



Consolidated Financial Statements of

**BLACK SEA COPPER & GOLD CORP.**  
(formerly ALTERNATIVE EARTH RESOURCES INC.)

Years ended June 30, 2016 and 2015

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Shareholders of Black Sea Copper & Gold Corp. (formerly Alternative Earth Resources Inc.)

We have audited the accompanying consolidated financial statements of Black Sea Copper & Gold Corp. (formerly Alternative Earth Resources Inc.) which comprise the consolidated statements of financial position as at June 30, 2016 and 2015, and the consolidated statements of operations and comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

#### Management's Responsibility for the 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 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 auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 involves evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Black Sea Copper & Gold Corp. (formerly Alternative Earth Resources Inc.) as at June 30, 2016 and 2015 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.



Saturna Group Chartered Professional Accountants LLP

Vancouver, Canada

October 24, 2016

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

### Consolidated statements of financial position

Presented in US dollars

|                                               | Note | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|-----------------------------------------------|------|------------------------|------------------------|
| <b>ASSETS</b>                                 |      |                        |                        |
| <b>Current assets</b>                         |      |                        |                        |
| Cash and cash equivalents                     |      | 1,331,115              | 1,904,248              |
| Amounts receivable                            |      | 25,288                 | 7,788                  |
| Prepaid expenses and deposits                 |      | 43,575                 | 51,453                 |
| Asset held for sale                           | 6    | –                      | 65,000                 |
| <b>Total current assets</b>                   |      | <b>1,399,978</b>       | <b>2,028,489</b>       |
| <b>Non-current assets</b>                     |      |                        |                        |
| Restricted cash                               | 8    | 25,000                 | 50,000                 |
| Property and equipment                        | 9    | 5,029                  | 17,159                 |
| <b>Total non-current assets</b>               |      | <b>30,029</b>          | <b>67,159</b>          |
| <b>TOTAL ASSETS</b>                           |      | <b>1,430,007</b>       | <b>2,095,648</b>       |
| <b>LIABILITIES AND EQUITY</b>                 |      |                        |                        |
| <b>Current liabilities</b>                    |      |                        |                        |
| Accounts payable and accrued liabilities      |      | 112,938                | 48,180                 |
| <b>Total current liabilities</b>              |      | <b>112,938</b>         | <b>48,180</b>          |
| <b>Non-current liabilities</b>                |      |                        |                        |
| Asset retirement obligations                  | 11   | 206,820                | 194,910                |
| <b>Total liabilities</b>                      |      | <b>319,758</b>         | <b>243,090</b>         |
| <b>Equity</b>                                 |      |                        |                        |
| Share capital                                 |      | 63,018,342             | 62,955,332             |
| Warrants reserve                              |      | 524,341                | 524,341                |
| Equity compensation reserve                   |      | 7,707,895              | 7,731,603              |
| Accumulated other comprehensive income (loss) |      | (53,655)               | 15,054                 |
| Deficit                                       |      | (70,086,674)           | (69,373,772)           |
| <b>Total equity</b>                           |      | <b>1,110,249</b>       | <b>1,852,558</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>           |      | <b>1,430,007</b>       | <b>2,095,648</b>       |

Nature of operations and going concern (Note 1)

Litigation settlement (Note 16)

Subsequent events (Note 17)

Approved and authorized for issuance on behalf of the Board of Directors on October 24, 2016:

\_\_\_\_\_  
"Vince Sorace"  
Director

\_\_\_\_\_  
"Rod McKeen"  
Director

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

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

Consolidated statements of operations and comprehensive income (loss)  
Presented in US dollars

|                                                                                     | Note | For the year ended<br>June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|-------------------------------------------------------------------------------------|------|----------------------------------------------|------------------------|
| <b>Expenses</b>                                                                     |      |                                              |                        |
| Adjustments to asset retirement obligations                                         |      | 6,965                                        | (14,666)               |
| Audit, accounting, and tax                                                          |      | 42,324                                       | 74,723                 |
| Depreciation and amortization                                                       |      | 14,661                                       | 20,685                 |
| Directors' fees                                                                     | 14   | 51,519                                       | 12,780                 |
| Foreign exchange gain                                                               |      | (44,320)                                     | (163,881)              |
| General and administrative                                                          |      | 103,645                                      | 104,469                |
| Impairment of assets held for sale                                                  |      | –                                            | 26,860                 |
| Insurance                                                                           |      | 25,745                                       | 37,407                 |
| Legal and consulting fees                                                           | 14   | 341,599                                      | 151,653                |
| Rent                                                                                |      | 18,485                                       | 22,325                 |
| Resource property expenses                                                          |      | 964                                          | 19,390                 |
| Salaries, wages, and employee benefits                                              | 14   | 72,635                                       | 255,122                |
| <b>Total expenses</b>                                                               |      | <b>634,222</b>                               | <b>546,867</b>         |
| <b>Loss before other income (expense)</b>                                           |      | <b>(634,222)</b>                             | <b>(546,867)</b>       |
| <b>Other income (expense)</b>                                                       |      |                                              |                        |
| Finance costs                                                                       |      | (4,945)                                      | (5,752)                |
| Interest income                                                                     |      | 8,372                                        | 12,848                 |
| Litigation settlement                                                               | 16   | (37,715)                                     | –                      |
| <b>Total other income (expense)</b>                                                 |      | <b>(34,288)</b>                              | <b>7,096</b>           |
| <b>Loss before income taxes</b>                                                     |      | <b>(668,510)</b>                             | <b>(539,771)</b>       |
| Income taxes                                                                        | 13   | (8,192)                                      | –                      |
| <b>Net loss from continuing operations</b>                                          |      | <b>(676,702)</b>                             | <b>(539,771)</b>       |
| Gain (loss) from discontinued operations                                            | 5    | (36,200)                                     | 1,149,097              |
| <b>Net income (loss)</b>                                                            |      | <b>(712,902)</b>                             | <b>609,326</b>         |
| Foreign currency translation adjustment                                             |      | (68,709)                                     | (341,224)              |
| <b>Total comprehensive income (loss)</b>                                            |      | <b>(781,611)</b>                             | <b>268,102</b>         |
| Earnings (loss) per share (basic and diluted)                                       |      | (0.07)                                       | 0.06                   |
| - Continuing operations                                                             |      | (0.07)                                       | (0.06)                 |
| - Discontinued operations                                                           |      | –                                            | 0.12                   |
| Weighted average number of common shares issued and outstanding (basic and diluted) |      | 10,278,646                                   | 9,914,868              |

