accompanying consolidated financial statements of Medgold Resources Corp., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Medgold Resources Corp. as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 26, 2017

Vancouver
7th Floor 355 Burrard St
Vancouver, BC V6C 2G8
T: 604 687 1231
F: 604 688 4675

Langley
305 – 9440 202 St
Langley, BC V1M 4A6
T: 604 282 3600
F: 604 357 1376

Nanaimo
201 – 1825 Bowen Rd
Nanaimo, BC V9S 1H1
T: 250 755 2111
F: 250 984 0886

Medgold Resources Corp.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31, 2016 and 2015

(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current assets | | |
| Cash | \$ 837,243 | \$ 215,282 |
| Amounts receivable | 102,000 | 7,393 |
| Prepaid expenses and deposits (Note 13) | 36,875 | 31,805 |
| Total current assets | 976,118 | 254,480 |
| Non-current assets | | |
| Long-term deposits (Note 13) | 61,000 | 61,000 |
| Exploration bonds (Note 6) | 408,593 | 498,698 |
| Property and equipment (Note 5) | 114,856 | 77,611 |
| Exploration and evaluation assets (Note 6) | 43,020 | 197,320 |
| Total non-current assets | 627,469 | 834,629 |
| | \$ 1,603,587 | \$ 1,089,109 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 206,110 | \$ 269,368 |
| Due to related parties (Note 13) | 32,760 | 73,055 |
| Total current liabilities | 238,870 | 342,423 |
| Non-current liability | | |
| Convertible debenture - liability component (Note 8) | - | 206,202 |
| Total liabilities | 238,870 | 548,625 |
| Shareholders' equity | | |
| Share capital (Note 9) | 9,264,500 | 6,037,899 |
| Other reserves (Note 9) | 1,491,350 | 1,566,911 |
| Accumulated other comprehensive loss | (173,664) | (47,203) |
| Deficit | (9,217,469) | (7,017,123) |
| Total shareholders' equity | 1,364,717 | 540,484 |
| | \$ 1,603,587 | \$ 1,089,109 |

APPROVED ON BEHALF OF THE BOARD ON APRIL 26, 2017:

"Simon Ridgway"
Simon Ridgway, Director

"Daniel James"
Daniel James, Director

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

Medgold Resources Corp.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Exploration expenditures (Note 11) | \$ 863,157 | \$ 512,331 |
| General and administrative expenses | | |
| Depreciation (Note 5) | 23,418 | 18,215 |
| Finance costs | 20,176 | - |
| Foreign exchange loss (gain) | 9,805 | (10,745) |
| Office and administration (Note 13) | 95,648 | 78,126 |
| Interest and bank charges (Note 8) | 118,399 | 59,164 |
| Legal and accounting | 57,910 | 141,274 |
| Management fees (Note 13) | 129,027 | 150,697 |
| Salaries and benefits (Note 13) | 119,715 | 111,262 |
| Shareholder communications (Note 13) | 54,874 | 60,551 |
| Share-based payments (Note 10) | 416,919 | 46,468 |
| Transfer agent and regulatory fees (Note 13) | 17,039 | 21,987 |
| Travel and accommodation (Note 13) | 15,131 | 34,934 |
| | 1,078,061 | 711,933 |
| Loss before other items | (1,941,218) | (1,224,264) |
| Other items | | |
| Interest and other income | 1,004 | 643 |
| Recovery of amounts payable | 4,851 | 50,000 |
| Write-off of exploration and evaluation assets (Note 6) | (252,126) | (1,073) |
| Loss on disposal of property and equipment | (12,857) | - |
| Write-off of sales tax receivable | - | (7,343) |
| Net loss for the year | (2,200,346) | (1,182,037) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Unrealized (loss) gain on foreign exchange translation | (126,461) | 5,467 |
| Comprehensive loss for the year | \$ (2,326,807) | \$ (1,176,570) |
| Loss per share, basic and diluted | \$(0.04) | \$(0.03) |
| Weighted average number of common shares outstanding | 60,921,535 | 47,223,346 |

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

Medgold Resources Corp.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

| | Number of common shares | Share capital | Other equity reserves | | | | Accumulated other comprehensive income (loss) | Deficit | Total shareholders' equity |
|---|-------------------------------|---------------------|-----------------------|-----------------------------------|---|---------------------|--|---------------------|----------------------------------|
| | | | Warrants reserve | Share-based payment reserve | Equity portion of convertible debenture reserve | | | | |
| Balance, December 31, 2014 | 41,822,029 | \$ 5,197,038 | \$ 2,241 | \$ 486,570 | \$ 842,680 | \$ (52,670) | \$ (5,835,086) | \$ 640,773 | |
| Loss for the year | - | - | - | - | - | - | (1,182,037) | (1,182,037) | |
| Shares issued for private placement | 7,272,728 | 561,909 | 188,091 | - | - | - | - | 750,000 | |
| Shares issued for property acquisition | 2,347,418 | 250,000 | - | - | - | - | - | 250,000 | |
| Shares issued for services | 435,520 | 41,920 | - | - | - | - | - | 41,920 | |
| Share issuance costs | - | (12,968) | 861 | - | - | - | - | (12,107) | |
| Share-based payments | - | - | - | 46,468 | - | - | - | 46,468 | |
| Unrealized foreign exchange gain | - | - | - | - | - | 5,467 | - | 5,467 | |
| Balance, December 31, 2015 | 51,877,695 | 6,037,899 | 191,193 | 533,038 | 842,680 | (47,203) | (7,017,123) | 540,484 | |
| Loss for the year | - | - | - | - | - | - | (2,200,346) | (2,200,346) | |
| Shares issued for private placement | 12,000,000 | 1,350,000 | 350,000 | - | - | - | - | 1,700,000 | |
| Shares issued for debenture conversion | 2,166,667 | 842,680 | - | - | (842,680) | - | - | - | |
| Shares issued for services | 300,000 | 46,875 | - | - | - | - | - | 46,875 | |
| Share issuance costs | - | (11,508) | - | - | - | - | - | (11,508) | |
| Warrants issued for finance fee | - | - | 17,300 | - | - | - | - | 17,300 | |
| Warrants exercised | 6,256,240 | 981,454 | - | - | - | - | - | 981,454 | |
| Transfer of reserves on exercise of warrants | - | 17,100 | (17,100) | - | - | - | - | - | |
| Share-based payments | - | - | - | 416,919 | - | - | - | 416,919 | |
| Unrealized foreign exchange loss | - | - | - | - | - | (126,461) | - | (126,461) | |
| Balance, December 31, 2016 | 72,600,602 | \$ 9,264,500 | \$ 541,393 | \$ 949,957 | \$ - | \$ (173,664) | \$ (9,217,469) | \$ 1,364,717 | |

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

Medgold Resources Corp.

(Exploration Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Cash provided by (used in): | | |
| OPERATING ACTIVITIES | | |
| Net loss for the year | \$ (2,200,346) | \$ (1,182,037) |
| Items not involving cash: | | |
| Shares issued for management fees | 46,875 | 41,920 |
| Recovery of amounts payable | (4,851) | (50,000) |
| Write-off of exploration and evaluation assets | 252,126 | 1,073 |
| Write-off of exploration bonds | 14,255 | |
| Write-off of sales tax receivable | - | 7,343 |
| Depreciation | 23,418 | 18,215 |
| Share-based payments | 416,919 | 46,468 |
| Loss on disposal of property and equipment | 12,857 | - |
| Warrants issued for finance costs | 17,300 | - |
| Foreign exchange | (10,628) | |
| Convertible debenture accretion expense | 112,852 | 55,056 |
| | (1,319,223) | (1,061,962) |
| Changes in non-cash working capital balances: | | |
| Amounts receivable | (94,607) | 4,346 |
| Prepaid expenses and deposits | (5,070) | (7,151) |
| Accounts payable and accrued liabilities | (58,407) | 126,391 |
| Due to related parties | (40,295) | 869 |
| | (1,517,602) | (937,507) |
| FINANCING ACTIVITIES | | |
| Net proceeds from issuance of common shares | 2,669,946 | 737,893 |
| Proceeds from short-term debt | 100,000 | - |
| Repayment of short-term debt | (100,000) | - |
| Interest paid | (319,054) | - |
| | 2,350,892 | 737,893 |
| INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (79,186) | (32,586) |
| Proceeds on disposal of property and equipment | 5,666 | - |
| Exploration and evaluation asset acquisitions | (97,826) | - |
| Recovery of exploration and evaluation asset costs | - | 35,415 |
| Purchase of exploration bonds | (10,692) | (53,900) |
| | (182,038) | (51,071) |
| Effect of changes in exchange rates on cash | (29,291) | (33,497) |
| Increase (decrease) in cash | 621,961 | (284,182) |
| Cash, beginning of year | 215,282 | 499,464 |
| Cash, end of year | \$ 837,243 | \$ 215,282 |

Supplemental Cash Flow Information – Note 17

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

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Medgold Resources Corp. (the "Company") is a public company incorporated and domiciled in British Columbia. The address of the Company's head office and principal place of business is 650 – 200 Burrard Street, Vancouver, BC, Canada V6C 3L6. The Company is engaged in the acquisition and exploration of resource properties in Europe.

These consolidated financial statements of the Company as at December 31, 2016 and for the year then ended include the Company and its subsidiaries (Note 3(a)).

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material. At December 31, 2016, the Company had not yet achieved profitable operations, has accumulated losses of \$9,217,469 since its inception, and expects to incur further losses in the development of its business, all of which may cast 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 obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management is continuing to investigate opportunities to raise financing for the Company (Note 18).

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Basis of Measurement

These consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements are presented in Canadian dollars ("CAD").

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. A subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All material intercompany transactions and balances have been eliminated on consolidation.

Details of the Company's principal subsidiaries as at December 31, 2016 are as follows:

| Name | Place of incorporation | Ownership % | Principal activity |
|-----------------------------|------------------------|-------------|------------------------|
| Medgold Resource Ltd. | Great Britain | 100% | Administrative company |
| MedgoldMinasUnipessoal Lda. | Portugal | 100% | Exploration company |
| MedCenterra Unipessoal Lda. | Portugal | 100% | Exploration company |
| Medgold Istrazivanja d.o.o. | Serbia | 100% | Exploration company |

b) Foreign Currency Translation

The functional currency of the Company and its subsidiaries is the Canadian dollar, British pound sterling and euro. Subsidiaries with accounts denominated in currencies other than their respective functional currency have been translated as follows:

- Monetary assets and liabilities at the exchange rate at the consolidated statement of financial position date;
- Non-monetary assets and liabilities at the historical exchange rates, unless such items are carried at fair value, in which case they are translated at the date when the fair value was determined;
- Shareholders' equity items at historical exchange rates; and
- Revenue and expense items at the rate of exchange in effect on the transaction date.

Exchange gains and losses arising from translation to the functional currencies are recorded in the consolidated statement of comprehensive loss.

The Company's presentation currency is the Canadian dollar. For presentation purposes, all amounts are translated from the functional currencies of British pound sterling and euro to the Canadian dollar presentation currency for each period. Statement of financial position accounts, with the exception of equity, are translated using the exchange rate at the end of each reporting period, transactions on the consolidated statement of comprehensive loss are recorded at the average rate of exchange during the period, and equity accounts are translated using historical actual exchange rates.

Exchange gains and losses arising from translation to the Company's presentation currency are recorded as cumulative translation adjustment, which is included in accumulated other comprehensive loss.

c) Exploration and Evaluation Assets

The Company capitalizes the acquisition cost of exploration and evaluation assets and expenses all other exploration expenditures. Acquisition costs include the cash consideration paid and the fair value of common shares issued on acquisition, based on the date of issuance of the shares if the fair value of the mineral property is not reliably measurable. Exploration and evaluation assets are classified as intangible assets.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Exploration and Evaluation Assets (continued)

Recoveries for option payments or shares received are recorded on receipt, as the payments or shares received under the agreement are made at the sole discretion of the optionee. Proceeds from the sale of minerals recovered during the exploration stage are recorded when title to the minerals passes, the proceeds are reasonably determinable and the collectability is assured.

Where the Company has entered into option agreements to acquire interests in mineral properties that provide for periodic payments or periodic share issuances, amounts unpaid and unissued are not recorded as liabilities since they are payable and issuable entirely at the Company's option. Option payments are capitalized when the payments are made or received and the share issuances are capitalized using the fair market value of the Company's common shares at the earlier of the date the counterparty's performance is complete or the issuance date.

