HUDSON RESOURCES INC

# HUDSON RESOURCES INC.

## (An Exploration Stage Company)

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED DECEMBER 31, 2015

## (unaudited)

**(Expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

**Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.**

**The accompanying unaudited condensed consolidated interim financial statements of Hudson Resources Inc. for the nine months ended December 31, 2015 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.**

**The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.**

## Hudson Resources Inc.
## Condensed Consolidated Interim Statements of Financial Position (unaudited)
**(Expressed in Canadian Dollars)**

| *As at* | | **December 31, 2015** | | **March 31, 2015** |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents (note 4) | **$** | **1,838,704** | $ | 926,853 |
| Sales tax receivable | | **18,955** | | 24,762 |
| Deposits | | **4,167** | | 4,082 |
| Prepaid expenses | | **36,476** | | 27,185 |
| | | **1,898,302** | | **982,882** |
| **Non-current assets** | | | | |
| Equipment (note 5) | | **2,245,896** | | 570,555 |
| Resource properties (note 6) | | **938,792** | | 855,556 |
| | | **3,184,688** | | 1,426,111 |
| **TOTAL ASSETS** | **$** | **5,082,990** | **$** | **2,408,993** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities (notes 8 & 13(a)) | **$** | **280,246** | $ | 239,196 |
| Note payable (notes 5 and 9) | | **1,219,709** | | - |
| | | **1,499,955** | | **239,196** |
| **Non-current liabilities** | | | | |
| Reclamation obligation (note 10) | | **253,250** | | - |
| **TOTAL LIABILITIES** | | **1,753,205** | | **239,196** |
| **EQUITY** | | | | |
| Share capital (note 11) | **$** | **46,718,882** | $ | 43,145,903 |
| Additional paid-in capital (note 11(e)) | | **3,098,225** | | 1,516,747 |
| Stock options reserve (note 11(e)) | | **2,463,949** | | 3,361,173 |
| Warrants reserve (note 11(e)) | | **573,567** | | - |
| Foreign currency translation reserve | | **(7,244)** | | - |
| Deficit | | **(49,517,594)** | | (45,854,026) |
| **TOTAL EQUITY** | | **3,329,785** | | **2,169,797** |
| **TOTAL EQUITY AND LIABILITIES** | **$** | **5,082,990** | **$** | **2,408,993** |

*Subsequent event (note 9)*

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

These financial statements were approved for issue by the Board of Directors on February 23, 2016 and signed on its behalf by:

*/s/ James Tuer Director*　　*/s/ John Hick Director*

## Hudson Resources Inc.
## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss (unaudited)
### (Expressed in Canadian Dollars)

| | For the three months ended December 31, 2015 | For the three months ended December 31, 2014 | For the nine months ended December 31, 2015 | For the nine months ended December 31, 2014 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Bank charges and interest (note 9) | **$ 42,654** | $ 833 | **$ 62,958** | $ 2,097 |
| Depreciation (note 5) | **84,224** | 20,507 | **159,222** | 60,814 |
| Directors' fees (note 13) | **25,000** | 25,000 | **75,000** | 75,000 |
| Evaluation and exploration costs (note 7) | **890,673** | 96,170 | **1,786,543** | 451,501 |
| Filing fees | **4,778** | 5,396 | **44,219** | 21,481 |
| Foreign exchange | **10,278** | 2,596 | **20,993** | 2,242 |
| Management fees (note 13) | **330,000** | 110,000 | **550,000** | 330,000 |
| Office | **13,228** | 29,046 | **37,948** | 50,470 |
| Professional fees (note 13) | **53,204** | 34,879 | **173,131** | 111,540 |
| Rent | **11,125** | 11,256 | **33,782** | 33,410 |
| Share-based payments (note 11(d)) | **114,300** | 26,797 | **684,254** | 468,520 |
| Shareholder/corporate communications | **957** | 5,781 | **11,820** | 12,668 |
| Telephone | **1,735** | 692 | **3,887** | 2,604 |
| Transfer agent fees | **4,395** | 4,160 | **11,553** | 6,707 |
| Travel and accommodation | **11,072** | 1,496 | **27,115** | 2,050 |
| | **1,597,623** | 374,609 | **3,682,425** | 1,631,104 |
| **OTHER INCOME** | | | | |
| Interest income | **(5,787)** | (1,121) | **(18,857)** | (15,774) |
| **NET LOSS FOR THE PERIOD** | **1,591,836** | 373,488 | **3,663,568** | 1,615,330 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Foreign currency translation differences for foreign operations | **14,862** | - | **7,244** | - |
| **TOTAL LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD** | **$ 1,606,698** | $ 373,488 | **$ 3,670,812** | $ 1,615,330 |
| **Basic and diluted loss per share for the period attributable to common shareholders (note 12)** | **$ 0.02** | $ 0.00 | **$ 0.05** | $ 0.02 |
| **Weighted average number of common shares outstanding** | **90,288,366** | 81,486,766 | **85,289,048** | 81,486,766 |