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

# BLACK SEA COPPER & GOLD CORP.

(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

Consolidated statements of changes in equity  
Presented in US dollars

|                              | Number of<br>shares | Share capital<br>\$ | Warrants<br>reserve<br>\$ | Equity<br>compensation<br>reserve<br>\$ | Accumulated<br>other<br>comprehensive<br>income (loss)<br>\$ | Deficit<br>\$       | Total<br>\$      |
|------------------------------|---------------------|---------------------|---------------------------|-----------------------------------------|--------------------------------------------------------------|---------------------|------------------|
| <b>As at June 30, 2014</b>   | <b>9,871,784</b>    | <b>62,923,805</b>   | <b>524,341</b>            | <b>7,743,276</b>                        | <b>356,278</b>                                               | <b>(69,983,098)</b> | <b>1,564,602</b> |
| Foreign currency translation | —                   | —                   | —                         | —                                       | (341,224)                                                    | —                   | (341,224)        |
| Stock options exercised      | 201,613             | 31,527              | —                         | (11,673)                                | —                                                            | —                   | 19,854           |
| Net income                   | —                   | —                   | —                         | —                                       | —                                                            | 609,326             | 609,326          |
| <b>As at June 30, 2015</b>   | <b>10,073,397</b>   | <b>62,955,332</b>   | <b>524,341</b>            | <b>7,731,603</b>                        | <b>15,054</b>                                                | <b>(69,373,772)</b> | <b>1,852,558</b> |
| Foreign currency translation | —                   | —                   | —                         | —                                       | (68,709)                                                     | —                   | (68,709)         |
| Stock options exercised      | 463,710             | 63,010              | —                         | (23,708)                                | —                                                            | —                   | 39,302           |
| Net loss                     | —                   | —                   | —                         | —                                       | —                                                            | (712,902)           | (712,902)        |
| <b>As at June 30, 2016</b>   | <b>10,537,107</b>   | <b>63,018,342</b>   | <b>524,341</b>            | <b>7,707,895</b>                        | <b>(53,655)</b>                                              | <b>(70,086,674)</b> | <b>1,110,249</b> |

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

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

### Consolidated statements of cash flows

Presented in US dollars

|                                                               | For the year ended     |                        |
|---------------------------------------------------------------|------------------------|------------------------|
|                                                               | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
| <b>Operating activities</b>                                   |                        |                        |
| Net income (loss)                                             | (712,902)              | 609,326                |
| Items not involving cash:                                     |                        |                        |
| Adjustment to asset retirement obligations                    | 6,965                  | (14,666)               |
| Accretion of asset retirement obligations                     | 4,945                  | 5,752                  |
| Asset retirement obligation provision settled                 | —                      | (41,557)               |
| Depreciation and amortization                                 | 14,661                 | 20,685                 |
| Gain on sale of resource property interests                   | —                      | (1,149,097)            |
| Impairment of assets held for sale                            | —                      | 26,860                 |
| Loss on disposal of assets held for sale                      | 36,200                 | —                      |
| Changes in non-cash working capital:                          |                        |                        |
| Amounts receivable                                            | (17,500)               | 3,483                  |
| Prepaid expenses and deposits                                 | 7,878                  | 23,021                 |
| Accounts payable and accrued liabilities                      | 64,758                 | (77,630)               |
| <b>Net cash used in operating activities</b>                  | <b>(594,995)</b>       | <b>(593,823)</b>       |
| <b>Investing activities</b>                                   |                        |                        |
| Proceeds on disposal of resource properties                   | —                      | 1,431,329              |
| Proceeds on disposal of property and equipment                | 28,800                 | —                      |
| Restricted cash                                               | 25,000                 | 125,000                |
| <b>Net cash provided by investing activities</b>              | <b>53,800</b>          | <b>1,556,329</b>       |
| <b>Financing activities</b>                                   |                        |                        |
| Proceeds from stock options exercised                         | 39,302                 | 19,854                 |
| <b>Net cash provided by financing activities</b>              | <b>39,302</b>          | <b>19,854</b>          |
| Effects of exchange rate changes on cash and cash equivalents | (71,240)               | (337,040)              |
| Increase (decrease) in cash and cash equivalents              | (573,133)              | 645,320                |
| Cash and cash equivalents, beginning of year                  | 1,904,248              | 1,258,928              |
| <b>Cash and cash equivalents, end of year</b>                 | <b>1,331,115</b>       | <b>1,904,248</b>       |
| Cash and cash equivalents consist of:                         |                        |                        |
| Cash                                                          | 637,785                | 984,203                |
| Cashable guaranteed investment certificates                   | 693,330                | 920,045                |
| <b>Total cash and cash equivalents</b>                        | <b>1,331,115</b>       | <b>1,904,248</b>       |
| Supplemental disclosures:                                     |                        |                        |
| Interest paid                                                 | —                      | —                      |
| Income taxes paid                                             | 8,192                  | —                      |

Refer to Note 5 for details of cash flows attributable to discontinued operations.