The Company is in the exploration stage and is in the process of determining whether its exploration and evaluation assets contain ore reserves that are economically recoverable. The recoverability of amounts recorded as exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, maintenance of the Company's legal interests in its mineral claims, obtaining further financing for exploration and development of its mineral claims and commencement of future profitable production, or receiving proceeds from the sale of all or an interest in its mineral properties. Management reviews the carrying value of exploration and evaluation assets on a periodic basis 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. Amounts shown for exploration and evaluation assets represent costs incurred, net of write-downs and recoveries, and are not intended to represent present or future values.

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

d) Property, Equipment and Depreciation

Recognition and Measurement

Property and equipment are recorded at cost less accumulated depreciation and any impairment losses.

Depreciation

Depreciation is recognized in profit or loss, and property and equipment is amortized over their estimated useful lives using the following methods:

| | |
|-------------------------|----------------------------|
| Leasehold improvements | 7 years straight-line |
| Vehicles | 4 - 8 years straight-line |
| Furniture and equipment | 6% - 25% declining-balance |
| Computer equipment | 25% declining-balance |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Impairment of Non-financial Assets

Non-financial assets, including exploration and evaluation assets, are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income (loss).

f) Provisions

Rehabilitation Provision

The Company recognizes and measures the liabilities for obligations associated with the retirement of mineral properties when those obligations result from the acquisition, construction, development or normal operation of the asset. The obligation is measured at fair value and the related costs are recorded as part of the carrying value of the related asset. In subsequent periods, the liability is adjusted for the change in present value and any changes in the discount rate or in the amount or timing of the underlying future cash flows required to settle the obligation. Actual costs to retire mineral properties are deducted from the accrued liability, as these costs are incurred.

As at December 31, 2016 and 2015, the Company had no asset retirement or rehabilitation obligations.

Other Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

g) Income Taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Income Taxes (continued)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

h) Share Capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and options are classified as equity instruments.

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

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit"), and entitle the warrant holder to exercise the warrants for a stated price and a stated number of common shares in the Company. The fair value of units issued is measured using the residual value approach, with the allocation of proceeds first to shares based on the fair value of the shares on the date of issuance and the remainder to warrants.

i) Earnings/Loss Per Share

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

Diluted earnings/loss per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

j) Share-based Payments

Where equity-settled share options or equity instruments are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period using the graded vesting method. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to profit or loss over the remaining vesting period.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Share-based Payments (continued)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the fair value of goods or services received in exchange for the share-based payment cannot be reliably estimated, they are measured by use of a valuation model.

All equity-settled share-based payments are reflected in other equity reserve until exercised. Upon exercise, shares are issued and the amount reflected in other equity reserve is credited to share capital, adjusted for any consideration paid. For those unexercised options and share purchase warrants that expired, the recorded value remains in other equity reserve.

Where a grant of options is cancelled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

k) Financial Instruments

Financial assets are classified into one of four categories: fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All transactions related to financial instruments are recorded on a trade-date basis. The Company's accounting policy for the relevant category is as follows:

Financial Assets

FVTPL

The Company has recognized its cash at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in profit or loss.

Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets that have fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less any impairment.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial Instruments (continued)

Loans and Receivables

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

Available-for-Sale Investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified in any of the previous categories. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive income (loss), is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

On sale or impairment, the cumulative amount recognized in other comprehensive income (loss) is reclassified from accumulated other comprehensive income (loss) to profit or loss.

Impairment of Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities at FVTPL

Financial liabilities at FVTPL are initially recognized at fair value with changes in fair value recorded through profit or loss.

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss.

Liabilities that are to be settled in payable ounces (or the US dollar equivalent) are recorded using the spot price of the commodity. This amount includes derivative liability.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Financial Instruments (continued)

Other financial liabilities

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

Accounts payable and accrued liabilities represent liabilities for goods and services provided to the Company prior to the end of the period that are unpaid. Accounts payable and accrued liabilities amounts are unsecured.

Classification

The Company has made the following designations of its financial instruments:

| | |
|---|-----------------------------|
| Cash | FVTPL |
| Amounts receivable | Loans and receivables |
| Accounts payable | Other financial liabilities |
| Due to related parties | Other financial liabilities |
| Convertible debenture – liability component | Other financial liabilities |

l) New Standards and Interpretations Not Yet Adopted

The Company will be required to adopt the following standards and amendments issued by the IASB as described below. The Company is in the process of evaluating the impact of the new standards and amendments on its financial statements.

Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)

Issued by IASB January 29, 2016

Effective for annual periods beginning January 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes)

Issued by IASB January 19, 2016

Effective for annual periods beginning January 1, 2017

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IFRS 9 Financial Instruments

Issued by IASB July 2014

Effective for annual periods beginning January 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

I) New Standards and Interpretations Not Yet Adopted (continued)

IFRS 9 Financial Instruments (continued)

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*

Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- *Classification and measurement of financial liabilities:*

When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*

An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*

Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

IFRS 16 Leases

Issued by IASB January 2016

Effective for annual periods beginning January 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

I) New Standards and Interpretations Not Yet Adopted (continued)

IFRS 16 Leases (continued)

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 Share-based Payment)

Issued by IASB November 2016

Effective for annual periods beginning January 1, 2018

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

The key areas of judgment applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

- a) The determination of the Company's and its subsidiaries' functional currency are determined based on management's assessment of the economic environment in which the entities operate.
- b) The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company.

Assets or cash-generating units are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's exploration and evaluation assets.

In respect of costs incurred for its investment in exploration and evaluation assets, management has determined there are indicators of impairment. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit, including geologic and metallurgic information, economics assessment/ studies, accessible facilities and existing permits.

- c) Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.
- d) Although the Company has taken steps to identify any decommissioning liabilities related to mineral properties in which it has an interest, there may be unidentified decommissioning liabilities present.
- e) The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The key estimates applied in the preparation of the consolidated financial statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- a) The Company may be subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business and on dispositions of mineral property or interests therein, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events, and interpretation of tax law. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.
- b) The determination of the fair value of the components of convertible debentures requires the input of highly subjective assumptions, including the discount rate. Changes in the input assumptions could affect the liability and equity components recognized in the consolidated statements of financial position and the accretion expense recognized in profit or loss.
- c) In estimating the fair value of share-based payments, using the Black-Scholes option pricing model, management is required to make certain assumptions and estimates. Changes in assumptions used to estimate fair value could result in materially different results.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

5. PROPERTY AND EQUIPMENT

| | Leasehold improvements | Vehicles | Computer equipment | Furniture and equipment | Total |
|-----------------------------------|---------------------------|------------------|-----------------------|-------------------------------|-------------------|
| Cost | | | | | |
| Balance, December 31, 2014 | \$ 12,906 | \$ 41,196 | \$ 5,299 | \$ 12,814 | \$ 72,215 |
| Additions | - | 32,586 | - | - | 32,586 |
| Balance, December 31, 2015 | 12,906 | 73,782 | 5,299 | 12,814 | 104,801 |
| Additions | - | 42,097 | 18,250 | 18,839 | 79,186 |
| Disposals | - | (21,986) | - | - | (21,986) |
| Balance, December 31, 2016 | \$ 12,906 | \$ 93,893 | \$ 23,549 | \$ 31,653 | \$ 162,001 |
| Accumulated depreciation | | | | | |
| Balance, December 31, 2014 | \$ 4,050 | \$ 1,837 | \$ 1,311 | \$ 1,777 | \$ 8,975 |
| Charge for year | 1,800 | 12,217 | 1,464 | 2,734 | 18,215 |
| Balance, December 31, 2015 | 5,850 | 14,054 | 2,775 | 4,511 | 27,190 |
| Charge for year | 1,800 | 16,803 | 1,325 | 3,490 | 23,418 |
| Disposals | - | (3,463) | - | - | (3,463) |
| Balance, December 31, 2016 | \$ 7,650 | \$ 27,394 | \$ 4,100 | \$ 8,001 | \$ 47,145 |
| Carrying amounts | | | | | |
| At December 31, 2015 | \$ 7,056 | \$ 59,728 | \$ 2,524 | \$ 8,303 | \$ 77,611 |
| At December 31, 2016 | \$ 5,256 | \$ 66,499 | \$ 19,449 | \$ 23,652 | \$ 114,856 |

6. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition costs of its mineral property interests during the years ended December 31, 2016 and 2015:

| | Serbia | Portugal | | | Spain | Total |
|-----------------------------------|------------------|---------------------|----------------------|-------------|-------------|------------------|
| | | Klondike Project | Marrancos Project | Caramulo | | |
| Balance, December 31, 2014 | \$ - | \$ 297,320 | \$ - | \$ - | \$ 36,488 | \$ 333,808 |
| Acquisition costs recovered | - | (100,000) | - | - | (35,415) | (135,415) |
| Write-down of acquisition costs | - | - | - | - | (1,073) | (1,073) |
| Balance, December 31, 2015 | - | 197,320 | - | - | - | 197,320 |
| Acquisition costs | 43,020 | - | 36,852 | 17,954 | - | 97,826 |
| Write-down of acquisition costs | - | (197,320) | (36,852) | (17,954) | - | (252,126) |
| Balance, December 31, 2016 | \$ 43,020 | \$ - | \$ - | \$ - | \$ - | \$ 43,020 |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

Serbia

a) During the year ended December 31, 2016, the Company submitted applications for nine exploration licences in Serbia. As of December 31, 2016, five of these exploration licences have been granted and acquisition costs of \$43,020 have been recorded for the current year. Subsequent to December 31, 2016, one more licence has been granted.

b) Strategic Alliance

During the year ended December 31, 2016, in conjunction with an investment of \$1,500,000 in the Company by Fortuna Silver Mines Inc. ("Fortuna") by way of a private placement (Note 9), the Company granted Fortuna the right to enter into an option agreement to earn up to a 70% interest in one of the geological target areas (a "Selected Property") identified by the Company's project generation and exploration work in Serbia.

Subsequent to December 31, 2016, the strategic alliance was amended whereby Fortuna now has the right to enter into separate option agreements to earn up to a 70% interest in two geological target areas, each a Selected Property identified by the Company's generative work. Fortuna can earn a 51% stake in each Selected Property by spending US\$3,000,000 on each Selected Property over three years. Once Fortuna has earned 51%, it can elect to form a 51:49 joint venture with the Company to further develop the Selected Property; or can elect to earn an additional 19% interest in the Selected Property by spending an additional US\$5,000,000 in qualified expenditures and completing a Preliminary Economic Assessment on the Selected Property.

Subsequent to December 31, 2016, Fortuna chose the Tlamino Project as a Selected Property and as such, entered into an option agreement with the Company to earn up to a 70% interest of that project.

The Company and Fortuna have one common director.

Portugal

a) Klondike Project

In January 2014, the Company acquired a 100% interest in Klondike Gold Corp.'s ("Klondike") five gold exploration licences covering 600 square kilometres in northern Portugal. The five gold exploration licences covered the Lagares, Valongo, Ponte da Barca, Balazar and Castelo de Paiva licences. As part of the acquisition, Klondike retains a 2% net smelter return ("NSR") royalty, which is re-purchasable for \$1,000,000 per percentage point.

Total consideration for the acquisition was \$500,000, of which \$150,000 was paid prior to 2015. In January 2015, the final purchase payments were made, consisting of 2,347,418 shares issued by the Company having a value of \$250,000, and \$100,000 cash which was paid by Centerra Gold Corp. ("Centerra") pursuant to an option agreement with the Company on the Lagares, Valongo, Balazar and Castelo de Paiva licences (see Centerra Option below). Of the \$500,000 purchase price, \$295,070 was allocated to exploration and evaluation asset costs and the balance to exploration bonds. The \$100,000 payment made by Centerra was recognized by the Company as an acquisition cost recovery in 2015, which reduced the book value to \$197,320.

The acquisition of the Klondike Project included an exploration bond of \$204,930 (€135,000) of which \$180,348 (€120,000) was returned to the Company during 2015.

During 2015, the Ponte da Barca licence was relinquished. During the year ended December 31, 2016, the Balazar and Castelo de Paiva licences were relinquished, thereby reducing the number of Klondike Project licences to the Lagares and Valongo licences. The Company was refunded Castelo de Paiva exploration bond of \$21,254 (€15,000) during the year ended December 31, 2016. Subsequent to December 31, 2016, the Company decided that it will let the Lagares and Valongo licences lapse, and as a result, acquisition costs totaling \$197,320 were written off as of December 31, 2016.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

Portugal (continued)

b) Boticas-Chaves Project

The Boticas and Chaves licences are located in northern Portugal, with the Chaves licence surrounding the Boticas licence.