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

## Hudson Resources Inc.
## Condensed Consolidated Interim Statements of Changes in Equity (unaudited)
**(Expressed in Canadian Dollars)**

| | Share capital | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Additional paid-in capital | Stock options reserve | Warrants reserve | Foreign currency translation reserve | Deficit | Total |
| **Balance at March 31, 2014** | **81,486,766** | **$ 43,145,903** | **$ 1,432,242** | **$ 2,928,136** | **$ -** | **$ -** | **$ (43,816,579)** | **$ 3,689,702** |
| Share-based payments | - | - | - | 468,520 | | - | - | **468,520** |
| Total comprehensive loss | - | - | - | - | | - | (1,615,330) | **(1,615,330)** |
| **Balance at December 31, 2014** | **81,486,766** | **$ 43,145,903** | **$ 1,432,242** | **$ 3,396,656** | **$ -** | **$ -** | **$ (45,431,909)** | **$ 2,542,892** |
| | | | | | | | | |
| **Balance at March 31, 2015** | **81,486,766** | **$ 43,145,903** | **$ 1,516,747** | **$ 3,361,173** | **$ -** | **$ -** | **$ (45,854,026)** | **$ 2,169,797** |
| Shares issued for cash - private placement | 8,801,600 | 3,827,233 | - | - | 573,567 | - | - | **4,400,800** |
| Share issue costs | - | (254,254) | - | - | - | - | - | **(254,254)** |
| Reclassification of grant-date fair value on expired options | - | - | 1,581,478 | (1,581,478) | | - | - | **-** |
| Share-based payments | - | - | - | 684,254 | - | - | - | **684,254** |
| Total comprehensive loss | - | - | - | - | - | (7,244) | (3,663,568) | **(3,670,812)** |
| **Balance at December 31, 2015** | **90,288,366** | **$ 46,718,882** | **$ 3,098,225** | **$ 2,463,949** | **$ 573,567** | **$ (7,244)** | **$ (49,517,594)** | **$ 3,329,785** |

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

## Hudson Resources Inc.
## Condensed Consolidated Interim Statements of Cash Flows (unaudited)
**(Expressed in Canadian Dollars)**

| | For the nine months ended December 31, 2015 | For the nine months ended December 31, 2014 |
|---|---|---|
| **Cash flows provided from (used by):** | | |
| **OPERATING ACTIVITIES** | | |
| **Net loss for the period** | **$ (3,663,568)** | **$ (1,615,330)** |
| **Adjustments for items not affecting cash:** | | |
| Depreciation | 159,222 | 60,814 |
| Share-based payments | 684,254 | 468,520 |
| Reclamation obligations | 238,763 | - |
| | **(2,581,329)** | **(1,085,996)** |
| **Net changes in non-cash working capital items:** | | |
| Amounts receivable | - | 157,509 |
| Sales tax receivable | 5,807 | 40,852 |
| Prepaid expenses | (9,291) | (2,547) |
| Deposits | (85) | 4,235 |
| Accounts payable and accrued liabilities | 41,050 | (183,936) |
| Note payable | 54,035 | - |
| **Net cash flows used in operating activities** | **(2,489,813)** | **(1,069,883)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from share issuance | 4,146,546 | - |
| **Net cash flows from financing activities** | **4,146,546** | **-** |
| **INVESTING ACTIVITIES** | | |
| Equipment purchases | (668,890) | (18,716) |
| Mineral property acquisition costs | (83,236) | (949) |
| **Net cash flows used in investing activities** | **(752,126)** | **(19,665)** |
| **Effects of exchange rate changes on cash and cash equivalents** | **7,244** | **-** |
| **Net decrease in cash and cash equivalents** | **911,851** | **(1,089,548)** |
| **Cash and cash equivalents, beginning of period** | **926,853** | **2,367,811** |
| **Cash and cash equivalents, end of period** | **$ 1,838,704** | **$ 1,278,263** |
| **Cash received during the period for interest** | **$ 18,857** | **$ 15,774** |
| **Cash paid during the year for interest** | **$ -** | **$ -** |
| **Cash paid during the year for income taxes** | **$ -** | **$ -** |
| **Supplementary cash flow information** | | |
| Reclassification of the fair value of options expired | **$ 1,581,478** | **$ -** |
| Reclassification of the fair value of warrants issued | **$ 573,567** | **$ -** |
| Equipment purchases by signing a note payable (notes 5 and 9) | **$ 1,165,673** | **$ -** |

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

## 1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS

Hudson Resources Inc. (the "Company") is a publicly listed company incorporated in British Columbia on March 7, 2000. The Company's shares are listed on the TSX Venture Exchange under the symbol "HUD". The Company was incorporated on March 7, 2000 under the Company Act of the Province of British Columbia.