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

# **BLACK SEA COPPER & GOLD CORP.**

## **(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)**

**Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015**  
Presented in US dollars

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

Black Sea Copper & Gold Corp. (formerly Alternative Earth Resources Inc.) (the "Company") was incorporated on April 13, 1995 under the laws of British Columbia and has its registered office at Suite 1000, 840 Howe Street, Vancouver, Canada. The head office is located at Suite 717, 1030 West Georgia Street, Vancouver, Canada. On September 28, 2016, the Company completed the acquisition of Black Sea Copper & Gold Corp., a private British Columbia Company ("BSCG") and, concurrently, the company name was changed to Black Sea Copper & Gold Corp. as disclosed in Note 17(b). The Company's common shares are traded on the TSX Venture Exchange under the trading symbol BLS.

The Company had been focused on the acquisition and development of geothermal properties since June 2001. Difficult market conditions for venture companies in general, and the geothermal sector in particular, prevented access to new capital for geothermal project development. Thus, Company disposed of its remaining geothermal properties in August 2014 and is in the business of exploring and developing mineral properties.

The Company has incurred net losses over the past several years and has an accumulated deficit of \$70,086,674, although it has positive overall equity. The Company's ability to continue as a going concern is dependent on its available cash, its ability to find new sources of financing, and its ability to continue to raise funds to support corporate operations and the acquisition and development of properties. Over the past two years, the Company has undertaken a process to significantly reduce its ongoing costs and operating expenses. Management believes that the cash balances available as of June 30, 2016 provides sufficient funds for the Company to meet its obligations beyond the next 12 months. Additional financing may be required to acquire new projects.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

#### **Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The policies applied in these consolidated financial statements are based on IFRS in effect as of June 30, 2016.

#### **Basis of Presentation**

The consolidated financial statements are expressed in United States dollars.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

#### **Reclassifications**

Directors' fees presented for comparative purposes have been reclassified from general and administrative costs on the consolidated statements of operations and comprehensive income (loss) to conform to the presentation adopted in the current period.

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015  
Presented in US dollars

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Consolidation

The financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

- Blue Mountain Power Company Inc., incorporated in the province of British Columbia;
- Nevada Geothermal Power US Holdings Inc., incorporated in the State of Nevada;
- Nevada Geothermal Power Company, incorporated in the State of Nevada;
- NGP Truckhaven LLC, a Delaware limited liability company.

#### Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date that control ceases. The Company uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred, and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the statement of operations.

Inter-company transactions, balances, revenues, and expenses are eliminated.

#### Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance, which are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value to be cash equivalents.

#### Property and equipment

Property and equipment is carried at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to write-off the cost of assets to their residual values over their estimated useful lives, as follows:

|                                                              |             |
|--------------------------------------------------------------|-------------|
| Computers, computer software, office furniture and equipment | 3 - 5 years |
|--------------------------------------------------------------|-------------|

The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed annually and adjusted if appropriate. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount.

# **BLACK SEA COPPER & GOLD CORP.**

## **(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)**

Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015  
Presented in US dollars

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Resource property interests**

Costs relating to the acquisition of resource properties are capitalized. Costs relating to the exploration for and evaluation of mineral and other resources are recognized in the statement of operations when incurred if costs relate to expenditure on activities undertaken with the prospect of surveying areas where exploitation probability is uncertain and the costs do not meet the criteria for capitalization. Development costs relating to resource properties are capitalized if the Company can demonstrate all of the following:

- The technical feasibility of completing the project, including the existence of an adequate mineral resource;
- The intention to complete the development of the project and to use or sell the project;
- The ability to complete the project;
- How the project will generate future benefits;
- The availability of adequate technical, financial and other resources to complete the development; and
- The ability to measure costs to be capitalized reliably.

The expenditure capitalized includes the cost of materials, direct labour, and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of operations when incurred.

Upon completion of a project, costs capitalized under interests in resource properties are transferred to property and equipment, and amortized over its estimated useful life.

#### **Government Assistance**

Government grants are recorded as a reduction of the related expenditure, item of property and equipment or resource property interest where there is reasonable assurance that the Company has complied with all conditions necessary to receive the grants and collection is reasonably assured.

#### **Impairment of non-financial assets**

At each reporting date, the Company assesses whether there are indicators of impairment for its non-financial assets. If indicators exist, the Company determines if the recoverable amount of the asset or cash generating unit ("CGU") is greater than its carrying amount. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks, and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in the statement of operations. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. The fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in the statement of operations. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

#### **Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015  
Presented in US dollars

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

A provision is recognized in respect of future costs to retire assets, including environmental costs, remediation and ongoing treatment, and monitoring of the site. The corresponding asset is capitalized as part of the asset's carrying value and amortized over the asset's useful life. Changes in the value of the provision resulting from revisions to the amount or timing of the underlying cash flows are capitalized to the related asset. The increase in the provision due to passage of time is recognized as finance costs.

#### Share capital and warrants

Share capital consists of common shares with no par value. Warrants issued are presented separately from share capital. Incremental costs directly attributable to the issue of new common shares or warrants are deducted from the proceeds.

#### Income taxes

The income tax expense for the period comprises current and deferred income tax. Tax is recognized in the statement of operations, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is the expected tax payable on taxable income for the year using the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income and any adjustments in respect of prior years.

Deferred income tax is provided, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts, using tax rates and laws that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the asset is realized or the liability is settled. However, deferred income tax liabilities are not recognized if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilised. The following criteria are used in assessing the probability that taxable income will be available against which the unused tax losses or unused tax credits can be utilised:

- whether the Company has sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity, which will result in taxable amounts against which the unused tax losses or unused tax credits can be utilised before they expire;
- whether it is probable that the Company will have taxable profits before the unused tax losses or unused tax credits expire;
- whether the unused tax losses result from identifiable causes which are unlikely to recur; and
- whether tax planning opportunities are available that will create taxable income in the period in which the unused tax losses or unused tax credits can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention and ability to settle the balances on a net basis.