The Company has in place exploration bonds of \$223,162 (€157,500) on the Boticas licence and \$14,169 (€10,000) on the Chaves licence with the Portugal mining authority. During the year ended December 31, 2016, the Company was reimbursed these bond amounts by Centerra in accordance with its option agreement with the Company (see Centerra Option below), which was recorded as a recovery of exploration expenditures.

c) Centerra Option

On December 2, 2014, the Company entered into an agreement with Centerra whereby Centerra was granted an option to acquire up to 70% of the Lagares, Balazar, Castelo de Paiva, and Valongo licences (collectively called the Valongo Belt Property).

Under the option agreement, Centerra had the right to earn a 51% interest in the Valongo Belt Property by incurring expenditures on the Valongo Belt Property totaling US\$3,000,000 over three years, of which US\$500,000 was committed to be spent by Centerra. To keep the option in good standing, Centerra needed to incur US\$1,000,000 in the first year, a further US\$1,500,000 in the second year and a further US\$500,000 in the third year. Of these expenditures, CAD\$100,000 was paid in 2015 by Centerra to Klondike to complete the Company's obligations relating to its purchase of the Klondike Project from Klondike. The \$100,000 was previously capitalized by the Company, and in 2015 recorded as an acquisition cost recovery.

During the year ended December 31, 2016, the option agreement with Centerra was amended to include the Company's Boticas-Chaves Project.

Once Centerra has acquired the initial 51% interest in these properties, it may acquire a further 19% (for a total 70% interest) by incurring an additional US\$3,000,000 on exploration within two years. Subsequent to December 31, 2016, Centerra notified the Company that they have incurred a total of US\$3,000,000 in expenditures and therefore earned its 51% in the Valongo Belt Property and Boticas-Chaves Project. Centerra also advised that it was not interested in incurring further exploration expenditures pursuant to the option agreement and therefore wished to dispose of the 51% interest in the licences.

d) Vila de Rei

The Vila de Rei licence is located in central Portugal. The Company had in place an exploration bond of \$163,988 (€116,359) to the Portugal mining authority for the Vila de Rei licence. This licence was relinquished during the year ended December 31, 2016 and the Company was refunded the exploration bond.

e) Caramulo Licence

In 2015, the Company submitted an application for a new exploration licence called Caramulo. During the year ended December 31, 2016, the Company recorded exploration bonds of \$15,586 (€11,000), the licence was granted and the Company recorded an acquisition cost of \$17,954. Subsequent to December 31, 2016, the Company decided that it will let the Caramulo licence lapse, and as a result, the acquisition cost of \$17,954 was written off as of December 31, 2016.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (continued)

Portugal (continued)

f) Marrancos Gold Project

On June 29, 2016, the Company entered into an option agreement to acquire up to a 100% interest in the Marrancos Project located in northern Portugal. The Company has the option from Lusorecursos SCPS ("Lusorecursos"), a private Portuguese company, to earn an initial 70% interest in the property by making a cash payment of €25,000 and incurring exploration expenditures of €150,000 on or before 12 months following the agreement date. During the year ended December 31, 2016, the payment of €25,000 was made and an acquisition cost of \$36,852 recorded.

Subsequent to the fiscal year-end, the Company notified Lusorecursos that it will terminate the option agreement. As a result, the acquisition cost of \$36,852 was written off as of December 31, 2016.

g) Strategic Alliance

On January 8, 2014, the Company entered into a strategic alliance agreement with Radius Gold Inc. ("Radius") whereby Radius had the right for a period of eighteen months to select one of the Company's Portuguese properties in which Radius would have been granted the option to earn a 51% interest by spending \$3,000,000 on exploration and development of that property. Upon exercise of the option, a joint venture would have been formed between the Company and Radius to further develop the property. Radius did not exercise its right to option one of the properties and the option expired in 2015. The Company and Radius have one common director.

Spain

a) Pinzas Project

Pursuant to a binding Letter of Intent with Ormonde Mining PLC ("Ormonde") signed in July 2011, and amended in April and September 2012, the Company was provided access to Ormonde's database on a 2,400 square kilometre area in southern Galicia, Spain. In consideration thereof, the Company agreed to undertake €100,000 in exploration of the project area, which expenses could be incurred through the cost of licence applications. In 2013, Ormonde agreed to transfer all of its rights to the project area to the Company, with Ormonde retaining a 1.5% NSR royalty on any future gold production from the project area.

The Company had nine gold exploration permit applications in place within the Ormonde project area, which is known as the Pinzas Project. Three of the applications were submitted in 2012, and in 2013 applications for six adjoining licences were submitted of which one was subject to public tender. In 2014, the Company withdrew eight of these applications and in 2015, withdrew the remaining application. In 2015, the Company recorded a recovery of acquisition costs totaling \$32,779 and wrote-off the remaining acquisition cost balance of \$1,073.

b) Calzadilla Property

In 2014, the Company was granted the Calzadilla gold exploration permit. During the year ended December 31, 2016, the permit was relinquished. Acquisition costs totaling \$2,636 were recovered in 2015.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

7. SHORT-TERM DEBT

On March 24, 2016, the Company obtained a short-term loan of \$100,000 to provide funding for general working capital requirements. The loan was repayable within six months and subject to interest at 8% per annum. In consideration for the loan, the Company issued to the lender share purchase warrants to purchase up to 500,000 common shares of the Company, exercisable for one year at \$0.09 per share. Transaction costs of \$18,434 were recorded, of which \$17,300 was the fair value of the warrants issued to the lender. The warrants were measured by using the Black-Scholes option pricing model. The model inputs for warrants issued included an expected volatility factor of 111%, risk-free interest rate of 0.56%, expected life of one year, and expected dividend yield of 0%. The short-term loan was repaid during the year ended December 31, 2016 and a total of \$1,742 in cash interest charges was charged to profit and loss.

8. CONVERTIBLE DEBENTURE

On April 12, 2013, the Company issued a convertible debenture for the principal sum of \$975,000. The debenture was convertible into a maximum of 2,166,667 common shares of the Company at the rate of \$0.45 per share on or before April 11, 2015, and bore interest at the rate of 8% per annum, payable in arrears. In 2015, the maturity date was extended to April 11, 2017. The debenture, in whole or in part, was convertible into common shares at the holder's option at a rate of \$0.45 per share until the maturity date. The Company also issued to the convertible debenture holder share purchase warrants to purchase up to 2,166,667 additional common shares exercisable at \$0.45 per share until April 11, 2014. In 2013, the exercise price of the warrants was reduced to \$0.1665 per share. In 2014, the expiry date of the warrants was extended to April 11, 2015, and was extended further to April 11, 2016 during 2015. During the year ended December 31, 2016, the expiry date of the warrants was extended further to April 11, 2017 but then in accordance with the terms thereof, was accelerated to October 16, 2016. The warrants were exercised in full on October 14, 2016.

Also on October 14, 2016, the principal amount of the debenture of \$975,000 was converted into 2,166,667 shares and accrued interest totaling \$319,054 was paid in full settlement of the debt.

For accounting purposes, the convertible debenture was allocated into corresponding debt and equity components at the date of issue. The Company used the residual value method, which allocated value first to the debt component, based on fair value and then the residual value, to the equity component (comprising the conversion feature as well as the value of the share purchase warrants). The debt component was subsequently accreted to face value of the convertible debenture at the effective interest rate.

During the year ended December 31, 2016, accretion of interest on the convertible debentures of \$112,852 (2015: \$55,056) was charged to profit or loss and is included in interest and bank charges.

| | Liability component | Equity component |
|--------------------------------------|--------------------------------|-----------------------------|
| Balance, December 31, 2014 | \$ 151,146 | \$ 842,680 |
| Accretion of discount | 55,056 | - |
| Balance, December 31, 2015 | 206,202 | 842,680 |
| Interest paid | (319,054) | - |
| Debenture converted to common shares | - | (842,680) |
| Accretion of discount | 112,852 | - |
| Balance, December 31, 2016 | \$ - | \$ - |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES

Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

During the year ended December 31, 2016, the following share capital activity occurred:

- i) On October 14, 2016, 2,166,667 common shares were issued upon the conversion of a \$975,000 convertible note (Note 8).
- ii) On June 17, 2016, the Company closed a private placement of 10,000,000 units at \$0.15 per unit to Fortuna. Each unit consists of one common share and one share purchase warrant entitling Fortuna to purchase an additional common share exercisable for one year at a price of \$0.15. Of the \$1,500,000 in gross proceeds, \$1,150,000 was allocated to share capital and \$350,000 to warrants. Share issuance costs associated with this financing totalled \$9,758.
- iii) On May 12, 2016, the Company closed a private placement of 2,000,000 units at \$0.10 per unit for gross proceeds of \$200,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share exercisable for one year at a price of \$0.12. The entire amount of the proceeds was allocated to share capital. Share issuance costs associated with this financing totalled \$1,750.
- iv) A total of 300,000 common shares with a value of \$46,875 were issued to the President of the Company for services rendered.
- v) A total of 6,256,240 share purchase warrants were exercised for gross proceeds of \$981,454. The Company reallocated the fair value of 1,140,000 of these share purchase warrants previously recorded in the amount of \$17,100 from other equity reserve to share capital.

During the year ended December 31, 2015, the following share capital activity occurred:

- i) On December 31, 2015, 108,880 common shares with a value of \$7,622 were issued to the President of the Company for services rendered.
- ii) On October 13, 2015, the Company closed the final tranche of a private placement of 2,900,000 units at \$0.10 per unit for gross proceeds of \$290,000. Of the sale proceeds, \$188,500 was allocated to share capital and \$101,500 to warrants. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share exercisable for two years at a price of \$0.15. Share issuance costs associated with this financing totalled \$600.
- iii) On September 30, 2015, 108,880 common shares with a value of \$7,622 were issued to the President of the Company for services rendered.
- iv) On September 21, 2015, the Company closed the first tranche of a private placement of 2,100,000 units at \$0.10 per unit for gross proceeds of \$210,000. Of the sale proceeds, \$157,500 was allocated to share capital and \$52,500 to warrants. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share exercisable for two years at a price of \$0.15. Share issuance costs associated with this financing totalled \$5,437.
- v) On June 30, 2015, 108,880 common shares with a value of \$16,332 were issued to the President of the Company for services rendered.
- vi) On April 13, 2015, 108,880 common shares with a value of \$10,344 were issued to the President of the Company for services rendered.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Common Shares (continued)

- vii) On February 18, 2015, the Company closed a private placement of 2,272,728 units at \$0.11 per unit for gross proceeds of \$250,000. Of the sale proceeds, \$215,909 was allocated to share capital and \$34,091 to warrants. The Company paid \$660 cash and 42,000 warrants as finders' fees in connection with the financing. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase an additional common share exercisable for one year at a price of \$0.16. The finders' fee warrants have the same terms as the purchaser's warrants. The fair value of the 42,000 finders' fee warrants was \$861 and was recorded as share issuance costs and an offset to other equity reserve. The fair value of each finders' fee warrant has been estimated as of the date of the issuance using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 0.42%, dividend yield of 0%, volatility of 95% and expected life of one year. Other share issuance costs associated with this financing totalled \$5,410.
- viii) On February 13, 2015, the Company issued 2,347,418 common shares having a value of \$250,000 to Klondike as part of the Portuguese property acquisition (Note 6).

Escrow Shares

As at December 31, 2016 and 2015, there were no shares held in escrow. The shares previously held in escrow were released based on the passage of time, with a release of 727,500 shares occurring in June 2015 and the final release of 1,602,500 shares occurring in December 2015.

Share Purchase Warrants

A summary of share purchase warrants activity for the years ended December 31, 2016 and 2015 is as follows:

| | Number of warrants | Weighted average exercise price |
|-----------------------------------|-----------------------|---------------------------------------|
| Balance, December 31, 2014 | 11,755,167 | \$0.15 |
| Issued on private placement | 7,314,728 | \$0.15 |
| Balance, December 31, 2015 | 19,069,895 | \$0.15 |
| Issued on private placement | 12,000,000 | \$0.15 |
| Issued for finance fee (Note 7) | 500,000 | \$0.09 |
| Exercised during the year | (6,256,240) | \$0.16 |
| Expired during the year | (330,927) | \$0.16 |
| Balance, December 31, 2016 | 24,982,728 | \$0.15 |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Share Purchase Warrants (continued)

Details of share purchase warrants outstanding as of December 31, 2016 are:

| Expiry date | Number of warrants | Exercise price |
|----------------------------------|--------------------|----------------|
| February 4, 2017 ⁽¹⁾ | 6,350,000 | \$0.15 |
| February 17, 2017 ⁽²⁾ | 1,132,728 | \$0.16 |
| March 21, 2017 | 500,000 | \$0.09 |
| May 11, 2017 | 2,000,000 | \$0.12 |
| June 16, 2017 | 10,000,000 | \$0.15 |
| September 20, 2017 | 2,100,000 | \$0.15 |
| October 12, 2017 | 2,900,000 | \$0.15 |
| | 24,982,728 | |

(1) In January 2016, the expiry date of these warrants was extended from February 4, 2016 to February 4, 2017.