The Company's head office and the registered records office are located at 1460 - 1066 West Hastings Street, Vancouver, BC, Canada, V6E 3X1.

The Company is in the business of acquiring, exploring and evaluating resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At December 31, 2015, the Company was in the exploration stage and had interests in properties located in Greenland.

As of April 13, 2015, the Company setup a subsidiary, Hudson Greenland A/S, to conduct exploration and evaluation of mineral resources in Greenland.

As at December 31, 2015, the Company had not yet achieved profitable operations, had a deficit of $49,517,594, and expects to incur further losses in the development of its business, all of which indicates material uncertainties 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 generate future profitable operations and / or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. These financial statements do not give the 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. Realization values may be substantially different from carrying values as shown.

The condensed consolidated interim financial statements of the Company for the nine months ended December 31, 2015 were reviewed by the Audit Committee and approved and authorized by the Board of Directors on February 23, 2016.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

***Statement of compliance to International Financial Reporting Standards***

These condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements comply with International Accounting Standard 34, Interim Financial Reporting ("IAS 34").

***Basis of consolidation***

These condensed consolidated interim financial statements include the accounts of the Company and its subsidiaries. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed interim consolidated financial statements.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

***Basis of presentation***

This condensed consolidated interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended March 31, 2015. However, this condensed consolidated interim financial report provides selected significant disclosures that are required in the annual financial statements under IFRS.

These condensed consolidated interim financial statements follow the same accounting policies and methods of application as the annual audited financial statements for the year ended March 31, 2015, with the exception of the following new accounting standards and amendments which the Company adopted and are effective for the Company's interim and annual financial statements commencing April 1, 2015.

- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9. The adoption of the new standard did not have significant impacts to the financial statements.

***Functional and presentation currency***

These condensed consolidated interim financial statements are presented in Canadian dollars (“CAD”) which is the functional currency of the Company. The functional currency of Hudson Greenland A/S is determined as the Danish Krone (“DKK”).

## 3. NEW ACCOUNTING STANDARDS

***New standards and interpretations not yet adopted***

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after April 1, 2015. Updates which are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted by the Company and are being evaluated to determine their impact.

- IFRS 9: New standard that replaced IAS 39 for classification and measurement
- IFRS 14: Regulatory deferral accounts, effective for annual periods beginning on or after January 1, 2016

## 4. CASH AND CASH EQUIVALENTS

The Company’s cash and cash equivalents are broken down as follows:

| | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Cash | $ 1,664,525 | $ 237,704 |
| Term deposits | 174,179 | 689,149 |
| | **$ 1,838,704** | **$ 926,853** |

**(Expressed in Canadian Dollars)**

## 5. EQUIPMENT

The Company's equipment is broken down as follows:

| | Computer equipment | Field equipment | Land improvements | Total |
|---|---|---|---|---|
| ***Cost*** | | | | |
| As at March 31, 2015 | $ 21,264 | $ 337,510 | $ 378,419 | **$ 737,193** |
| Additions | - | 1,238,713 | 595,850 | **1,834,563** |
| **Balance as at December 31, 2015** | **$ 21,264** | **$ 1,576,223** | **$ 974,269** | **$ 2,571,756** |
| ***Depreciation*** | | | | |
| As at March 31, 2015 | $ (13,719) | $ (152,919) | $ - | **$ (166,638)** |
| Charged for the period | (1,697) | (157,525) | - | **(159,222)** |
| **Balance as at December 31, 2015** | **$ (15,416)** | **$ (310,444)** | **$ -** | **$ (325,860)** |
| ***Net book value*** | | | | |
| As at March 31, 2015 | $ 7,545 | $ 184,591 | $ 378,419 | $ 570,555 |
| **As at December 31, 2015** | **$ 5,848** | **$ 1,265,779** | **$ 974,269** | **$ 2,245,896** |

During the nine months ended December 31, 2015, the Company purchased $1,165,673 of field equipment by obtaining an unsecured bridge loan (note 9).