# **BLACK SEA COPPER & GOLD CORP.**

## **(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)**

Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015  
Presented in US dollars

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Foreign Currency Translation**

##### ***Functional and presentation currency***

Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of BSCG and Blue Mountain Power Company Inc. is the Canadian dollar while the functional currency of the other wholly-owned subsidiaries of the Company is the US dollar. The consolidated financial statements are presented in US dollars.

##### ***Transactions and balances***

Monetary assets and liabilities denominated in foreign currency are translated at exchange rates in effect at statement of financial position dates. Revenues and expenses are translated at the exchange rates prevailing on the transaction dates. Non-monetary items measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Realized and unrealized exchange gains and losses are included in the statement of operations.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss shall be recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognized in the statement of operations, any exchange component of that gain or loss shall be recognised in the statement of operations.

##### ***Wholly-owned companies***

The results and financial position of all of the wholly-owned subsidiaries that have a functional currency different from the presentation currency are translated into the Company's presentation currency as follows:

- Statements of operations and cash flow statements are translated at the average exchange rates prevailing during each reporting period; and
- Assets and liabilities are translated at the exchange rates prevailing at statement of financial position dates.

All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income.

#### **Financial assets**

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

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Financial assets (continued)

##### *Financial assets at fair value through profit or loss*

Financial assets are included in this category if acquired principally for the purpose of selling in the short term. Derivatives are also included in this category unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of operations. Realized and unrealized gains and losses arising from changes in the fair value of assets included in this category are included in the statement of operations in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the statement of operations when the Company's right to receive payments is established.

The following are loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - o adverse changes in the payment status of borrowers in the portfolio; and
  - o national or local economic conditions that correlate with defaults on the assets in the portfolio.

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed.

##### *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. The investment is carried at fair value, and changes in fair value are recognized directly in other comprehensive income, except for impairment losses. The cumulative gain or loss previously recognized in other comprehensive income is recognized in net income for the period at the time the investment is impaired or derecognized. The fair value of publicly traded securities is based on quoted market prices. Interest on available for sale securities calculated using the effective interest method is recognized in the statement of operations as part of other income. Dividends on available for sale equity instruments are recognized in the statement of operations as part of other income when the Company's right to receive dividend payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that an available for sale financial asset is impaired. For debt securities, the criteria included under loans and receivables are used. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Financial liabilities**

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

#### **Share-based payments**

In share-based payment transactions, the Company measures the goods or services received, and the corresponding increase in equity, at the fair value of the goods or services received on the date the goods and services are received, unless the fair value cannot be estimated reliably. If so, the Company measures the fair value by reference to the fair value of the equity instruments granted.

The Company grants stock options to officers, directors and employees. The plan is classified as an equity settled share-based compensation plan. The fair value of stock options which vest immediately is recorded at the date of grant and the fair value of options which vest in the future is recognized on a straight-line basis over the vesting period. Stock option plans that have multiple instalments with different vesting periods are fair valued separately at the grant date. Upon exercise of options, any consideration received, together with the related portion of the equity compensation reserve, is credited to share capital. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of operations, with a corresponding adjustment to equity.

#### **Earnings (loss) per share**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings (loss) per share, whereby all "in the money" stock options and share purchase warrants are assumed to have been exercised at the beginning of the period and the proceeds from their exercise are assumed to have been used to purchase common shares at the average market price during the period. When a loss is incurred during the period, basic and diluted loss per share are the same as the exercise of stock options and share purchase warrants is considered to be anti-dilutive. As at June 30, 2016, the Company had no (2015 – 882,258) potentially dilutive shares outstanding.

#### **Comprehensive income (loss)**

Comprehensive loss is the total non-owner change in equity for a reporting period. This change encompasses all changes in equity other than transactions from shareholders. For the years ended June 30, 2016 and 2015, the Company's only components of comprehensive income are foreign currency translation gains and losses.

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **Accounting standards issued but not yet effective**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended June 30, 2016, and have not been applied in preparing these consolidated financial statements:

New standard IFRS 9, "Financial Instruments"

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

### **3. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to:

- ensure there are adequate capital resources to manage the Company's ability to continue as a going concern;
- maintain adequate levels of funding to sustain the required exploration and development of its resource properties;
- maintain investor, creditor and market confidence to sustain future development of the business; and
- provide returns to shareholders and benefits for other stakeholders.

The capital structure of the Company currently consists of cash and cash equivalents, share capital, warrants reserve, equity compensation reserve, and deficit. The Company's resource property projects and corporate head office are currently funded by equity financing.

The Company attempts to manage its capital in a manner that provides sufficient funding for exploration and development activities. Annual budgets and rolling forecasts are used to determine the necessary capital requirements. The budgets are prepared by management, approved by the Board of Directors and are updated for changes in the underlying assumptions, economic conditions and risk characteristics of the underlying assets, as necessary. The Company is not subject to externally imposed capital requirements.

### **4. SIGNIFICANT JUDGMENTS AND ESTIMATES**

The Company is often required to make estimates and assumptions regarding the future. The estimates will, by definition, rarely equal the actual results achieved. The estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below. Estimates and judgments are continually re-assessed and are based on historical experience as well as other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### ***Estimates of the useful lives and residual values of property and equipment***

The Company depreciates or amortizes its property and equipment over their estimated useful lives. The actual lives of these assets can vary depending on a variety of factors, including mineral resource characteristics and management, technological innovation, and maintenance programs.