(2) In August 2015, the expiry date of these warrants was extended from February 17, 2016 to February 17, 2017.

10. SHARE-BASED PAYMENTS

Option Plan Details

The Company has in place a stock option plan (the "Plan"), which allows the Board of Directors to grant incentive stock options to the Company's officers, directors, employees and consultants. The exercise price of stock options granted is determined by the Board of Directors at the time of the grant in accordance with the terms of the Plan and the policies of the TSX Venture Exchange ("TSX-V"). Options vest on the date of granting unless stated otherwise. Options granted to investor relations consultants vest in accordance with TSX-V policies. The options are for a maximum term of ten years.

The following is a summary of changes in options for the year ended December 31, 2016:

| Expiry date | Exercise price | Opening balance | During the year | | | Closing balance | Vested and exercisable |
|--|----------------|-----------------|-----------------|-----------|---------------------|-----------------|------------------------|
| | | | Granted | Exercised | Forfeited/cancelled | | |
| February 23, 2024 | \$0.15 | 3,455,000 | - | - | - | 3,455,000 | 3,455,000 |
| February 12, 2025 | \$0.15 | 500,000 | - | - | (275,000) | 225,000 | 225,000 |
| June 28, 2026 | \$0.15 | - | 2,580,000 | - | (30,000) | 2,550,000 | 2,550,000 |
| | | 3,955,000 | 2,580,000 | - | (305,000) | 6,230,000 | 6,230,000 |
| Weighted average exercise price | \$0.15 | \$0.15 | \$0.15 | - | \$0.15 | \$0.15 | \$0.15 |

The following is a summary of changes in options for the year ended December 31, 2015:

| Expiry date | Exercise price | Opening balance | During the year | | | Closing balance | Vested and exercisable |
|--|----------------|-----------------|-----------------|-----------|---------------------|-----------------|------------------------|
| | | | Granted | Exercised | Forfeited/cancelled | | |
| February 23, 2024 | \$0.15 | 3,455,000 | - | - | - | 3,455,000 | 3,455,000 |
| February 12, 2025 | \$0.15 | - | 500,000 | - | - | 500,000 | 500,000 |
| | | 3,455,000 | 500,000 | - | - | 3,955,000 | 3,955,000 |
| Weighted average exercise price | \$0.15 | \$0.15 | \$0.15 | - | - | \$0.15 | \$0.15 |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

10. SHARE-BASED PAYMENTS (continued)

Fair Value of Options Issued During the Year

The weighted average fair value at grant date of options granted during the year ended December 31, 2016 was \$0.16 (2015: \$0.09) per option.

The weighted average remaining contractual life of the options outstanding at December 31, 2016 is 8.15 (2015: 8.28) years.

Options Issued to Employees

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Options Issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

The model inputs for options granted during the year ended December 31, 2016 included an expected volatility factor of 121%, risk-free interest rate of 1.12%, expected life of ten years, and expected dividend yield of 0% (2015: expected volatility factor of 118%, risk-free interest rate of 1.43%, expected life of ten years, and expected dividend yield of 0%). Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% in determining the expense recorded in the accompanying consolidated statements of comprehensive loss.

The expected volatility is based on an average of historical prices of a comparable group of companies within the same industry due to the lack of historical pricing information for the Company. The risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Expenses Arising from Share-based Payment Transactions

Total expenses arising from the share-based payment transactions recognized as part of share-based compensation during the year ended December 31, 2016 was \$416,919 (2015: \$46,468).

Total expenses arising from the share-based payment transactions recognized as part of management fees during the year ended December 31, 2016 was \$46,875 (2015: \$41,920).

Amounts Capitalized Arising from Share-based Payment Transactions

Total expenses arising from the share-based payment transactions that were capitalized as part of exploration and evaluation assets during the year ended December 31, 2016 was \$Nil (2015: \$250,000).

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

11. EXPLORATION EXPENDITURES

During the year ended December 31, 2016, the Company incurred the following exploration expenditures:

| | Portugal | | | | Spain | | Total |
|---------------------------------|-------------------------------------|-----------|-----------|-----------|------------|--------------|-------------|
| | Properties under option to Centerra | Caramulo | Marrancos | Other | Calzadilla | Serbia | |
| Assaying | \$ 195,453 | \$ 2,073 | \$ 4,871 | \$ - | \$ - | \$ 61,231 | \$ 263,628 |
| Drilling | 745,141 | - | - | - | - | - | 745,141 |
| Field expenses | 30,414 | 124 | 249 | 2,498 | - | 22,572 | 55,857 |
| Geological and other consulting | 616,140 | 11,275 | 11,847 | 49,512 | - | 773,842 | 1,462,616 |
| Licenses, rights and taxes | 45,446 | - | - | - | 7,071 | 14,946 | 67,463 |
| Office and administration | 162,435 | 2,730 | 3,702 | 14,994 | - | 81,908 | 265,769 |
| Travel | 64,395 | 4,613 | 7,514 | 23,954 | - | 146,961 | 247,437 |
| | 1,859,424 | 20,815 | 28,183 | 90,958 | 7,071 | 1,101,460 | 3,107,911 |
| Expense recoveries | (2,232,021) | - | - | (12,733) | - | - | (2,244,754) |
| | \$ (372,597) | \$ 20,815 | \$ 28,183 | \$ 78,225 | \$ 7,071 | \$ 1,101,460 | \$ 863,157 |

During the year ended December 31, 2015, the Company incurred the following exploration expenditures:

| | Portugal | | | | | Spain | |
|---------------------------------|-------------------------------------|----------------|----------------|-------------|------------|------------|-------------|
| | Properties under option to Centerra | Boticas-Chaves | Ponte da Barca | Vila de Rei | Other | Calzadilla | Total |
| Assaying | \$ 151,951 | \$ 8,707 | \$ 10,415 | \$ 10,724 | \$ 10,280 | \$ 5,584 | \$ 197,661 |
| Drilling | 739,584 | - | - | - | - | - | 739,584 |
| Field expenses | 2,973 | 16,644 | 1,707 | 2,543 | - | - | 23,867 |
| Geological and other consulting | 955,286 | 219,195 | 21,951 | 43,638 | 121,350 | 13,716 | 1,375,136 |
| Licenses, rights and taxes | 17,729 | 27,340 | - | - | - | 4,455 | 49,524 |
| Office and administration | 111,635 | 43,915 | 15,345 | 15,672 | 15,302 | 244 | 202,113 |
| Travel | 80,958 | 60,614 | 10,826 | 14,968 | 52,466 | 3,049 | 222,881 |
| | 2,060,116 | 376,415 | 60,244 | 87,545 | 199,398 | 27,048 | 2,810,766 |
| Expense recoveries | (1,900,907) | (207,101) | (47,707) | (54,544) | (84,927) | (3,249) | (2,298,435) |
| | \$ 159,209 | \$ 169,314 | \$ 12,537 | \$ 33,001 | \$ 114,471 | \$ 23,799 | \$ 512,331 |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

12. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the statutory income tax rates:

| | 2016 | 2015 |
|--|--------------|--------------|
| Net loss for the year | \$ 2,200,346 | \$ 1,182,037 |
| Statutory income tax rate | 26.00% | 26.00% |
| Expected income tax recovery | (572,090) | (307,330) |
| Decrease (increase) resulting from: | | |
| Non-deductible expenses and others | 109,224 | 12,082 |
| Differences between Canadian and foreign tax rates | 93,905 | 16,920 |
| Change in timing differences | 92,958 | (14,206) |
| Effect of change in tax rates | 39,866 | - |
| Effect of write-off of exploration and evaluation assets | (59,662) | - |
| Impact of foreign exchange on tax assets and liabilities | 165,525 | (88,865) |
| Unused tax losses and tax offsets not recognized | 130,274 | 381,399 |
| Income tax recoverable | \$ - | \$ - |

The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate sufficient taxable income for the recognition of deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | 2016 | 2015 |
|--|----------------------|----------------------|
| Non-capital loss carry-forwards | \$ 8,571,251 | \$ 7,973,023 |
| Exploration and evaluation assets | 10,444,554 | 10,209,329 |
| Property and equipment | 187,322 | 149,765 |
| Share issuance cost | 22,996 | 20,196 |
| Unrecognized deductible temporary differences | \$ 19,226,123 | \$ 18,352,313 |

Subject to certain restrictions, the Company has non-capital losses of \$4,599,030 (2015: \$3,779,793) available to reduce future Canadian taxable income. The non-capital losses expire as follows:

| Year | |
|------|---------------------|
| 2026 | \$ 414,420 |
| 2027 | 505,632 |
| 2028 | 258,679 |
| 2029 | 188,071 |
| 2030 | 182,118 |
| 2031 | 197,734 |
| 2032 | 263,577 |
| 2033 | 485,883 |
| 2034 | 539,445 |
| 2035 | 680,434 |
| 2036 | 883,037 |
| | \$ 4,599,030 |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

12. INCOME TAXES (continued)

The Company also has non-capital losses for income tax purposes of \$3,071,678 (2015: \$3,373,700) available to reduce future UK taxable income, non-capital losses for income tax purposes of \$314,883 (2015: \$304,300) available to reduce future Spanish taxable income, \$69,229 (2015: \$514,800) available to reduce future Portuguese taxable income and \$517,038 (2015: \$nil) available to reduce future Serbian taxable income. The UK and Spain non-capital losses do not expire, the Portugal non-capital losses expire in twelve years and the Serbian non-capital losses expire in five years.

Resource Development Costs

The Company has resource development costs of \$10,345,782 available to offset future taxable income in Canada, deductible at various declining-balance rates.

13. RELATED PARTY TRANSACTIONS AND BALANCES

The Company's related parties with transactions during the years ended December 31, 2016 and 2015 consist of directors, officers and the following companies with common directors:

| <u>Related party</u> | <u>Nature of transactions</u> |
|--|---|
| Radius | Exploration related charges and investment in the Company |
| Gold Group Management Inc. ("Gold Group") | Shared office, administrative and exploration related charges |
| Focus Ventures Ltd. ("Focus") | Shared administrative salary charges |
| Mill Street Services Ltd. ("Mill Street") | Management services |
| Fortuna | Investment in the Company and mineral property option agreement |

Balances and transactions with related parties not disclosed elsewhere in these consolidated financial statements are as follows:

- a) During the years ended December 31, 2016 and 2015, the Company reimbursed Gold Group for the following costs:

| | 2016 | 2015 |
|--------------------------------------|-------------------|-------------------|
| General and administrative expenses: | | |
| Office and administration | \$ 85,076 | \$ 75,856 |
| Salaries and benefits | 108,817 | 100,188 |
| Shareholder communications | 1,241 | 3,871 |
| Transfer agent and regulatory fees | 4,249 | 5,825 |
| Travel and accommodation | 14,078 | 14,015 |
| | \$ 213,461 | \$ 199,755 |
| Exploration expenditures | \$ - | \$ 2,634 |

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits for the years ended December 31, 2016 and 2015 include those for the Chief Financial Officer and the Corporate Secretary.

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

- b) During the year ended December 31, 2016, the Company reimbursed Radius, a company with a common director, \$91,546 (2015: \$44,436) in shared salary and benefits for the services of a geologist.
- c) During the year ended December 31, 2016, the Company reimbursed Focus, a company with common directors, \$9,150 (2015: \$11,074) in shared salary and benefits costs for the Company's former vice-president.
- d) Prepaid expenses and deposits as at December 31, 2016 include an amount of \$1,122 (2015: \$2,250) paid to Gold Group for administrative expenses paid in advance on the Company's behalf.
- e) Long-term deposits as of December 31, 2016 consist of \$61,000 (2015: \$61,000) paid to Gold Group as a deposit pursuant to the Gold Group Agreement.
- f) Amounts due to related parties as of December 31, 2016 consist of \$18,792 (2015: \$54,331) owing to Gold Group; \$13,968 (2015: \$8,224) owing to Radius, and \$Nil (2015: \$10,500) owing to Mill Street, a company controlled by the Chief Executive Officer of the Company. The amount for Gold Group is due on a monthly basis and secured by a deposit. The amounts for Radius and Mill Street were unsecured, interest-free and had no specific terms of repayment.
- g) Fortuna, a company with a common director, acquired 10,000,000 common shares of the Company by way of a private placement for \$1,500,000 (Note 9) and entered into a strategic alliance relating to project generation in Serbia (Note 6).
- h) During the year ended December 31, 2016, Radius, a company with a common director, exercised 2,000,000 share purchase warrants at a cost of \$300,000 (Note 9), thereby acquiring 2,000,000 common of shares of the Company.