## 6. RESOURCE PROPERTIES

The Company's resource properties are broken down as follows:

| | Balance as at March 31, 2015 | Additions | Balance as at December 31, 2015 |
|---|---|---|---|
| **Greenland** | | | |
| **Sarfartoq Exploration Licenses** | | | |
| **Acquisition costs / license fees** | **$ 768,673** | $ - | **$ 768,673** |
| **Naajat / White Mountain Exploration Licenses** | | | |
| **Acquisition costs / license fees** | **86,883** | 83,236 | **170,119** |
| | **$ 855,556** | $ 83,236 | **$ 938,792** |

## 6. RESOURCE PROPERTIES (continued)

The Company currently has two exploration licenses in Greenland, the Sarfartoq EL (2010/40) and the Pingasut EL (2013/01) and one exploitation license, the Naajat EL (2002/06). In 2014, Hudson was granted license renewals on the Naajat and Sarfartoq EL's. Prior to that, in 2012, Hudson was granted two license renewals. The Sarfartoq EL was amended to include portions of the Nalussivik, Sarfartuup Qulaa, Sarfartoq Valley and Arnanganeq exploration licenses as well as annex portions of the Sarfartoq EL and add additional ground that extends the license area to the fjord. The total area was reduced from 1,351 sq. km. to approximately 687 sq. km. As a result of the application, five previous licenses will be incorporated into one new Sarfartoq EL that is focused on the rare earth project. In 2013, the license area was further reduced to 92 sq. km. This reduced the exploration burden on the area while still maintaining 100% interest in the Sarfartoq Carbonatite Complex. The Naajat EL was renewed in 2013 for its industrial mineral potential for exploration years 11 and 12 and the license area was reduced from 190 sq. km. to approximately 96 sq. km. The Naajat EL includes the White Mountain Anorthosite Project ("White Mountain"). In 2014, Hudson began the process of converting the Naajat exploration license into an exploitation license. This is expected to be completed in 2015. In addition, Hudson applied for and was granted a non-exclusive prospecting license for the west coast of Greenland. The license allows the Company to prospect ground outside of its existing 3 licenses. In the event that Hudson wishes to apply for a future exploration license on additional areas, funds expended from the prospecting can be carried over to the new license area.

### Current Resource Properties

#### *Naajat (White Mountain) Mineral Claim (2002/06), Greenland*

In September 2015, the license was converted to an exploitation license. A fee of 100,000 DDK was paid. Previously, the Company was required to maintain certain work commitments to retain the exploration license. Hudson now has certain non-monetary commitments based on establishing a mining operation as per the exploitation agreement in order to maintain the license.

#### *Sarfartoq Mineral Claim (2010/40), Greenland*

In 2015, the Company's license was renewed to December 31, 2017. Total work commitment for calendar 2015 was expected to be 33,528,000 DKK (approximately $6,156,000). In December 2015, the Greenland government granted Hudson a 2-year exploration commitment holiday. As a result, Hudson will be able to carry accrued work commitments beyond the current December 2017 license renewal date.

#### *Pingasut Mineral Claim (2013/01), Greenland*

This license was granted on August 9, 2013. The Company's license expires December 31, 2018. Total work commitment for calendar 2015 is 390,940 DKK (approximately $72,000). Hudson has accrued sufficient credits from previous expenditures to carry the license beyond December 31, 2015.

**(Expressed in Canadian Dollars)**

## 7. EVALUATION AND EXPLORATION COSTS

The evaluation and exploration costs expensed by the Company during the nine months ended December 31, 2015 and 2014 are broken down as follows:

| | For the nine months ended | | Cumulative evaluation and exploration costs, |
|---|---|---|---|
| | December 31, 2015 | December 31, 2014 | December 31, 2015 |
| **Evaluation and exploration costs:** | | | |
| **Sarfartoq** | | | |
| Assay and analysis | $ 1,806 | $ 1,922 | $ 1,370,172 |
| Camp and portable shelters | 5,700 | - | 1,177,447 |
| Consulting | 13,901 | 5,950 | 2,906,252 |
| Data processing | - | - | 56,737 |
| Diamond recovery plant and operations | - | - | 1,672,479 |
| Drilling | - | - | 6,717,631 |
| Equipment | 14,592 | 434 | 671,305 |
| Explosives | - | - | 50,026 |
| Fuel | 525 | - | 324,255 |
| Geophysical data | - | - | 611,754 |
| Helicopter | 49,049 | 7,853 | 7,482,376 |
| Insurance | - | - | 47,166 |
| Legal | 478 | - | 14,940 |
| Miscellaneous | - | - | 85 |
| Recoveries | - | (598) | (208,588) |
| Sample extraction and processing | - | - | 1,599,963 |
| Shipping | 8,576 | 775 | 1,073,325 |
| Supplies | 1,745 | - | 202,266 |
| Travel | 8,049 | 6,030 | 1,723,375 |
| Wages and benefits | 559 | - | 224,435 |
| **Total** | $ 104,980 | $ 22,366 | $ 27,717,401 |

