



Condensed Consolidated Financial Statements of

**BLACK SEA COPPER & GOLD CORP.**

(formerly ALTERNATIVE EARTH RESOURCES INC.)

Three months ended September 30, 2016 and 2015

**(Unaudited)**

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

# BLACK SEA COPPER & GOLD CORP.

(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

## Consolidated statements of financial position

Presented in Canadian dollars

|                                          | Note | Sep. 30,<br>2016    | June 30,<br>2016    |
|------------------------------------------|------|---------------------|---------------------|
| <b>ASSETS</b>                            |      |                     |                     |
| <b>Current assets</b>                    |      |                     |                     |
| Cash and cash equivalents                |      | \$ 3,395,854        | \$ 1,719,343        |
| Amounts receivable                       |      | 55,071              | 32,663              |
| Prepaid expenses and deposits            |      | 24,367              | 56,283              |
| <b>Total current assets</b>              |      | <b>3,475,292</b>    | <b>1,808,289</b>    |
| <b>Non-current assets</b>                |      |                     |                     |
| Mineral property interests               | 6    | 5,056,817           | -                   |
| Restricted cash                          |      | -                   | 32,293              |
| Property and equipment                   |      | -                   | 6,496               |
| <b>Total non-current assets</b>          |      | <b>5,056,817</b>    | <b>38,789</b>       |
| <b>TOTAL ASSETS</b>                      |      | <b>8,532,109</b>    | <b>1,847,078</b>    |
| <b>LIABILITIES AND EQUITY</b>            |      |                     |                     |
| <b>Current liabilities</b>               |      |                     |                     |
| Accounts payable and accrued liabilities |      | 199,651             | 145,877             |
| <b>Non-current liabilities</b>           |      |                     |                     |
| Convertible debentures                   | 7    | 265,200             | -                   |
| Asset retirement obligations             | 4    | -                   | 267,149             |
| <b>Total liabilities</b>                 |      | <b>464,851</b>      | <b>413,026</b>      |
| <b>Equity</b>                            |      |                     |                     |
| Share capital                            | 8    | 74,275,385          | 69,027,588          |
| Equity compensation reserve              | 8    | 9,723,161           | 8,215,190           |
| Accumulated other comprehensive income   |      | (3,217,162)         | (3,213,861)         |
| Deficit                                  |      | (72,714,126)        | (72,594,865)        |
| <b>Total equity</b>                      |      | <b>8,067,258</b>    | <b>1,434,052</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>      |      | <b>\$ 8,532,109</b> | <b>\$ 1,847,078</b> |

Nature of operations and going concern (Note 1)

Commitment (Note 5)

Approved and authorized for issuance on behalf of the Board of Directors on November 28, 2015:

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

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

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

# BLACK SEA COPPER & GOLD CORP.

(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

## Condensed consolidated statements of operations and comprehensive income

Presented in Canadian dollars

|                                                                                     | Note | For the three months ended |                    |
|-------------------------------------------------------------------------------------|------|----------------------------|--------------------|
|                                                                                     |      | Sep. 30, 2016              | Sep. 30, 2015      |
| <b>Expenses</b>                                                                     |      |                            |                    |
| Adjustments to asset retirement obligations:                                        |      |                            |                    |
| exploration stage properties                                                        |      | \$ -                       | \$ (8,123)         |
| Audit, accounting and tax                                                           |      | -                          | 17,500             |
| Depreciation and amortization                                                       |      | 3,140                      | 4,239              |
| Directors' fees                                                                     |      | 13,358                     | 3,750              |
| Foreign exchange                                                                    |      | (16,652)                   | (31,050)           |
| General and administrative                                                          |      | 67,430                     | 18,666             |
| Insurance                                                                           |      | 11,414                     | 5,946              |
| Legal and consulting fees                                                           |      | 30,562                     | 28,802             |
| Rent                                                                                |      | 6,745                      | 7,193              |
| Resource property expenses                                                          |      | 3,464                      | 4,639              |
| Salaries, wages, and employee benefits                                              |      | 21,318                     | 30,478             |
| Stock-based compensation                                                            | 8    | 195,500                    | -                  |
| <b>Total expenses</b>                                                               |      | <b>336,279</b>             | <b>80,040</b>      |
| <b>Loss before other income (expense)</b>                                           |      | <b>(336,279)</b>           | <b>(80,040)</b>    |
| <b>Other income (expense)</b>                                                       |      |                            |                    |
| Finance costs                                                                       |      | -                          | (1,807)            |
| Interest income                                                                     |      | 1,335                      | 3,441              |
| <b>Total other income (expense)</b>                                                 |      | <b>1,335</b>               | <b>1,634</b>       |
| <b>Loss before income taxes</b>                                                     |      | <b>(334,944)</b>           | <b>(80,406)</b>    |
| Income taxes                                                                        |      | (1,044)                    | (2,320)            |
| <b>Net income (loss) from continuing operations</b>                                 |      | <b>(335,988)</b>           | <b>(82,726)</b>    |
| Gain from discontinued operations                                                   | 4    | 216,727                    | -                  |
| <b>Net income (loss)</b>                                                            |      | <b>\$ (119,261)</b>        | <b>\$ (82,726)</b> |
| Foreign currency translation adjustment                                             |      | (3,301)                    | 47,580             |
| <b>Total comprehensive income (loss)</b>                                            |      | <b>\$ (122,562)</b>        | <b>\$ (35,146)</b> |
| Earnings (loss) per share (basic and diluted)                                       |      | (0.01)                     | (0.01)             |
| - Continuing operations                                                             |      | (0.03)                     | (0.01)             |
| - Discontinued operations                                                           |      | 0.02                       | 0.00               |
| Weighted average number of common shares issued and outstanding (basic and diluted) |      | 11,258,629                 | 10,073,397         |