Key Management Compensation

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the years ended December 31, 2016 and 2015 at their exchange amounts are the following items paid or accrued to key management personnel and/or companies with common directors. These transactions are in the normal course of operations.

| | 2016 | 2015 |
|--|-------------------|-------------------|
| Management fees | \$ 129,027 | \$ 150,697 |
| Geological fees | 148,541 | 136,045 |
| Salaries and benefits | 28,875 | 29,792 |
| Value of stock options grants recorded as share-based payments | 137,357 | - |
| | \$ 443,800 | \$ 316,534 |

During the year ended December 31, 2016, the Company issued in quarterly instalments, a total of 300,000 common shares of the Company (2015: 435,520 common shares) to Daniel James in part consideration for his ongoing services as the Company's president during 2016. Included in management fees during the year ended December 31, 2016 is the total fair value of the share issuances of \$46,875 (2015: \$41,920).

The value of stock options granted to directors not specified as key management personnel during the year ended December 31, 2016 and recorded as share-based based payments expense totaled \$96,956 (2015: \$Nil).

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Market risk
- Credit risk
- Liquidity risk.

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

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

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies, and whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receives periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at December 31, 2016, the Company is exposed to foreign currency risk and interest rate risk.

Foreign Currency Risk

As at December 31, 2016 and 2015, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

| | December 31, 2016 | | | | December 31, 2015 | | |
|--|---|-----------------------------|------------------------|-------------------------|---|-----------------------------|------------------------|
| | British Pound Sterling (CDN equivalent) | US Dollars (CDN equivalent) | Euros (CDN equivalent) | Dinars (CDN equivalent) | British Pound Sterling (CDN equivalent) | US Dollars (CDN equivalent) | Euros (CDN equivalent) |
| Cash | \$ 186,067 | \$ 5,442 | \$ 156,316 | \$ 73,054 | \$ 13,987 | \$ 4,043 | \$ 130,189 |
| Amounts receivable | - | - | 25,380 | 70,469 | - | - | - |
| Accounts payable and accrued liabilities | (20,806) | - | (134,051) | (42,949) | (46,919) | - | (216,059) |
| Net exposure | \$ 165,261 | \$ 5,442 | \$ 47,645 | \$ 100,574 | \$ (32,932) | \$ 4,043 | \$ (85,870) |

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Foreign Currency Risk (continued)

Based on the above net exposures at December 31, 2016, a 10% depreciation or appreciation of the above currencies against the Canadian dollar would result in approximately a \$31,900 (2015: \$11,500) increase or decrease in profit or loss, respectively.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2016, the Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Canadian and British financial institutions. The Company considers this risk to be limited.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions.

c) 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's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2016, the Company had working capital of \$737,248 (2015: working capital deficiency of \$87,943). All of the Company's financial liabilities had contractual maturities of less than 45 days and are subject to normal trade terms.

Determination of Fair Value

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

The consolidated statements of financial position carrying amounts for cash, amounts receivable, accounts payable and accrued liabilities, and due to related parties approximate fair values due to their short-term nature.

Fair Value Hierarchy

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

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

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

15. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity. There were no changes in the Company's capital management approach during the year ended December 31, 2016.

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 the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements. The Company's capital resources as of December 31, 2016 are not sufficient to cover its corporate operating costs and carry out exploration activities for the next twelve months. In order to carry out planned exploration programs and business objectives, the Company has raised additional capital subsequent to December 31, 2016 (Note 18). The Company believes it will be able to raise additional debt or equity capital as required, but recognizes the uncertainty attached thereto.

16. SEGMENTED REPORTING

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector relating to precious metals exploration. Management of exploration programs is centralized in England. Due to the geographic and political diversity, the Company's exploration operations are decentralized whereby regional corporate offices provide support to the exploration programs in addressing local and regional issues. The Company's operations and assets are therefore segmented on a country basis.

Year ended December 31, 2016

| | Canada | England | Spain | Portugal | Serbia | Consolidated |
|---|----------------|-------------|-------------|--------------|----------------|----------------|
| Exploration expenditures | \$ - | \$ - | \$ 7,071 | \$ (245,374) | \$ 1,101,460 | \$ 863,157 |
| Exploration and evaluation assets written off | \$ - | \$ - | \$ - | \$ 252,126 | \$ - | \$ 252,126 |
| Interest and other income | \$ 1,004 | \$ - | \$ - | \$ - | \$ - | \$ 1,004 |
| Net loss | \$ (1,030,506) | \$ (32,690) | \$ (11,119) | \$ (38,382) | \$ (1,087,649) | \$ (2,200,346) |
| Capital expenditures* | \$ - | \$ 3,630 | \$ - | \$ 54,806 | \$ 118,576 | \$ 177,012 |

Year ended December 31, 2015

| | Canada | England | Spain | Portugal | Consolidated |
|---|--------------|-------------|-------------|--------------|----------------|
| Exploration expenditures | \$ - | \$ - | \$ 53,842 | \$ 458,489 | \$ 512,331 |
| Exploration and evaluation assets written off | \$ - | \$ - | \$ 1,073 | \$ - | \$ 1,073 |
| Sales tax receivable written off | \$ - | \$ 7,343 | \$ - | \$ - | \$ 7,343 |
| Interest and other income | \$ 643 | \$ - | \$ - | \$ - | \$ 643 |
| Net loss | \$ (543,105) | \$ (90,560) | \$ (75,365) | \$ (473,007) | \$ (1,182,037) |
| Capital expenditures* | \$ - | \$ - | \$ - | \$ 32,586 | \$ 32,586 |

*Capital expenditures consists of additions of property and equipment and exploration and evaluation assets

Medgold Resources Corp.

(Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

(Expressed in Canadian Dollars)

16. SEGMENTED REPORTING (continued)

| As at December 31, 2016 | Canada | England | Portugal | Serbia | Consolidated |
|--------------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| Total current assets | \$ 440,621 | \$ 186,067 | \$ 199,211 | \$ 150,219 | \$ 976,118 |
| Total non-current assets | 96,110 | 5,873 | 441,344 | 84,142 | 627,469 |
| Total assets | \$ 536,731 | \$ 191,940 | \$ 640,555 | \$ 234,361 | \$ 1,603,587 |
| Total liabilities | \$ 39,341 | \$ 20,806 | \$ 134,051 | \$ 44,672 | \$ 238,870 |

| As at December 31, 2015 | Canada | England | Italy | Spain | Portugal | Consolidated |
|--------------------------|-------------------|------------------|------------------|------------------|-------------------|---------------------|
| Total current assets | \$ 93,759 | \$ 15,827 | \$ - | \$ 25,557 | \$ 119,337 | \$ 254,480 |
| Total non-current assets | 68,056 | 25,871 | 22,927 | - | 717,775 | 834,629 |
| Total assets | \$ 161,815 | \$ 41,698 | \$ 22,927 | \$ 25,557 | \$ 837,112 | \$ 1,089,109 |
| Total liabilities | \$ 280,578 | \$ 46,919 | \$ - | \$ 6,521 | \$ 214,607 | \$ 548,625 |

17. SUPPLEMENTAL CASH FLOW INFORMATION

| | 2016 | 2015 |
|---|------------|------------|
| Shares issued on conversion of convertible debenture | \$ 842,680 | \$ - |
| Interest paid – convertible debenture | \$ 319,054 | \$ - |
| Interest paid – short-term loan | \$ 1,742 | \$ - |
| Acquisition of Klondike – exploration and evaluation assets | \$ - | \$ 250,000 |

18. EVENTS AFTER THE REPORTING DATE

Subsequent to December 31, 2016, the following events occurred:

- A total of 12,413,573 share purchase warrants were exercised for gross proceeds of \$1,838,320, of which 10,000,000 share purchase warrants were exercised by Fortuna for gross proceeds of \$1,500,000. As a result of its warrant exercise, Fortuna owns 20,000,000 common shares of the Company, or approximately 24% of the issued capital of the Company at the time of exercise. According to TSX-V policies, Fortuna is deemed to be a Control Person of the Company as it owns more than 20% of the issued shares of the Company.
- A total of 5,850,000 share purchase warrants with an exercise price of \$0.15 per share and 65,455 share purchase warrants with an exercise price of \$0.16 per share expired unexercised.



(the “Company”)

MANAGEMENT’S DISCUSSION AND ANALYSIS

Year End Report – December 31, 2016

General

This Management’s Discussion and Analysis (“MD&A”) supplements, but does not form part of, the annual audited consolidated financial statements of the Company for the fiscal year ended December 31, 2016. The following information, prepared as of April 26, 2017, should be read in conjunction with the December 31, 2016 consolidated financial statements. The Company reports its financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All amounts are expressed in Canadian dollars unless otherwise indicated.

Additional information relevant to the Company’s activities can be found on SEDAR at (www.sedar.com).

Forward Looking Information

This MD&A contains certain statements which constitute forward-looking information within the meaning of applicable Canadian securities legislation (“Forward-looking Statements”). All statements included herein, other than statements of historical fact, are Forward-looking Statements and are subject to a variety of known and unknown risks and uncertainties which could cause actual events or results to differ materially from those reflected in the Forward-looking Statements. The Forward-looking Statements in this MD&A include, without limitation, statements relating to:

- the Company’s planned exploration activities for its mineral properties;
- the intended use of proceeds received from past and possible future financing activities;
- the sufficiency of the Company’s cash position and its ability to raise equity capital or access debt facilities; and
- maturities of the Company’s financial liabilities or other contractual commitments.

Often, but not always, these Forward-looking Statements can be identified by the use of words such as “anticipates”, “believes”, “plans”, “estimates”, “expects”, “forecasts”, “scheduled”, “targets”, “possible”, “strategy”, “potential”, “intends”, “advance”, “goal”, “objective”, “projects”, “budget”, “calculates” or statements that events, “will”, “may”, “could” or “should” occur or be achieved and similar expressions, including negative variations.

Forward-looking Statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any results, performance or achievements expressed or implied by the Forward-looking Statements. Such uncertainties and factors include, among others:

- risks associated with mineral exploration and project development;
- fluctuations in commodity prices;
- fluctuations in foreign exchange rates and interest rates;
- credit and liquidity risks;
- changes in national and local government legislation, taxation, controls, regulations and political or economic developments in countries in which the Company does or may carry on business;
- reliance on key personnel;

- property title matters;
- local community relationships;
- risks associated with potential legal claims generally or with respect to environmental matters;
- adequacy of insurance coverage;
- dilution from further equity financing;
- competition; and
- uncertainties relating to general economic conditions.

as well as those factors referred to in the “Risks and Uncertainties” section in this MD&A.

Forward-looking Statements contained in this MD&A are based on the assumptions, beliefs, expectations and opinions of management, including but not limited to:

- all required third party contractual, regulatory and governmental approvals will be obtained for the exploration and development of the Company’s properties;
- there being no significant disruptions affecting operations, whether relating to labor, supply, power, damage to equipment or other matter;
- permitting, exploration and development activities proceeding on a basis consistent with the Company’s current expectations;
- expected trends and specific assumptions regarding commodity prices and currency exchange rates;
- prices for and availability of fuel, electricity, equipment and other key supplies remaining consistent with current levels; and
- the accuracy of the Company’s current mineral resource estimates.

These Forward-looking Statements are made as of the date hereof and the Company disclaims any obligation to update any Forward-looking Statements, whether as a result of new information, future events or results or otherwise, except as required by law. There can be no assurance that Forward-looking Statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, investors should not place undue reliance on Forward-looking Statements.

Business of the Company

The Company is a Vancouver based mineral exploration company engaged in the acquisition and exploration of precious and base metals properties. The Company is focusing on early- to mid-stage exploration projects in Europe in jurisdictions which are mining-friendly, with a strong mining code, and with excellent geological potential. The current focus is in Serbia and new jurisdictions are being reviewed.

Exploration Review

The Company is targeting gold (silver, lead and zinc) properties in the Oligo-Miocene igneous belt of Serbia. This belt of rocks runs NW-SE across much of the country, and is under-explored for gold and silver, despite an abundance of freely available geological data. Much of this information was generated by the Yugoslav government, predominantly through the 1960s and 1970s, through phases of national-scale geological mapping and systematic exploration for lead and zinc.