Residual values are estimated as the amount the Company would currently obtain from disposal of the asset if the asset were already of the age and condition expected at the end of useful life.

#### ***The calculation of the fair value of the asset retirement obligations***

The ultimate amount of the site restoration and reclamation costs that will have to be incurred is uncertain due to uncertainty regarding the extent of the liability and the costs that will have to be incurred to settle the liability. In addition, the timing of the settlement of the obligation is uncertain.

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#### 4. SIGNIFICANT JUDGMENTS AND ESTIMATES (CONTINUED)

##### *Determining the realizable amount of deferred income tax assets*

The Company has not recognized a deferred income tax asset in respect of its non-capital losses carried forward for tax purposes, since it was not considered more likely than not that these deferred income tax assets will be realized.

##### *Assessment of the going concern assumption*

The assessment of whether the going concern assumption is appropriate requires management to take into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The Company is aware that material uncertainties related to events or conditions may cast significant doubt upon the Company's ability to continue as a going concern.

#### 5. DISCONTINUED OPERATIONS

On August 27, 2014, the Company closed a Purchase and Sale Agreement ("PSA") with Ormat Nevada Inc. ("Ormat"), whereby Ormat purchased the Company's Crump Geyser (50% interest) and North Valley geothermal projects. The PSA also gave Ormat an option, exercisable over a four year period, to purchase certain Company leases from the New Truckhaven geothermal project.

The Company received \$1,490,000 less legal fees relating to the PSA of \$58,671, upon closing of the transaction.

The Company included all revenues and expenses related to these projects in discontinued operations. All related assets and liabilities were classified as held for sale.

The assets and liabilities were disposed of on August 27, 2014, and the calculation of the gain on disposal is as follows:

|                              | \$        |
|------------------------------|-----------|
| Net consideration received   | 1,431,329 |
| Resource property interests  | 474,708   |
| Prepaid expenses             | 37,975    |
| Asset retirement obligations | (230,451) |
| Net assets sold              | 282,232   |
| Gain on disposal             | 1,149,097 |

On November 19, 2015, the Company closed a Vacant Land Offer and Acceptance Agreement with a non-related party, whereby the non-related party purchased land recorded as asset held for sale as at June 30, 2015. The Company received \$28,800 upon closing of the transaction. As the land was related to the geothermal projects disposed of, the Company included the expenses related to this sale in discontinued operations, and the calculation of the loss on disposal is as follows:

|                                       | \$     |
|---------------------------------------|--------|
| Consideration received                | 32,000 |
| Land held for sale                    | 65,000 |
| Legal fees relating to sale           | 3,200  |
| Net assets sold including legal costs | 68,200 |
| Loss on disposal                      | 36,200 |

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### 5. DISCONTINUED OPERATIONS (CONTINUED)

Cash flows from discontinued operations are as follows:

|                                       | For the year ended<br>June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|---------------------------------------|----------------------------------------------|------------------------|
| Cash provided by investing activities | 28,800                                       | 1,431,329              |
| Increase in cash and cash equivalents | 28,800                                       | 1,431,329              |

### 6. ASSET HELD FOR SALE

As at June 30, 2014, the Company was in negotiations with Ormat, whereby Ormat would purchase a majority of the Company's geothermal projects, including New Truckhaven, North Valley, and Crump Geyser (50% interest). The Company concluded this sale on August 27, 2014.

Under IFRS, non-current assets, and the liabilities associated with these assets, that are expected to be recovered primarily through sale rather than through continuing use, are to be classified as held for sale. The assets and liabilities involved in the negotiations met the criteria to be classified as held for sale.

The carrying amount at the time of reclassification and the amounts transferred to asset held for sale as at June 30, 2016 and 2015 is as follows:

|      | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|------|------------------------|------------------------|
| Land | —                      | 65,000                 |

### 7. SEGMENTED INFORMATION

| As at June 30, 2016    | United States<br>\$ | Canada<br>\$ | Total<br>\$ |
|------------------------|---------------------|--------------|-------------|
| Restricted cash        | 25,000              | —            | 25,000      |
| Property and equipment | 2,598               | 2,431        | 5,029       |
|                        | 27,598              | 2,431        | 30,029      |

| As at June 30, 2015    | United States<br>\$ | Canada<br>\$ | Total<br>\$ |
|------------------------|---------------------|--------------|-------------|
| Restricted cash        | 50,000              | —            | 50,000      |
| Property and equipment | 4,542               | 12,617       | 17,159      |
|                        | 54,542              | 12,617       | 67,159      |

### 8. RESTRICTED CASH

|                                                        | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|--------------------------------------------------------|------------------------|------------------------|
| Cash collateralized letters of credit:                 |                        |                        |
| California Division of Oil, Gas & Geothermal Resources | —                      | 25,000                 |
| Imperial County Planning & Development Services        | 25,000                 | 25,000                 |
|                                                        | 25,000                 | 50,000                 |