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

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

**Consolidated statements of changes in equity**  
Presented in Canadian dollars

|                                 | Number of<br>shares | Share<br>capital<br>\$ | Equity<br>compensation<br>reserve<br>\$ | Accumulated<br>other<br>comprehensive<br>income<br>\$ | Deficit<br>\$       | Total<br>\$      |
|---------------------------------|---------------------|------------------------|-----------------------------------------|-------------------------------------------------------|---------------------|------------------|
| <b>As at June 30, 2015</b>      | <b>10,073,397</b>   | <b>68,936,283</b>      | <b>8,248,996</b>                        | <b>(3,135,526)</b>                                    | <b>(71,735,795)</b> | <b>2,313,958</b> |
| Foreign currency translation    | —                   | —                      | —                                       | (78,335)                                              | —                   | (78,335)         |
| Stock options exercised         | 463,710             | 91,305                 | (33,806)                                | —                                                     | —                   | 57,499           |
| Net loss                        | —                   | —                      | —                                       | —                                                     | (859,070)           | (859,070)        |
| <b>As at June 30, 2016</b>      | <b>10,537,107</b>   | <b>68,487,588</b>      | <b>8,215,190</b>                        | <b>(3,213,861)</b>                                    | <b>(72,594,865)</b> | <b>1,434,052</b> |
| Shares issued for acquisition   | 23,190,002          | 3,960,852              | 772,471                                 | —                                                     | —                   | 4,694,490        |
| Shares issued for cash          | 10,000,000          | 1,865,778              | —                                       | —                                                     | —                   | 1,865,778        |
| Finder's warrants               | —                   | (38,833)               | 38,833                                  | —                                                     | —                   | —                |
| Stock options issued            | —                   | —                      | 195,500                                 | —                                                     | —                   | 195,500          |
| Foreign currency translation    | —                   | —                      | —                                       | (3,301)                                               | —                   | (3,301)          |
| Net loss                        | —                   | —                      | —                                       | —                                                     | (119,261)           | (119,261)        |
| <b>As at September 30, 2016</b> | <b>43,727,109</b>   | <b>74,275,385</b>      | <b>9,723,161</b>                        | <b>(3,217,162)</b>                                    | <b>(72,714,126)</b> | <b>8,067,258</b> |

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

# BLACK SEA COPPER & GOLD CORP.

(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

## Consolidated statements of cash flows

Presented in Canadian dollars

|                                                                          | For the three months ended |                     |
|--------------------------------------------------------------------------|----------------------------|---------------------|
|                                                                          | Sep. 30,<br>2016           | Sep 30,<br>2015     |
| <b>Operating activities</b>                                              |                            |                     |
| Net income (loss)                                                        | \$ (119,261)               | \$ (82,726)         |
| Items not involving cash:                                                |                            |                     |
| Adjustment to asset retirement obligations: exploration stage properties | -                          | 8,123               |
| Accretion of asset retirement obligations                                | -                          | 1,807               |
| Depreciation and amortization                                            | 3,140                      | 4,239               |
| Stock-based compensation                                                 | 195,500                    |                     |
| Gain on sale of resource property interests                              | (216,727)                  | -                   |
| Net changes in non-cash working capital:                                 | 48,509                     | (7,955)             |
| <b>Net cash used in operating activities</b>                             | <b>\$ (88,839)</b>         | <b>\$ (76,512)</b>  |
| <b>Investing activities</b>                                              |                            |                     |
| Acquisition of property and equipment                                    | -                          | (4,357)             |
| Acquisition of mineral property interests                                | (97,127)                   | -                   |
| Restricted cash                                                          | -                          | 29,087              |
| <b>Net cash (used in) provided by investing activities</b>               | <b>\$ (97,127)</b>         | <b>\$ 24,730</b>    |
| <b>Financing activities</b>                                              |                            |                     |
| Net proceeds from private placement                                      | 1,865,778                  | -                   |
| <b>Net cash provided by financing activities</b>                         | <b>\$ 1,865,778</b>        | <b>\$ -</b>         |
| Effects of exchange rate changes on cash and cash equivalents            | (3,301)                    | 47,580              |
| Increase (decrease) in cash and cash equivalents                         | 1,676,511                  | (4,202)             |
| Cash and cash equivalents, beginning of period                           | 1,719,343                  | 2,378,516           |
| <b>Cash and cash equivalents, end of period</b>                          | <b>\$ 3,395,854</b>        | <b>\$ 2,374,314</b> |