In mid-2016, the Company signed a strategic alliance with Fortuna Silver Mines Inc. (“Fortuna”), for the purposes of generating gold-silver exploration projects in Serbia. The Company has been granted several exploration licences, and is in the process of applying for more, following multiple phases of project generation work. The work led to the identification of the Tlamino Project, where some highly significant channel-chip results have been obtained, and also led Fortuna to option the Project in March 2017.

In Portugal, the Company has taken the decision to significantly reduce exploration efforts, and will be letting a number of exploration licences lapse at the end of their term. The work completed over the last year has not successfully identified significant and large-scale mineralization suitable to justify further exploration expenditures.

Serbia

The Company has been granted six exploration licences, each covering approximately 100 square kilometres, targeting gold-silver epithermal and gold-dominant porphyry systems associated with the Oligo-Miocene igneous belt in the central and southern parts of the country. Five of these licences are located on the borders of Macedonia

and Bulgaria, in the very south of the country, and include the Donje Tlamino and Surlica-Dukat licences, which comprise the Tlamino Project optioned to Fortuna. The Company has applied for a further two licences, covering new targets generated through the strategic alliance with Fortuna.

Strategic Alliance with Fortuna

In June 2016, the Company completed a \$1.5 million private placement to Fortuna by way of the issuance of 10.0 million units at \$0.15 per unit. Each unit consists of one common share of the Company and one warrant entitling Fortuna to purchase one additional common share of the Company at \$0.15 for one year from closing.

The private placement is part of a broader strategic alliance between the Company and Fortuna to explore for precious metal deposits in Serbia. The Company was required to use a minimum of 80% of the financing proceeds on project-generating exploration in Serbia within 12 months, which the Company had completed by January 2017. In February 2017, Fortuna exercised all of its warrants, and the Company is obligated to spend a minimum of 80% of the exercise proceeds on further reconnaissance work in Serbia within 12 months following the date of the warrant exercise.

Pursuant to the strategic alliance, as amended in January 2017, Fortuna has the right to enter into an option agreement to earn up to a 70% interest in up to two of the geological target areas (each a "Selected Property") identified by the Company's project generation and exploration work in Serbia. To acquire an initial 51% interest in the Selected Property, Fortuna must spend a minimum of US\$3.0 million on the Selected Property by no later than the third anniversary of the date of the option agreement. Once it has earned 51%, Fortuna can elect to form a 51:49 joint venture with the Company to further develop the Selected Property; or Fortuna can elect to be granted the option to earn an additional 19% interest in the Selected Property by completing a preliminary economic assessment on the Selected Property and spending an additional US\$5.0 million in qualified expenditures within three years following the date of the election by Fortuna.

In March 2017, Fortuna identified the Tlamino Project (comprised of the Donje Tlamino and Surlica-Dukat licences) as its first Selected Property, and the Company and Fortuna signed an Option Agreement in connection therewith. The Option Agreement was approved by the TSX Venture Exchange in April 2017.

Project Generative Work

The Company's field teams have been actively undertaking reconnaissance work on highly prospective ground in Serbia, including remote sensing and desktop GIS studies. In late 2016, the Company was granted five exploration licences as a block of five contiguous licences totalling 500 square kilometres in the southeast of the country, bordering Macedonia and Bulgaria. A sixth exploration licence was granted in March 2017.

The block of five contiguous licences is located in the Serbo-Macedonian Massif ("SMM"), a belt of crustal rocks that runs through Serbia along a north-south axis, extending southwards through Macedonia and Bulgaria and into Greece. In Serbia, the SMM is west of, but parallel to, the Carpatho-Balkanides, which includes the Timok Magmatic Complex (TMC), host to a number of copper-gold porphyry-epithermal deposits. The SMM is under-explored when compared to the TMC, having seen lead and zinc exploration work by the Yugoslav government in the 1960s and 70s, but far less exploration post-2000. The sixth licence is located in the Carpatho-Balkanides along the contact of the SMM. The five contiguous licences are located along the Macedonian and Bulgarian borders, approximately 40 kilometres southeast of the city of Vranje, in southeast Serbia. They cover areas of Palaeozoic metasediments, including calcareous schists and marbles, which have been intruded by a series of Oligo-Miocene porphyritic felsic igneous dykes, and locally covered with recent alluvial sediments. Contact zones between dykes and favourable country rock are responsible for many of the known base and precious metal showings within the licence areas. Fairly extensive exploration was completed by the Yugoslav government in the 1960s and 1970s for lead and zinc. Precious metals are often referenced in the historical and archival exploration documentation, but were not the focus of any exploration efforts, nor systematically documented. Today, it is recognized that these mineralized systems are intermediate-sulphidation epithermal in nature, and management believes that their lack of historical precious metal exploration presents significant upside potential for the Company.

In 2016, the Company purchased an exploration dataset from Dundee Precious Metals which had in previous years conducted regional exploration campaigns over parts of these licence areas. The data include regional stream sediment sampling results and a number of fairly detailed soil sampling grids over historical showings and gold-anomalous stream sediment and rock chip results. The data are currently being reviewed and will be followed-up with a series of ground-truthing and quality-control exercises.

The sixth licence, called Kalna, is located on the Bulgarian border, approximately 50 kilometres northeast of the Tlamino Project and 20 kilometres south of the town of Pirot.

A further two licences have been applied for and are currently being processed by the Ministry of Mines in Serbia.

In the coming months, field crews will be undertaking licence-wide reconnaissance over all licences, as well as commencing a series of systematic soil and stream sediment sampling programs and a detailed review of the historical data.

The Tlamino Gold Project

The Tlamino Gold Project is located in southern Serbia, and includes two historical showings: Liska and Barje. Both showings are associated with a regional east-west striking detachment fault, which in the vicinity of these showings has been overlain by conglomerates. Mineralization is located at the contact of the basement metamorphic rocks and the base of the conglomerate cover. Liska, located approximately 1.5 kilometres to the southwest of Barje, was drilled in the 1970s by Yugoslav state companies, and a lensoid-shaped mineralized volume of rock with 1-2 % combined Pb & Zn was found to strike NE towards Barje. The mineralization at Liska is located at the base of the conglomerate and parallel to the slope of the detachment fault. Liska was found to contain only anomalous concentrations of precious metals. At Barje, base metal contents are lower, but precious metals are found in much higher concentrations. The area between the two showings is overlain by a thin conglomerate cover likely in the range of 50 – 100 metre in thickness, and the Company considers the exploration potential under the conglomerate, between the two showings, to be excellent.

After identifying the project in the fall 2016, the Company completed a series of saw-cut surface channel samples over the outcrop at Barje, where approximately 70 metre x 25 metre of mineralized tectonic breccia is exposed on surface at the edge of the conglomerate cover. A total of 132 linear samples of 1 m in length by approximately 8 centimetres in width and 4 centimetres in depth, were collected from 7 channels, designed to test as large an areal extent of the outcrop as possible. Three channels were cut across the outcrop in an east-west direction, while 4 channels were cut across the outcrop in a general north-south direction. Gold assays ranged from 0.78 g/t Au to 132.5 g/t Au, with an average grade of 8.11 g/t Au and a median grade of 4.74 g/t Au. Silver concentrations ranged from 10.3 g/t Ag to 2110 g/t Ag, with an average grade of 210.6 g/t Ag and a median grade of 111.5 g/t Ag.

Applying a top-cut of 31.104 g/t Au (affects 4 / 132 samples) and 700 g/t Ag (affects 6 / 132 samples), the channel length-weighted assay averages are summarized as follows:

| Channel | Orientation | Length (m) | Au (g/t) | Ag (g/t) | AuEq (g/t)* | Pb (%) | Zn (%) |
|---------|-------------|------------|----------|----------|-------------|--------|--------|
| 1 | EW | 30 | 6.64 | 137.1 | 8.60 | 0.33 | 0.13 |
| 2 | EW | 40 | 8.32 | 193.0 | 11.08 | 0.29 | 0.07 |
| 3 | NS | 11 | 5.55 | 189.3 | 8.25 | 0.20 | 0.03 |
| 4 | NS | 12 | 8.63 | 351.8 | 13.66 | 0.44 | 0.06 |
| 5 | NS | 18 | 5.71 | 207.1 | 8.67 | 0.54 | 0.18 |
| 6 | EW | 14.5 | 3.23 | 59.6 | 4.08 | 0.28 | 0.01 |
| 7 | NS | 7 | 7.05 | 82.0 | 8.22 | 0.61 | 0.02 |

*Gold equivalent (AuEq) calculated for gold and silver using a gold:silver price ratio of 70:1.

The channel samples described here represent the sampling of an outcrop face. The Company's current exploration model for Barje is premised on the interpretation that the outcrop face represents a faulted oblique cross-section through 'strata-bound' mineralization striking NE-SW, and located at the base of the conglomerate sequence, directly analogous to the mineralization at Liska. However, the Company does not yet have direct observational evidence to suggest its interpretation is correct. The reader is cautioned therefore that the true thickness of the mineralization described here is unknown, and further work will be required before the true thickness of mineralization can be determined.

A plan map showing the locations of the channel samples has been posted on the Company's website at <http://www.medgoldresources.com/>.

Following the completion of a detailed structural interpretation of the geology between the Barje and Liska prospects, a program of ground geophysics is now underway, and will be completed by June 2017. The induced polarization & resistivity (IP-Res) survey will be focused along east-west lines for a total of 34 line-km. The objective of the survey is to attempt to recognize the geophysical signature of the Liska mineralization, which is well

constrained by historical drilling, and if successful use this signature to search for buried mineralization in the vicinity of the Barje outcrop. The geophysics may also help to map faults and the base of the conglomeratic cover.

In addition to the IP-Res survey at Barje-Liska, a second program of approximately 27 line-km will be conducted over the Karamanica prospect, located approximately 8 kilometres to the west-northwest of Barje-Liska, and also located within the Donje Tlamino and Surlica-Dukat licences.

Further work at Barje-Liska will include the completion of a proposed 1,500 metre diamond drilling program, aiming to test the high-grade mineralization sampled at Barje and any significant IP anomalies identified from the geophysical survey. The drilling contractor has been selected and drilling is expected to commence in late July or early August 2017.

Portuguese Projects

The Company currently holds five exploration licences in Portugal which are focused on orogenic gold systems with a total land-holding of over 1,000 square kilometres.

Following the completion of a 2,500 metre diamond drilling program at Boticas in 2016, and a 3,000 metre diamond drilling program in 2015 at Lagares, both under an Option Agreement with Centerra Gold Inc. (“Centerra”), it has been determined that these projects hold insufficient exploration upside to warrant further work, and the licences will be allowed to lapse on the expiration dates later this year. Centerra have decided to withdraw from the Option Agreement which covers both Boticas and Lagares licences. As a result, the Company will be significantly reducing our presence in Portugal, decreasing our exploration team and land-holding. The Company’s option agreement with Luso Recursos for the Marrancos project will also be terminated.

A summary of the projects are described below.

Lagares Gold Project

The Lagares gold project is located on the central-eastern part of the Valongo Belt close to the town of Sobreira. Gold mineralization is fault-controlled and occurs along a granite-schist contact which was locally exploited in a series of underground adits and galleries. Four prospects have been defined along this corridor, which are, from north to south, Castromil North, Castromil, Serra da Quinta and Sao Domingos.

In 2015, the Company and Centerra completed a diamond core drilling program on the Lagares Project. A total of 31 drill holes were completed for a total of 2,988.05 metres at the Castromil, Serra da Quinta and Castromil North prospects.

Highlights of the assay results for all drill-holes, from MLG-001 through to MLG-031, include:

Castromil

- MLG-001: 10.90m @ 2.32 g/t Au from surface, section 150mS
- MLG-003: 19.95m @ 3.17 g/t Au from surface, section 450mS
- MLG-004: 17.49m @ 4.45 g/t Au from 10.00m, section 400mS
- MLG-006: 7.76m @ 4.40 g/t Au; from surface, section 300m
- MLG-007: 10.53m @ 3.07 g/t Au; from 17.53m down-hole, section 450m
- MLG-008: 28.65m @ 1.30 g/t Au; from surface, section 450m
- MLG-009: 4.00m @ 3.86 g/t Au, from 46.00m, section 550m

Serra da Quinta

- MLG-013: 12.85m @ 1.55 g/t Au from 9.95m, section 1125m
- MLG-017: 13.77m @ 2.03 g/t Au from surface, section 1375m
- MLG-022: 6.62m @ 2.04 g/t Au from 24.63m, section 1375m
- MLG-023: 2.26m @ 5.41 g/t Au from 16.00m, section 1450m

See the Company’s news releases dated July 27, and September 28, 2015.