**(Expressed in Canadian Dollars)**

## 7. EVALUATION AND EXPLORATION COSTS (continued)

| | For the nine months ended December 31, 2015 | For the nine months ended December 31, 2014 | Cumulative evaluation and exploration costs, December 31, 2015 |
|---|---|---|---|
| **Naajat / White Mountain** | | | |
| Assay and analysis | $ 12,763 | $ 68,935 | $ 1,022,526 |
| Camp and portable shelters | 73,886 | - | 275,580 |
| Consulting | 218,326 | 206,426 | 1,235,343 |
| Drilling | - | - | 582,612 |
| Equipment | 172,019 | 8,540 | 382,385 |
| Fuel | 13,165 | 11 | 40,381 |
| Geophysical data | - | - | 53,272 |
| Helicopter | 393,341 | 62,825 | 1,713,045 |
| Legal | 58,485 | - | 69,284 |
| Miscellaneous | - | - | 5,867 |
| Reclamation | 238,763 | - | 238,763 |
| Recoveries | - | (4,821) | (4,708) |
| Shipping | 188,884 | 18,288 | 525,143 |
| Supplies | 132,342 | - | 240,315 |
| Travel | 71,705 | 48,469 | 382,936 |
| Wages and benefits | 4,474 | - | 72,264 |
| **Total** | $ 1,578,153 | $ 408,673 | $ 6,835,008 |
| | | | |
| **Pingasut Mineral Claim** | | | |
| Assay and analysis | $ 236 | $ 18 | $ 254 |
| Camp and portable shelters | 5,700 | - | 6,067 |
| Consulting | 13,901 | 5,950 | 33,110 |
| Equipment | 14,592 | 434 | 15,164 |
| Fuel | 525 | - | 1,667 |
| Helicopter | 49,049 | 7,853 | 61,370 |
| Legal | 478 | - | 592 |
| Recoveries | - | (598) | (588) |
| Shipping | 8,576 | 775 | 9,461 |
| Supplies | 1,745 | - | 2,007 |
| Travel | 8,049 | 6,030 | 14,664 |
| Wages and benefits | 559 | - | 559 |
| **Total** | $ 103,410 | $ 20,462 | $ 144,327 |
| | | | |
| **Total evaluation and exploration costs:** | $ 1,786,543 | $ 451,501 | $ 34,696,736 |

(Expressed in Canadian Dollars)

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are broken down as follows:

| | December 31, 2015 | March 31, 2015 |
|---|---|---|
| Trade payables | $ 232,916 | $ 167,746 |
| Accrued liabilities | 47,330 | 71,450 |
| | **$ 280,246** | **$ 239,196** |

## 9. NOTE PAYABLE

On August 19, 2015, the Company obtained an unsecured bridge loan for $1,165,673. Total proceeds of the loan are committed to the purchase of heavy equipment required for ongoing pre-construction activities at the Company's White Mountain anorthosite project. The unsecured loan was originally for a term of up to three months bearing interest at 12% per annum. Subsequently, the Company entered into an agreement with the lender to extend the maturity date of the unsecured bridge loan to February 12, 2016.

During the nine months ended December 31, 2015, interest expense of $54,036 was charged to the statement of loss and comprehensive and increased the carrying value of the note payable.

As at December 31, 2015, the balance of the note payable including interest is $1,219,709 (March 31, 2015 – $nil).

Subsequent to December 31, 2015, the Company entered into an agreement with the lender to further extend the maturity date of the unsecured bridge loan to March 12, 2016.

## 10. RECLAMATION OBLIGATION

During the nine months ended December 31, 2015, the Company recognized a reclamation obligation of $238,763 (DKK 1,250,000) for the future reclamation expenditures and charged it to statement of loss and comprehensive loss.

As at December 31, 2015, the balance of the reclamation obligation is $253,250 (DKK 1,250,000) (March 31, 2015 – $nil).

## 11. SHARE CAPITAL

**a) Authorized share capital**

Unlimited number of common shares without par value.

**b) Issued share capital**

At December 31, 2015, the Company had 90,288,366 common shares issued and outstanding (March 31, 2015 – 81,486,766 common shares issued and outstanding).