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### 9. PROPERTY AND EQUIPMENT

|                               | Computers,<br>office furniture<br>and equipment<br>\$ | Land and<br>leasehold<br>improvements<br>\$ | Computer<br>software<br>\$ | Total<br>\$ |
|-------------------------------|-------------------------------------------------------|---------------------------------------------|----------------------------|-------------|
| Cost:                         |                                                       |                                             |                            |             |
| June 30, 2014                 | 86,525                                                | 91,860                                      | 115,742                    | 294,127     |
| Moved to assets held for sale | —                                                     | (91,860)                                    | —                          | (91,860)    |
| Effects of foreign exchange   | (10,339)                                              | —                                           | (16,053)                   | (26,392)    |
| June 30, 2015                 | 76,186                                                | —                                           | 99,689                     | 175,875     |
| Additions                     | 3,206                                                 | —                                           | —                          | 3,206       |
| Effects of foreign exchange   | (1,927)                                               | —                                           | (3,107)                    | (5,034)     |
| June 30, 2016                 | 77,465                                                | —                                           | 96,582                     | 174,047     |
| Accumulated Depreciation:     |                                                       |                                             |                            |             |
| June 30, 2014                 | 74,994                                                | —                                           | 85,245                     | 160,239     |
| Additions                     | 4,108                                                 | —                                           | 16,577                     | 20,685      |
| Effects of foreign exchange   | (9,584)                                               | —                                           | (12,624)                   | (22,208)    |
| June 30, 2015                 | 69,518                                                | —                                           | 89,198                     | 158,716     |
| Additions                     | 4,770                                                 | —                                           | 9,891                      | 14,661      |
| Effects of foreign exchange   | (1,852)                                               | —                                           | (2,507)                    | (4,359)     |
| June 30, 2016                 | 72,436                                                | —                                           | 96,582                     | 169,018     |
| Carrying Amounts:             |                                                       |                                             |                            |             |
| As at June 30, 2015           | 6,668                                                 | —                                           | 10,491                     | 17,159      |
| As at June 30, 2016           | 5,029                                                 | —                                           | —                          | 5,029       |

### 10. RESOURCE PROPERTY INTERESTS

#### (a) New Truckhaven

The New Truckhaven project consisted of 10 square miles of federal and private geothermal leases, located in the Imperial Valley region of California. This project was included in the Purchase and Sale Agreement (Note 5), and all assets and liabilities not part of the purchase option were disposed of on August 27, 2014. The property was sold subsequent to the year-end (Note 17).

#### (b) North Valley

The project is located in Washoe and Churchill Counties, Nevada. The Company had a total of 10 square miles of both private land and federal lands including water and surface rights. The private leases are subject to a 4.0% royalty on gross revenue from electricity sales. Development on the federal lands is subject to a royalty of 1.75% for the first ten years of production, after which it increases to 3.5%.

This project was included in the Purchase and Sale Agreement (Note 5), and was disposed of on August 27, 2014.

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### 11. ASSET RETIREMENT OBLIGATIONS

|                                   | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|-----------------------------------|------------------------|------------------------|
| Opening balance                   | 194,910                | 245,381                |
| Effect of change in discount rate | 6,965                  | (14,666)               |
| Accretion                         | 4,945                  | 5,752                  |
| Decommissioning costs paid        | —                      | (41,557)               |
| Ending balance                    | 206,820                | 194,910                |

The timing of the outflows in respect of the provision for retirement costs of the exploration stage properties was estimated to be approximately 2031. Estimates regarding the timing of outflows are subject to considerable uncertainty, in particular for projects in the exploration and development phases, such as New Truckhaven.

### 12. SHARE CAPITAL

#### (a) Authorized:

Unlimited voting common shares – no par value.  
25,000,000 first preferred shares – no par value (none issued).  
25,000,000 second preferred shares – no par value (none issued).

#### Issued:

During the year ended June 30, 2016, the Company issued 463,710 (2015 – 201,613) common shares for proceeds of \$39,302 (2015 - \$19,854) pursuant to the exercise of stock options. The fair value of stock options of \$23,708 (2015 - \$11,673) was transferred to share capital from equity compensation reserve upon being exercised.

Effective July 26, 2016, the Company completed a share consolidation of its common shares on the basis of two existing common shares for one post-consolidation common share. All common share and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

Effective September 28, 2016, the Company completed a share consolidation on the basis of 1.24 existing common shares for one post-consolidation common share. All common share and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

#### (b) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers and employees. The maximum number of outstanding options is 10% of the issued and outstanding common shares at any point in time. The exercise price of each option equals the market price of the Company's shares on the date of the grant. The maximum term of the options is ten years. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

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### 12. SHARE CAPITAL (CONTINUED)

#### (b) Stock Options (continued)

The following table summarizes the continuity of the Company's stock options:

|                            | Number of<br>stock options | Weighted<br>average<br>exercise<br>price<br>Cdn\$ |
|----------------------------|----------------------------|---------------------------------------------------|
| Outstanding, June 30, 2014 | 733,065                    | 1.07                                              |
| Exercised                  | (201,613)                  | 0.12                                              |
| Expired                    | (12,097)                   | 15.13                                             |
| Outstanding, June 30, 2015 | 519,355                    | 1.10                                              |
| Exercised                  | (463,710)                  | 0.12                                              |
| Expired                    | (55,645)                   | 9.30                                              |
| Outstanding, June 30, 2016 | -                          | -                                                 |

During the year ended June 30, 2016, the fair value of the stock options on the exercise date of the stock options was \$63,010 (2015 – \$31,527).

#### (c) Share purchase warrants

The following table summarizes the continuity of share purchase warrants:

|                                 | Number of<br>warrants | Weighted<br>average<br>exercise<br>price<br>Cdn\$ |
|---------------------------------|-----------------------|---------------------------------------------------|
| Balance, June 30, 2014 and 2015 | 362,903               | 18.60                                             |
| Expired                         | (362,903)             | 18.60                                             |
| Balance, June 30, 2016          | -                     | -                                                 |