Boticas Gold Project

The Boticas Gold Project is located in the north of Portugal close to the Spanish border and is comprised of the Boticas licence (106 square kilometres) which is fully enveloped by the Chaves licence (approximately 500 square kilometres). The licences host orogenic-type mineralization hosted exclusively within granites. The principal prospect is the Limarinho prospect, located in the Boticas licence, which has been the focus of ancient exploitation and historical exploration, and is an east-northeast-trending zone comprised of sericitic alteration and a series of gold mineralized lenses.

In 2016, the Company and Centerra completed a diamond core drilling program on the Boticas Project focused on the Limarinho prospect. A total of 15 drill holes were completed for a total of 2515.85 metres. Highlights from the program include the following best intercepts:

- MBT001: 49.13 m @ 1.43 g/t Au, from 20.87 m
- MBT002: 14.60 m @ 1.13 g/t Au, from 85.60 m
- MBT003: 7.90 m @ 3.40 g/t Au, from 107.00 m
- MBT005: 20.70 m @ 2.54 g/t Au, from 12.95 m
- MBT008: 59.0 m @ 1.30 g/t Au, from 12.00 m

See the Company's news release dated December 21, 2016.

Marrancos Gold Project

On June 29, 2016, the Company entered into an option agreement to acquire up to a 100% interest in the Marrancos Gold Project which covers a total area of 39 square kilometres in the Braga District in central-northern Portugal, about 20 kilometres north of the city of Braga. The Marrancos Project is centred on the intersection of the northwest-trending Vigo-Regua fault and the northeast-trending Portela das Cabras-Carbalinho fault, which is considered to be the macro-control on the regional mineralization.

The Marrancos Project covers four reasonably well-defined targets, including the priority target, the Marrancos prospect. Mineralization at the prospect is controlled by a 15 metre wide, northeast-trending structure which crops out and is mineralized over a strike length of 600 metres. The prospect is located approximately one kilometre from the main metasediment-granite contact, which is an important control on gold mineralization at some of the Company's other projects (e.g. Castromil, Lagares).

The Company completed a series of contiguous chip-channel samples at Marrancos, testing a set of quartz lenses over an exposed width of approximately 50 metres, which returned best intercepts of 12.55 metres at 3.28 g/t Au (including 5.40 metres at 6.88 g/t Au), and 12.98 metres at 2.71 g/t Au. The channel sampling is sub-parallel to the main northeast-trending shear zone, but nearly perpendicular to individual quartz lenses, and confirms that the majority of the gold is hosted in the quartz lenses.

Caramulo Gold Project

The Caramulo licence was granted in July 2016 and covers 391 square kilometres. Orogenic-style gold mineralization is hosted by a series of quartz veins which are typically hundreds of metres long and oriented northwest-southeast. They are hosted within weakly altered metasediments surrounding a large Hercynian granitic intrusion.

The Company commenced field work in the 2016, with a program of reconnaissance mapping and sampling, covering the main soil anomalous corridor, as identified by both Rio and the Geological Survey. A strike extensive shear corridor, containing multi centimetric veins, has been identified and is extensive over 100s of metres. A number of rock samples yielded anomalous results from zones between the historically identified prospects.

Quality Assurance and Quality Control (QA-QC)

Channel sampling at Barje followed a standardized protocol to ensure representative and unbiased quantities of material from across each sample. Samples were delivered by Company personnel directly to the assay lab prep facilities in Bor, Serbia. Samples were analysed by ALS Chemex using analytical method codes Au-ICP21 and ME-MS61, with overlimits for gold and silver analysed by GRA21, and for Ag, Pb, and Zn by OG62. The Company routinely inserted appropriate multi-element geochemical standards and blanks into its sample stream at Barje, and additionally collected regular field duplicate samples.

Samples from the Company's Portuguese exploration projects are analysed for gold and multi-element geochemistry by Bureau Veritas and ALS Chemex. The Company follows a rigorous Quality Assurance program, and regularly inserts certified reference materials, blanks, and sample duplicates in all sample batches sent to the analytical laboratory. See the Company's news releases for details on specific QA procedures as they relate to the different programs.

Qualified Person

David Clark, M.Sc., P.Geo., a member of the Association of Professional Engineers and Geoscientists of British Columbia, is the Company's Qualified Person as defined by National Instrument 43-101, and has approved the disclosure of the technical information in this MD&A.

Selected Annual Information

The following table provides financial results for the years ended December 31, 2016, 2015 and 2014:

| | 2016 (\$) | 2015 (\$) | 2014 (\$) |
|-------------------------------------|-----------|-----------|-----------|
| Exploration expenditures | 863,157 | 512,331 | 940,619 |
| General and administrative expenses | 1,078,061 | 711,933 | 1,008,237 |
| Net loss | 2,200,346 | 1,182,037 | 2,048,113 |
| Basic and diluted loss per share | 0.04 | 0.03 | 0.06 |
| Total assets | 1,603,587 | 1,089,109 | 1,407,082 |
| Total long-term liabilities | - | 206,202 | 204,456 |
| Cash dividends | - | - | - |

General and administrative expenses for the 2016 and 2014 fiscal years were both higher than that for the 2015 fiscal year due primarily to share-based payments expense relating to the granting of stock options. The share-based payment expense for 2016 was \$416,919 compared to \$46,468 for 2015 and \$486,570 for 2014. As of December 31, 2016, the Company had no long-term liability as this related to a convertible debenture that was settled during 2016.

Quarterly Information

The following table provides information for the eight fiscal quarters ended December 31, 2016:

| | Dec. 31, 2016 (\$) | Sep. 30, 2016 (\$) | June 30, 2016 (\$) | Mar. 31, 2016 (\$) | Dec. 31, 2015 (\$) | Sep. 30, 2015 (\$) | June 30, 2015 (\$) | Mar. 31, 2015 (\$) |
|-------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Exploration expenditures (recovery) | (68,610) | 595,109 | 183,013 | 153,645 | 150,630 | 150,852 | 92,263 | 118,586 |
| General and administrative expenses | 267,330 | 130,768 | 549,901 | 130,062 | 408,788 | 6,497 | 90,439 | 206,209 |
| Net loss | 458,556 | 725,169 | 732,914 | 283,707 | 518,155 | 156,781 | 182,702 | 324,399 |
| Basic and diluted loss per share | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.00 | 0.00 | 0.01 |

The most recent quarter shows a net recovery of exploration expenditures due to reimbursements from Centerra relating to the Centerra option agreement. Exploration expenditures are higher for the quarter ended September 30, 2016 as there were increased exploration activities in Serbia following the receipt of the Fortuna private placement funds in late June 2016. The general and administrative expense and net loss for the quarter ended June 30, 2016 is higher than all other quarters presented due to a share-based payments charge of \$416,919 that relates to the issuance of stock options. The general and administrative expense and net loss for the quarter ended December 31, 2015 were higher than most other quarters presented due to a foreign exchange loss of \$249,579 while general and administrative expenses and net loss for the quarters ended September 30, 2015 and June 30, 2015 were significantly reduced due to foreign exchange gains of \$153,049 and \$92,868, respectively.

Results of Operations

Quarter ended December 31, 2016

For the quarter ended December 31, 2016, the Company had a net loss of \$458,556 compared to a net loss of \$518,155 for the quarter ended December 31, 2015, a decrease of \$59,599. This decrease is primarily due to a net recovery of \$68,610 in exploration costs in the current quarter compared to \$150,630 in expenditures in the comparative quarter, a difference of \$219,240. The current quarter net cost recovery of exploration expenditures is related to the Centerra option agreement whereby Centerra reimbursed the Company for costs incurred on their behalf, including exploration bonds. The current quarter also recorded a write-down of exploration and evaluation assets of \$252,126 on its Portugal properties compared to a write-down of \$1,073 in the comparative quarter.

General and administrative expenses totaled \$267,330 for the current quarter compared to \$408,788 for the comparative quarter, a decrease of \$141,458. The general and administrative costs for the comparative quarter were significantly higher largely due to a foreign exchange loss of \$249,579, compared to \$87,096 in the current quarter, a difference of \$162,483. Other than foreign exchange loss, a notable cost decrease in the current quarter was in legal and accounting as more legal services were required during the comparative quarter relating to mineral property agreements. The most significant cost increase in the current quarter was in interest charges. The higher interest charges were associated with convertible note debt of which the principal was fully settled by being converted to shares, and cash paid for accumulated interest.

Year ended December 31, 2016

For the year ended December 31, 2016, the Company had a net loss of \$2,200,346 compared to a net loss of \$1,182,037 for the year ended December 31, 2015, an increase of \$1,018,309. Exploration costs, net of recoveries, for the current year were \$863,157 compared to \$512,331 for the comparative year, an increase of \$350,826. The current and comparative years recorded the same write-downs of \$252,126 and \$1,073, respectively, on exploration and evaluation asset costs as in the quarterly periods.

General and administrative expenses totaled \$1,078,061 for the current year compared to \$711,933 for the comparative year, an increase of \$366,128. Contributing to this increase is a share-based payment expense of \$416,919 for the current year whereas the comparative year recorded an expense of \$46,468. These share-based payment expenses are related to stock options granted during those periods. Notable cost increases in the current year involved interest charges and finance costs. As with the quarterly comparison, the higher interest charges relate to the conversion of convertible note debt to common shares and payment of accrued interest in cash during the current year. Finance costs during the current year totaled \$20,176 while no such charge was recorded in the comparative year. The finance cost relates to a short-term loan to the Company that was obtained and settled within the current year and consisted of interest, transaction costs, and the value attributed to warrants issued to the lender as a loan fee. Also similar to the quarterly comparison, there was a significant cost decrease during the current year in legal and accounting fees due to a greater requirement for such services in the comparative year. A notable cost decrease in the current year was in management fees. The lower management fees were due to a portion of the Chief Executive Officer's compensation being allocated to exploration expenditures during the current year.

Liquidity and Capital Resources

The Company's cash resource as at December 31, 2016 was \$837,243, an increase from \$215,282 as at December 31, 2015. At December 31, 2016, the Company had current assets totaling \$976,118 and current liabilities totaling \$238,870, for working capital of \$737,248. No longer included in current liabilities is the liability component of the convertible debenture debt that was issued in 2013 and had a maturity date of April 11, 2017 as the principal amount of \$975,000 for the debenture was converted into 2,166,667 common shares of the Company and accrued interest totaling \$319,054 was paid in full settlement of the debt during the year ended December 31, 2016.

On March 24, 2016, the Company obtained a short-term loan of \$100,000 to provide funding for general working capital requirements. The loan was repayable within six months and subject to interest at 8% per annum. In consideration for the loan, the Company issued to the lender share purchase warrants to purchase up to 500,000 common shares of the Company, exercisable for one year at \$0.09 per share. The loan was settled during the year ended December 31, 2016 and a total of \$1,742 in interest paid.

During the year ended December 31, 2016, the Company raised gross proceeds totaling \$1,700,000 from two private placements. The first placement raised \$200,000 and consisted of 2.0 million units at \$0.10 per unit. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one

additional common share of the Company at \$0.12 until May 11, 2017. The second placement raised \$1,500,000 and consisted of 10.0 million units at \$0.15 per unit. Each unit consists of one common share and one share purchase warrant, each warrant entitling the holder to purchase one additional common share of the Company at \$0.15 until June 16, 2017. The proceeds from the first placement were used for exploration expenditures and general working capital requirements. Of the \$1,500,000 proceeds from the second placement, at least 80% was used towards project generation and exploration activity in Serbia.

During the period ended December 31, 2016, the Company also raised \$981,454 through the exercise of 6,256,240 share purchase warrants. These warrant proceeds have been used for exploration expenditures and general working capital requirements. Subsequent to December 31, 2016, another 12,413,573 warrants were exercised, raising additional proceeds of \$1,838,320. Of these warrant proceeds, \$1,500,000 was from Fortuna and at least 80% of that amount must be used towards project generation and exploration activity in Serbia. The balance of the proceeds from the warrant exercises will be used for exploration expenditures and general working capital requirements.

The Company's current capital resources, which includes the capital raised subsequent to December 31, 2016, is considered sufficient to cover its corporate operating costs and carry out planned exploration activities for the next twelve months. Actual funding requirements may vary from those planned due to a number of factors including potential property acquisitions and exploration activity. Management is actively looking for opportunities to raise additional equity capital and believes it will be able to raise additional equity capital as required, but recognizes the uncertainty attached thereto.