*During the nine months ended December 31, 2015:*

- On September 3, 2015, the Company completed a private placement of 8,047,000 units for gross proceeds of $4,023,500. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $0.75 per share for a period of 36 months from the date of issuance.

  For accounting purposes, the Company estimated the grant date fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.44%, an expected life of 3 years, an expected volatility of 66% and an expected dividend yield of 0%, which totaled $524,387, and recorded this value in warrants reserve. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of $3,499,113 was recorded as common shares.

  The Company paid $234,510 and $1,386 in finders' fees and filing fees, respectively, in connection with this private placement.

- On September 17, 2015, the Company completed a private placement of 754,600 units for gross proceeds of $377,300. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at an exercise price of $0.75 per share for a period of 36 months from the date of issuance.

  For accounting purposes, the Company estimated the grant date fair value of warrants issued with the private placement, using the Black-Scholes option pricing model, assuming a risk-free interest rate of 0.50%, an expected life of 3 years, an expected volatility of 65% and an expected dividend yield of 0%, which totaled $49,180, and recorded this value in warrants reserve. The value attributed to the warrants was based on their relative fair value as compared to the fair value of the common shares. The remaining balance of $328,120 was recorded as common shares.

  The Company paid $18,138 and $220 in finders' fees and filing fees, respectively, in connection with this private placement.

**(Expressed in Canadian Dollars)**

## 11. SHARE CAPITAL (CONTINUED)

### c) Share purchase warrants (continued)

The changes in warrants during the nine months ended December 31, 2015 are as follows:

| | Number outstanding | Weighted average exercise price |
|---|---|---|
| **Balance, March 31, 2015** | **-** | **$ -** |
| Granted | 4,400,800 | 0.75 |
| **Balance, December 31, 2015** | **4,400,800** | **$ 0.75** |

The following summarizes information about share purchase warrants outstanding at December 31, 2015:

| Expiry date | Warrants outstanding | Exercise price | Weighted average remaining contractual life (in years) |
|---|---|---|---|
| September 3, 2018 | 4,023,500 | $ 0.75 | 2.68 |
| September 17, 2018 | 377,300 | 0.75 | 2.72 |
| | **4,400,800** | | **2.68** |

### d) Stock options

The Company has a stock option plan whereby the maximum number of shares reserved for issue shall not exceed 10% of the issued and outstanding common shares of the Company as at the date of the grant. The maximum number of common shares reserved for issue to any one optionee under the plan cannot exceed 5% of the total issued and outstanding number of common shares on a non-diluted basis. The maximum number of common shares reserved for issue to any insiders as a group shall not exceed 10% of the total number of issued and outstanding shares on a non-diluted basis. The maximum number of common shares reserved for issue to any one consultant shall not exceed 2% of the total number of issued and outstanding shares on a non-diluted basis. The maximum number of common shares reserved for issue to all eligible persons who undertake investor relation activities shall not exceed 2% in the aggregate of the total number of issued and outstanding shares on a nondiluted basis. The Company has granted directors, officers and consultants common share purchase options. These options are granted with an exercise price equal no less than the closing market price of the Company's shares prevailing on the day that the option is granted. Under the stock option plan, management has the option of determining vesting periods.

**(Expressed in Canadian Dollars)**

**11. SHARE CAPITAL (continued)**

**d) Stock options (continued)**

The changes in stock options during the nine months ended December 31, 2015 as follows:

| | Number outstanding | | Weighted average exercise price |
|---|---|---|---|
| **Balance, March 31, 2015** | **7,800,000** | **$** | **0.51** |
| Granted | 2,700,000 | | 0.50 |
| Expired | (2,200,000) | | 0.80 |
| **Balance, December 31, 2015** | **8,300,000** | **$** | **0.43** |

***During the nine months ended December 31, 2015***

- The Company granted 2,700,000 options with an exercise price of $0.50 to its officers, directors and employees. The options are exercisable for a period of five years. 25% of the options granted vested immediately at the date of grant and 12.5% will vest every three months thereafter.
- 2,200,000 options with an expiry date of April 30, 2015 expired unexercised.