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### 13. INCOME TAXES

Income taxes shown in the statement of operations differs from the amounts obtained by applying statutory rates due to the following:

|                                                                   | For the year ended<br>June 30,<br>2016<br>\$ | For the year ended<br>June 30,<br>2015<br>\$ |
|-------------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Net income (loss)                                                 | (712,902)                                    | 609,326                                      |
| Canadian statutory income tax rate                                | 26%                                          | 26%                                          |
| Income tax expense (recovery) at statutory rate                   | (185,357)                                    | 158,425                                      |
| Tax effect of:                                                    |                                              |                                              |
| Permanent differences and other                                   | (75,710)                                     | 486,875                                      |
| Increase in recovery – higher rate of tax of foreign subsidiaries | 1,071                                        | 45,211                                       |
| Expiry of non-capital loss                                        | –                                            | 182,977                                      |
| True up of prior year difference                                  | –                                            | 182,443                                      |
| Change in deferred income tax assets not recognized               | 268,188                                      | (1,055,931)                                  |
| Income tax provision                                              | 8,192                                        | –                                            |

The significant components of the Company's deferred income tax assets are as follows:

|                                                        | June 30,<br>2016<br>\$ | June 30,<br>2015<br>\$ |
|--------------------------------------------------------|------------------------|------------------------|
| Deferred income tax assets                             |                        |                        |
| Capital losses carried forward                         | 478,464                | 587,595                |
| Non-capital losses carried forward                     | 21,767,420             | 21,806,201             |
| Property and equipment and resource property interests | 230,152                | 228,707                |
| Inter-company loans                                    | 1,452,407              | 1,041,802              |
| Asset retirement obligations                           | 70,319                 | 66,269                 |
| Total deferred income tax assets                       | 23,998,762             | 23,730,574             |
| Unrecognized deferred income tax assets                | (23,998,762)           | (23,730,574)           |
| Net deferred income tax asset                          | –                      | –                      |

The Company and its subsidiaries have non-capital losses carried forward of approximately Cdn\$14.3 million and \$53.1 million, that may be available for tax purposes. Non-capital losses will expire if they remain unused between 2017 and 2036.

The Company also has capital loss carry forwards of approximately Cdn\$4.8 million. The capital losses have no expiry and can be used to offset future capital gains.

### 14. RELATED PARTY TRANSACTIONS

- During the year ended June 30, 2016, the Company incurred \$54,307 (2015 – \$168,572) in salaries and benefits to the Chief Executive Officer of the Company.
- During the year ended June 30, 2016, the Company incurred \$51,519 (2015 - \$12,780) in directors' fees to three directors of the Company.
- During the year ended June 30, 2016, the Company incurred \$45,350 (2015 - \$53,168) in consulting fees to a company controlled by the Chief Financial Officer of the Company.

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### 14. RELATED PARTY TRANSACTIONS (CONTINUED)

- (d) During the year ended June 30, 2016, the Company incurred \$13,545 (2015 - \$nil) in legal fees to a company where a director of the Company has significant influence.
- (e) During the year ended June 30, 2016, the Company issued 463,710 (2015 – 201,613) common shares to officers and directors of the Company for proceeds of \$39,302 (2015 - \$19,854) pursuant to the exercise of stock options.

### 15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including market risk (this includes foreign exchange rate risk and interest rate risk) as well as credit risk and liquidity risk. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Board approves and monitors the risk management processes. The Board's main objectives for managing risks are to ensure liquidity, the fulfillment of obligations, the continued development of the Company's geothermal properties, and to limit exposure to credit and market risks. The types of risk exposure and the way in which such exposures are managed are as follows:

#### (a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in market prices.

#### (b) Foreign exchange rate risk

The operating results and financial position of the Company are reported in US dollars. The Company operates in Canada and the United States. The functional currency of the Company's US operations is the US dollar, and these operations are therefore subject to risk arising from future transactions as well as recognized assets and liabilities which are denominated in currencies other than US dollars. The functional currency of the Company's Canadian operations is the Canadian dollar and these operations are therefore subject to risk arising from future transactions as well as recognized assets and liabilities which are denominated in currencies other than Canadian dollars.

The sensitivity analysis below provides details on the effect of a change in foreign exchange rate on the net income and other comprehensive income of the Company. A 10% change in the exchange rate for the US dollar would result in a change in net income of \$96,930. A 10% change in the exchange rate for the Canadian dollar would result in a change in comprehensive income of \$28,035. The effect on other comprehensive income arises from the translation of the Company's Canadian operations into US dollars.

#### (c) Interest rate risk

The Company's cash and cash equivalents contain highly liquid investments that earn interest at market rates. The Company manages its interest rate risk by maximizing the interest earned on excess funds while maintaining the liquidity necessary to fund daily operations. Fluctuations in market interest rates do not have a significant impact on the Company's results of operations due to the short term to maturity of the investments held.

#### (d) Credit risk

The Company's exposure to credit risk primarily arises from the Company's cash and cash equivalents, restricted cash, and amounts receivable. The risk exposure is limited to the carrying amounts of these items at the statement of financial position date. Cash and cash equivalents are held as cash deposits and cashable guaranteed investment certificates and certificates of deposit with various maturity dates. The Company periodically assesses the quality of its investments and is satisfied with the credit ratings of its banks and their certificates of deposit and guaranteed investment certificates. Amounts receivable consist of GST refunds due from the Government of Canada.

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### 15. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (e) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

#### (f) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. At June 30, 2016 and 2015, the carrying amounts and contracted cash flows were the same. It is expected that accounts payable will be settled within one year.

#### (g) Fair values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's statement of financial position as at June 30, 2016, as follows:

|                           | Fair Value Measurements Using                                                   |                                                        |                                                    |                              |
|---------------------------|---------------------------------------------------------------------------------|--------------------------------------------------------|----------------------------------------------------|------------------------------|
|                           | Quoted prices in<br>active markets for<br>identical<br>instruments<br>(Level 1) | Significant<br>other observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Balance,<br>June 30,<br>2016 |
|                           | \$                                                                              | \$                                                     | \$                                                 | \$                           |
| Cash and cash equivalents | 1,331,115                                                                       | —                                                      | —                                                  | 1,331,115                    |
| Restricted cash           | 25,000                                                                          | —                                                      | —                                                  | 25,000                       |
|                           | 1,356,115                                                                       | —                                                      | —                                                  | 1,356,115                    |

The fair values of other financial instruments, which include amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments.