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its properties and to maintain flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company includes the components of shareholders' equity.

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 the capital structure, the Company may attempt to issue new shares or adjust the amount of cash and cash equivalents. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

Financial Instruments and Risk Management

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

- Market Risk
- Credit Risk
- Liquidity Risk

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

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

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The Board of Directors receive periodic reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

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

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of three types of risk: foreign currency risk, interest rate risk, and equity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at December 31, 2016, the Company is exposed to foreign currency risk and interest rate risk.

Foreign Currency Risk

As at December 31, 2016, the Company is exposed to currency risk through the following financial assets and liabilities denominated in currencies other than the Canadian dollar:

| | December 31, 2016 | | | | December 31, 2015 | | |
|--|---|-----------------------------|------------------------|---------------------------------|---|-----------------------------|------------------------|
| | British Pound Sterling (CDN equivalent) | US Dollars (CDN equivalent) | Euros (CDN equivalent) | Serbian Dinars (CDN equivalent) | British Pound Sterling (CDN equivalent) | US Dollars (CDN equivalent) | Euros (CDN equivalent) |
| Cash | \$ 186,067 | \$ 5,442 | \$ 156,316 | \$ 73,054 | \$ 13,987 | \$ 4,043 | \$ 130,189 |
| Amounts receivable | - | - | 25,380 | 70,469 | - | - | - |
| Accounts payable and accrued liabilities | (20,806) | - | (134,051) | (42,949) | (46,919) | - | (216,059) |
| Net exposure | \$ 165,261 | \$ 5,442 | \$ 47,645 | \$ 100,574 | \$ (32,932) | \$ 4,043 | \$ (85,870) |

Based on the above net exposures at December 31, 2016, a 10% depreciation or appreciation of the above currencies against the Canadian dollar would approximately result in a \$31,900 (2015: \$11,500) increase or decrease in the Company's after tax net earnings, respectively.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2016, the Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash held with Canadian and British financial institutions. The Company considers this risk to be limited.

b) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions.

c) 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's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. All of the Company's financial liabilities had contractual maturities of less than 45 days and are subject to normal trade terms.

Related Party Transactions

The Company had transactions during the periods ended December 31, 2016 and 2015 with related parties who consisted of directors, officers and the following companies with common directors:

| Related party | Nature of transactions |
|---|---|
| Radius Gold Inc. (“Radius”) | Exploration related charges, and investment in the Company |
| Gold Group Management Inc. (“Gold Group”) | Shared office, administrative and exploration related charges |
| Focus Ventures Ltd. (“Focus”) | Shared administrative salary charges |
| Mill Street Services Ltd. (“Mill Street”) | Management services |
| Fortuna | Investment in the Company and mineral property option agreement |

During the periods ended December 31, 2016 and 2015, the Company reimbursed Gold Group, a company controlled by the Chief Executive Officer of the Company, for the following costs:

| | Three months ended December 31, | | Year ended December 31, | |
|--------------------------------------|--|------------------|--------------------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| General and administrative expenses: | | | | |
| Office and administration | \$ 20,584 | \$ 21,481 | \$ 85,076 | \$ 75,856 |
| Salaries and benefits | 28,410 | 21,740 | 108,817 | 100,188 |
| Shareholder communications | - | - | 1,241 | 3,871 |
| Transfer agent and regulatory fees | 100 | 1,239 | 4,249 | 5,825 |
| Travel and accommodation | 593 | 3,684 | 14,078 | 14,015 |
| | \$ 49,687 | \$ 48,144 | \$ 213,461 | \$ 199,755 |
| Exploration expenditures | \$ - | \$ - | \$ - | \$ 2,634 |

Gold Group is reimbursed by the Company for certain shared costs and other business related expenses paid by Gold Group on behalf of the Company. Salaries and benefits for the years ended December 31, 2016 and 2015 include those for the Chief Financial Officer and the Corporate Secretary.

During the year ended December 31, 2016, the Company reimbursed Radius, a company with a common director, \$91,546 (2015: \$44,436) in shared salary and benefits for the services of a geologist.

During the year ended December 31, 2016, the Company reimbursed Focus, a company with common directors, \$9,150 (2015: \$11,074) in shared salary and benefits costs for the Company’s former vice-president.

Prepaid expenses and deposits as at December 31, 2016 include an amount of \$1,122 (2015: \$2,250) paid to Gold Group for administrative expenses paid in advance on the Company’s behalf.

Long-term deposits as of December 31, 2016 consists of \$61,000 (2015: \$61,000) paid to Gold Group as a deposit pursuant to an office and administrative agreement.

Amounts due to related parties as of December 31, 2016 consist of \$18,792 (2015: \$54,331) owing to Gold Group for accrued shared administrative costs; \$13,968 (2015: \$8,224) owing to Radius for shared personnel costs; and \$Nil (2015: \$10,500) to Mill Street, a company controlled by the Chief Executive Officer of the Company, for management services. The amount for Gold Group is due on a monthly basis and secured by a deposit. The amounts for Radius and Mill Street were unsecured, interest-free and had no specific terms of repayment.

During the year ended December 31, 2016, Radius exercised 2,000,000 share purchase warrants at cost of \$300,000, thereby acquiring 2,000,000 common of shares of the Company.

During the year ended December 31, 2016, Fortuna, a company with a common director, acquired 10,000,000 common shares of the Company by way of a private placement for \$1,500,000 and entered into a strategic alliance relating to project generation in Serbia.

Subsequent to December 31, 2016, Fortuna exercised 10,000,000 share purchase warrants at cost of \$1,500,000, thereby acquiring 10,000,000 common of shares of the Company. As a result of its warrant exercise, Fortuna owns 20,000,000 common shares of the Company, or approximately 24% of the issued capital of the Company at the time of exercise. According to TSX Venture Exchange policies, Fortuna is deemed to be a control person of the Company as it owns more than 20% of the issued shares of the Company.

Key Management Compensation

The Company has identified certain of its directors and senior officers as its key management personnel. Included for the periods ended December 31, 2016 and 2015 at their exchange amounts are the following items paid or

accrued to key management personnel and/or companies with common directors. These transactions are in the normal course of operations.

| | Three months ended December 31, | | Year ended December 31, | |
|--|---------------------------------|------------------|-------------------------|-------------------|
| | 2016 | 2015 | 2016 | 2015 |
| Management fees | \$ 35,820 | \$ 37,110 | \$ 129,027 | \$ 150,697 |
| Geological fees | 46,230 | 33,164 | 148,541 | 136,045 |
| Salaries and benefits | 9,167 | 8,250 | 28,875 | 29,792 |
| Value of stock options grants recorded as share-based payments | - | - | 137,357 | - |
| | \$ 91,217 | \$ 78,524 | \$ 443,800 | \$ 316,534 |

During the year ended December 31, 2016, the Company issued in quarterly instalments, a total of 300,000 common shares of the Company (2015: 435,520 common shares) to Daniel James in part consideration for his ongoing services as the Company's President during 2016. Included in management fees during the year ended December 31, 2016 is the total fair value of the share issuances of \$46,875 (2015: \$41,920).

The value of stock options granted to directors not specified as key management personnel during the year ended December 31, 2016 and recorded as share-based based payments expense totaled \$96,956 (2015: \$Nil).

Other Data

Additional information related to the Company is available for viewing at www.sedar.com.

Share Position, Outstanding Options, Warrants and Convertible Debentures

As at April 26, 2017, the Company's outstanding share position is 85,014,175 common shares and the following stock options and share purchase warrants are outstanding:

| No. of options | Exercise price | Expiry date |
|----------------|----------------|-------------------|
| 3,455,000 | \$0.15 | February 23, 2024 |
| 225,000 | \$0.15 | February 12, 2025 |
| 2,550,000 | \$0.15 | June 28, 2026 |
| 6,230,000 | | |

| No. of warrants | Exercise price | Expiry date |
|-----------------|----------------|--------------------|
| 1,853,700 | \$0.12 | May 11, 2017 |
| 1,900,000 | \$0.15 | September 20, 2017 |
| 2,900,000 | \$0.15 | October 12, 2017 |
| 6,653,700 | | |

Future Accounting Changes

The Company will be required to adopt the following standards and amendments issued by the IASB as described below. The Company is in the process of evaluating the impact of the new standards and amendments on its financial statements.

Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)

Issued by IASB January 29, 2016

Effective for annual periods beginning January 1, 2017

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes)

Issued by IASB January 19, 2016

Effective for annual periods beginning January 1, 2017

The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IFRS 9 Financial Instruments

Issued by IASB July 2014

Effective for annual periods beginning January 1, 2018

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

IFRS 16 Leases

Issued by IASB January 2016

Effective for annual periods beginning January 1, 2019

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 Share-based Payment)

Issued by IASB November 2016

Effective for annual periods beginning January 1, 2018

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Risks and Uncertainties

Mineral Property Exploration and Mining Risks

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. The main operating risks include: securing adequate funding to maintain and advance exploration properties; ensuring ownership of and access to mineral properties by confirmation that option agreements, claims and leases are in good standing; and obtaining permits for drilling and other exploration activities.

Joint Venture Funding Risk

The Company's strategy includes seeking partners through joint ventures to fund exploration and project development. The main risk of this strategy is that funding partners may not be able to raise sufficient capital in order to satisfy exploration and other expenditure terms in a particular joint venture agreement. As a result, exploration and development of one or more of the Company's property interests may be delayed depending on whether the Company can find another partner or has enough capital resources to fund the exploration and development on its own.

Commodity Price Risk

The Company is exposed to commodity price risk. Declines in the market price of gold, base metals and other minerals may adversely affect the Company's ability to raise capital or attract joint venture partners in order to fund its ongoing operations. Commodity price declines could also reduce the amount the Company would receive on the disposition of one of its mineral properties to a third party.

Financing and Share Price Fluctuation Risks

The Company has limited financial resources, has no source of operating cash flow and has no assurance that additional funding will be available to it for further exploration and development of its projects. Further exploration and development of one or more of the Company's projects may be dependent upon the Company's ability to obtain financing through equity or debt financing or other means. Failure to obtain this financing could result in delay or indefinite postponement of further exploration and development of its projects which could result in the loss of one or more of its properties.

Securities markets have at times in the past experienced a high degree of price and volume volatility, and the market price of securities of many companies, particularly those considered to be exploration stage companies such as the Company, have experienced wide fluctuations in share prices which have not necessarily been related to their operating performance, underlying asset values or prospects. There can be no assurance that these kinds of share price fluctuations will not occur in the future, and if they do occur, how severe the impact may be on the Company's ability to raise additional funds through equity issues and corresponding effect on the Company's financial position.

Political, Regulatory and Currency Risks

The Company's mineral properties are located in economically stressed, but politically stable European countries and consequently may be subject to a higher level of risk compared to less economically stressed countries.

Operations, the status of mineral property rights, title to the properties and the recoverability of amounts shown for mineral properties in such nations can be affected by changing economic, regulatory and political situations. The Company's equity financings are sourced in Canadian dollars but for the most part it incurs its exploration expenditures in British pound sterling, Euros, and Serbian dinars. At this time there are no currency hedges in place. Therefore a weakening of the Canadian dollar against the British pound sterling, Euro, or Serbian dinar could have an adverse impact on the amount of exploration conducted.

Insured and Uninsured Risks

In the course of exploration, development and production of mineral properties, the Company is subject to a number of hazards and risks in general, including adverse environmental conditions, operational accidents, labor disputes, unusual or unexpected geological conditions, changes in the regulatory environment and natural phenomena such as inclement weather conditions, floods, and earthquakes. Such occurrences could result in damage to the Company's properties or facilities and equipment, personal injury or death, environmental damage to properties of the Company or others, delays, monetary losses and possible legal liability.

Although the Company may maintain insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums or for other reasons. Should such liabilities arise, they could reduce or eliminate future profitability and result in increased costs, have a material adverse effect on the Company's results and a decline in the value of the securities of the Company.

Environmental and Social Risks

The activities of the Company are subject to environmental regulations issued and enforced by government agencies. Environmental legislation is evolving in a manner that will require stricter standards and enforcement and involve increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects, and a heightened degree of responsibility for companies and their officers, directors and employees. There can be no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations. Environmental hazards may exist on properties in which the Company holds interests which are unknown to the Company at present. Social risks are not considered significant in the Company's areas of operations.

Competition

The Company will compete with many companies and individuals that have substantially greater financial and technical resources than the Company for the acquisition and development of its projects as well as for the recruitment and retention of qualified employees.