The estimated fair value of the options granted was calculated using the Black-Scholes Option Pricing Model with the following assumptions:

| | For the nine months ended | | | |
|---|---|---|---|---|
| | | **December 31, 2015** | | **December 31, 2014** |
| Share price at the grant date | $ | 0.50 | $ | 0.37 |
| Risk-free interest rate | | 0.65% | | 1.45% |
| Expected annual volatility | | 77.67% | | 85.00% |
| Expected life | | 5.00 | | 4.34 |
| Expected dividend yield | | 0.00% | | 0.00% |
| Grant date fair value per option | $ | 0.31 | $ | 0.24 |

The expected life of options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following summarizes information about stock options outstanding and exercisable at December 31, 2015:

| Expiry date | Options outstanding | Options exercisable | | Exercise price | | Estimated grant date fair value | Weighted average remaining contractual life (in years) |
|---|---|---|---|---|---|---|---|
| September 28, 2016 | 1,150,000 | 1,150,000 | $ | 0.65 | $ | 559,785 | 0.75 |
| October 12, 2017 | 2,225,000 | 2,225,000 | $ | 0.36 | $ | 692,198 | 1.78 |
| November 5, 2017 | 125,000 | 125,000 | $ | 0.36 | $ | 35,334 | 1.85 |
| April 24, 2019 | 2,100,000 | 2,100,000 | $ | 0.34 | $ | 567,378 | 3.32 |
| September 8, 2020 | 2,700,000 | 1,012,500 | $ | 0.50 | $ | 838,417 | 4.69 |
| | **8,300,000** | **6,612,500** | | | **$** | **2,693,112** | **2.97** |

The weighted average exercise price of the exercisable options was $0.43.

(Expressed in Canadian Dollars)

## 11. SHARE CAPITAL (continued)

### d) Stock options (continued)

During the nine months ended December 31, 2015, the Company recognized share-based payments expense of $684,254 (December 31, 2014 – $468,520). For the nine months ended December 31, 2015 and 2014, share-based payments expense consists of the following:

| | For the nine months ended | |
|---|---|---|
| | **December 31, 2015** | **December 31, 2014** |
| **For services in respect of:** | | |
| Accounting | **$ 24,660** | $ 11,166 |
| Directors' fees | **129,450** | 111,703 |
| Evaluation and exploration costs | **24,660** | 11,147 |
| Management fees | **505,484** | 334,504 |
| | **$ 684,254** | $ 468,520 |

### e) Reserves

*Additional paid-in capital*
Additional paid in capital records the fair value of the expired options and warrants initially recorded in stock options reserve.

*Stock options reserve*
The stock options reserve records items recognized as share-based payments expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to additional paid in capital.

*Warrants reserve*
The warrants reserve records the fair value of the warrants issued until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount recorded is transferred to additional paid in capital.

## 12. LOSS PER SHARE

The calculation of basic and diluted loss per share for the nine months ended December 31, 2015 is based on the net loss attributable to common shareholders of $3,663,568 (December 31, 2014 – $1,615,330) and a weighted average number of common shares outstanding during the period of 85,289,048 (December 31, 2014 – 81,486,766).

In computing the diluted loss per share, warrants and options are not included as the impact would be anti-dilutive.

**(Expressed in Canadian Dollars)**

## 13. RELATED PARTY TRANSACTIONS AND BALANCES

### a) Related party balances

The balances due to related parties included in trade payables and accrued liabilities were $48,361 as at December 31, 2015 (March 31, 2015 – $34,144). These amounts are unsecured and non-interest bearing.

### b) Key management personnel compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation is comprised of:

| | | For the nine months ended | |
|---|---|---|---|
| | | **December 31, 2015** | **December 31, 2014** |
| Short-term employee benefits - management fees | | **$ 550,000** | $ 330,000 |
| Short-term employee benefits - professional fees | (1) | **86,424** | 74,360 |
| Short-term employee benefits - directors' fees | | **75,000** | 75,000 |
| Share-based payments - management fees | | **530,144** | 345,670 |
| Share-based payments - directors' fees | | **129,450** | 111,703 |
| | | **$ 1,371,018** | $ 936,733 |

(1) The Company paid $86,424 (December 31, 2014 – $74,360) for accounting and corporate secretarial services to Quantum Advisory Partners LLP whose incorporated partner is the Company's Chief Financial Officer. Fees have been measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## 14. COMMITMENTS AND CONTINGENCIES

During the nine months ended December 31, 2015, the Company renewed the office lease for an additional two years ending September 30, 2017. Total minimum lease payments are as follows:

| ***For the year ended*** | | |
|---|---|---|
| March 31, 2016 | $ | 6,614 |
| March 31, 2017 | | 26,048 |
| March 31, 2018 | | 13,024 |
| | **$** | **45,686** |