### 16. LITIGATION SETTLEMENT

In November 2015, Jaguar Financial Corporation ("Jaguar"), which held approximately 19% of the common shares of the Company, filed a petition in the Supreme Court of British Columbia (the "Court") in relation to a transaction entered into in October 2015 between the Company and BSCG whereby the Company would acquire all of the issued shares of BSCG, and would complete a related private placement (collectively, the "Transaction"). In essence, Jaguar sought to prevent the Company from completing the Transaction without obtaining shareholder approval. In response, the Company asserted that the Transaction was fully transparent and complied with all applicable legislation and the regulatory policies of the TSX Venture Exchange. In December 2015, the Court ruled, among other things, that the Company's actions were prejudicial to Jaguar and that the Company could not complete the acquisition of BSCG until the Transaction had been approved at a meeting of the shareholders.

In January 2016, Jaguar filed a second petition in the Court alleging that various conduct of the Company since the previous hearing was oppressive or unfairly prejudicial to Jaguar and sought orders to restrict the Company's conduct in advance of the upcoming annual general meeting of shareholders (the "AGM"). In February 2016, the Court ruled in favour of Jaguar and granted orders the effect of which would seriously impair the Company's ability to contest a proxy battle at the AGM.

The Company filed an appeal in the British Columbia Court of Appeal (the "Court of Appeal"), seeking relief from the Court's orders under both petitions. In May 2016, the Court of Appeal allowed the appeals filed by the Company, effectively reversing the orders made by the Court, with costs granted to the Company for the appeal and petitions.

# BLACK SEA COPPER & GOLD CORP.

## (FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

Notes to the consolidated financial statements for the years ended June 30, 2016 and 2015  
Presented in US dollars

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### 16. LITIGATION SETTLEMENT (CONTINUED)

In June 2016, the Company and Jaguar entered into an agreement whereby Jaguar sold all of its shares in the Company to third parties, and the Company paid Jaguar \$38,710 (Cdn\$50,000) and waived certain costs awards made by the Court of Appeal in favour of the Company.

### 17. SUBSEQUENT EVENTS

- (a) Effective July 26, 2016, the Company completed a share consolidation of its common shares on the basis of two existing common shares for one post-consolidation common share. All common share and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.
- (b) On August 31, 2016, the Company entered into a Securities Exchange Agreement with BSCG and the holders of securities issued by BCSG whereby the Company would acquire all of the issued and outstanding securities of BCSG (the "Acquisition"), which was completed on September 28, 2016. Under the agreement, the Company acquired all of the common shares of BSCG in exchange for the issuance of a total of 23,190,002 common shares in the capital of the Company to the shareholders of BSCG based upon an exchange ratio of 1:1 (the "Exchange Ratio"). The Company also acquired all outstanding options, warrants, and convertible debt of BSCG in exchange for the issuance of equivalent replacement securities by the Company based on the Exchange Ratio. As a result, a total of 23,190,002 common shares were issued to former BSCG shareholders under the Acquisition to acquire BSCG, as well as 2,050,000 replacement stock options, 2,010,000 replacement warrants and Cdn\$237,500 of convertible debentures. An aggregate of 6,400,000 common shares issued to certain BSCG shareholders are subject to restrictions on resale in accordance with the following release schedule: 15% is released four months after closing; 35% is released 12 months after closing; 25% is released 18 months after closing; and the remaining 25% is released 24 months after closing. The replacement options have exercise prices of Cdn\$0.20 to Cdn\$0.25 and expire on dates from November 2016 to August 2021. The replacement warrants have an exercise price of Cdn\$0.20 and expire in October and November 2019. The replacement convertible debentures are due on August 29, 2017 and are convertible into units of the Company at Cdn\$0.20 per unit, with each unit comprised of one common share and one-half of one warrant, with each warrant exercisable until August 29, 2019 at an exercise price of Cdn\$0.20.

Concurrently, the Company closed a private placement equity financing and issued 10,000,000 units at Cdn\$0.20 per unit for gross proceeds of Cdn\$2,000,000. Each unit was comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of Cdn\$0.35 for a period of two years, subject to acceleration in the event that the Company's common shares have a closing price of Cdn\$0.60 for 10 consecutive trading days, in which case the Company may elect to accelerate the expiry date of the warrants by giving the holders 30 days' notice. In addition, the Company issued an aggregate of 383,250 finder's warrants to certain finders in connection with the financing and paid those finders a 7% cash fee, or Cdn\$76,750, on certain subscriptions. Each finder's warrant entitles the holder to acquire one common share at an exercise price of Cdn\$0.35 for a period of one year, subject to acceleration on the same basis as the unit share purchase warrants.

Immediately prior to closing the Acquisition, the Company completed a share consolidation on the basis of 1.24 existing common shares for one post-consolidation common share and the name of the Company was changed to "Black Sea Copper & Gold Corp." All common share and per common share amounts in these consolidated financial statements have been retroactively restated to reflect the share consolidation.

- (c) On September 23, 2016, the Company disposed of NGP Truckhaven, LLC, the owner of the New Truckhaven geothermal property, to a non-related party.
- (d) On September 28, 2016, the Company granted 1,150,000 stock options exercisable at a price of Cdn\$0.20 per share, having a term of 5 years, to certain directors, officers and consultants of the Company.
- (e) On October 12, 2016, the Company issued 14,166 common shares for proceeds of Cdn\$2,833 pursuant to the exercise of share purchase warrants.