**(Expressed in Canadian Dollars)**

## 15. SEGMENTED INFORMATION

The Company has two operating segments: the exploration and development of the Pingasut, Sarfartoq and Naajat exploration licenses in Greenland and corporate administrative functions in Canada. The Company's total assets and losses are found in the following two geographic locations:

| | Canada | Greenland | Total |
|---|---|---|---|
| ***As at December 31, 2015*** | | | |
| Resource properties | $ - | $ 938,792 | **$ 938,792** |
| Other assets | 1,841,493 | 2,302,705 | **4,144,198** |
| Liabilities | (1,688,934) | (64,271) | **(1,753,205)** |
| | **$ 152,559** | **$ 3,177,226** | **$ 3,329,785** |
| ***As at March 31, 2015*** | | | |
| Resource properties | $ - | $ 855,556 | **$ 855,556** |
| Other assets | 898,443 | 654,994 | **1,553,437** |
| Liabilities | (239,196) | - | **(239,196)** |
| | **$ 659,247** | **$ 1,510,550** | **$ 2,169,797** |

| | Canada | Greenland | Total |
|---|---|---|---|
| ***Net loss and comprehensive loss:*** | | | |
| For the nine months ended December 31, 2015 | $ 1,377,709 | $ 2,293,103 | **$ 3,670,812** |
| For the nine months ended December 31, 2014 | $ 1,056,039 | $ 559,291 | **$ 1,615,330** |

## 16. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its resource properties and to maintain a flexible capital structure, which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash and cash equivalents.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents. In order to maximize ongoing development efforts, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements.

The Company is meeting its objective of managing capital through its detailed review and performance of due diligence on its exploration activities, preparing cash flow analyses to ensure an adequate amount of liquidity and monthly review of financial results.

There were no changes in the Company's approach to capital management during the nine months ended December 31, 2015.

## 17. FINANCIAL INSTRUMENTS

### a) Fair value

The carrying values of cash and cash equivalents, amount receivables, deposits and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of those financial instruments.

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

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 that are not based on observable market data.

The financial instruments recorded at fair value on the statements of financial position are comprised of cash and cash equivalents which are measured using Level 1 of the fair value hierarchy.

There were no financial assets which are measured at fair value that applied Level 2 or Level 3 fair value measurements (March 31, 2015 – no Level 2 or Level 3 fair value measurements).

There were no transfers between Levels 1 and 2 during the nine months ended December 31, 2015.

### b) Financial risk management

***Credit risk***
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.  The Company's cash and cash equivalents and receivables are exposed to credit risk.  The Company reduces its credit risk on cash and cash equivalents by placing these instruments with institutions of high credit worthiness.  As at December 31, 2015, the Company's maximum exposure to credit risk is the carrying value of its financial assets.

***Liquidity risk***
Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances to meet liabilities as they become due.

The Company maintained sufficient cash and cash equivalents at December 31, 2015 in the amount of $1,838,704 (March 31, 2015 – $926,853), in order to meet short-term business requirements. At December 31, 2015, the Company had accounts payable and accrued liabilities and note payable of $280,246 and $1,219,709, respectively (March 31, 2015 – $239,196 and $nil, respectively). All accounts payable and accrued liabilities and note payable are current.

### 17. FINANCIAL INSTRUMENTS (continued)

**b) Financial risk management (continued)**

***Market Risk***

The significant market risks to which the Company is exposed are interest rate risk and currency risk.

*Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the period in the financial statements is interest income on Canadian dollar cash and cash equivalents. As at December 31, 2015, the Company's cash is subject to or exposed to interest rate risk. A 10% increase/decrease in the interest rate received would have a $180 impact on profit or loss.

*Currency risk*

The Company is exposed to currency risk to the extent that monetary assets and liabilities held by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

The Company's cash and cash equivalents, amounts receivable, deposits and accounts payable and accrued liabilities are held in CAD, US dollars ("USD") and DKK; therefore, USD and DKK accounts are subject to fluctuation against the Canadian dollar.

The Company had the following balances in Canadian and foreign currencies as at December 31, 2015:

| | in CAD | in USD | in DKK |
|---|---|---|---|
| Cash and cash equivalents | $ 1,776,955 | $ - | $ 304,782 |
| Deposits | 3,259 | - | 4,480 |
| Accounts payable and accrued liabilities | (198,207) | (12,810) | (317,233) |
| | **1,582,007** | **(12,810)** | **(7,971)** |
| Rate to convert to $1.00 CAD | 1.000 | 0.7210 | 4.9358 |
| **Equivalent to Canadian dollars** | **1,582,007** | **(17,766)** | **(1,615)** |

Based on the above net exposures as at December 31, 2015, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the CAD against the USD and DKK by 10% would increase/ decrease profit or loss by $1,938.

*Other price risk*

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk, financial market risk, or currency risk. The Company is not exposed to significant other price risk.