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

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

**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended September 30, 2016 and 2015**  
Presented in Canadian 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. The Company's common shares are traded on the TSX Venture Exchange under the trading symbol BLS and on the OTCQB under the trading symbol BLSSF.

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. As a result, the 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 \$72,714,126, 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 September 30, 2016 provides sufficient funds for the Company to meet its obligations for at least the next 12 months. Additional financing may be required to acquire new projects.

**2. BASIS OF PRESENTATION**

**Functional Currency**

The condensed consolidated financial statements are expressed in Canadian dollars. Prior to July 1, 2016, the Company reported its annual and interim financial statements in US dollars.

**Statement of Compliance**

These condensed interim financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements do not include all of the information required of full annual financial statements and are 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. The condensed interim financial statements should be read in conjunction with the annual audited consolidated financial statements for the year ended June 30, 2016, which have been prepared in accordance with IFRS as issued by the IASB. However, these condensed consolidated interim financial statements provide selected significant disclosures that are required in the annual financial statements under IFRS.

**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;
- 0955767 BC Ltd., incorporated in the province of British Columbia;
- Zelenrok EOOD, incorporated in Bulgaria.

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**Notes to the Condensed Consolidated Financial Statements**  
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Presented in Canadian dollars

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**2. BASIS OF PRESENTATION – (CONTINUED)**

**Significant estimates and assumptions**

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, fair value of the net assets of Providence at acquisition, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

**Significant judgments**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

**Accounting standards issued but not yet effective**

*New standard IFRS 9, "Financial Instruments"*

This new standard is a partial replacement of International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.

The Company has not early adopted this revised standard 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.

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

**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended September 30, 2016 and 2015**  
Presented in Canadian dollars

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**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, 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. DISCONTINUED OPERATIONS**

By way of an agreement dated September 19, 2016, the Company disposed of all of its interest in NGP Truckhaven LLC ("Truckhaven"), the owner of the New Truckhaven geothermal property, to a non-related party.

The Company included all revenues and expenses related to Truckhaven in discontinued operations.

The assets and liabilities were disposed of on September 23, 2016, and the calculation of the gain on disposal is as follows:

|                                            |            |
|--------------------------------------------|------------|
| Consideration received                     | -          |
| Restricted cash                            | \$ 32,293  |
| Legal fees relating to sale                | 18,129     |
| Asset retirement obligations               | (267,149)  |
| Net liabilities sold including legal costs | (216,727)  |
| Gain on disposal                           | \$ 216,727 |

**5. ACQUISITION OF BSCG**

On September 28, 2016, the Company completed the acquisition of all of the issued shares of BSCG (the "Acquisition"), a private company with mineral property interests in eastern Europe, in accordance with a share exchange agreement entered into with the former BSCG shareholders in August 2016.

A total of 23,190,002 common shares of the Company were issued to former BSCG shareholders based on an exchange ratio of 1:1, at a deemed price of \$0.17 per share. In addition, the Company issued 2,050,000 replacement stock options, 2,010,000 replacement warrants and \$237,500 principal amount of replacement convertible debentures previously issued by BSCG. The replacement options have exercise prices of \$0.20 to \$0.25 and expire on dates from November 2016 to August 2021. The replacement warrants have an exercise price of \$0.20 and expire in October and November 2019. The replacement convertible debentures are due August 29, 2017 and are convertible into units of the Company at \$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 \$0.20. The replacement stock options, replacement warrants and the replacement convertible debenture warrants were fair valued using the Black-Scholes pricing model.

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

**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended September 30, 2016 and 2015**  
Presented in Canadian dollars

**5. ACQUISITION OF BSCG – (CONTINUED)**

The Acquisition has been treated as an asset acquisition in respect of the mineral property interests in BSCG, resulting in the capitalization of the consideration and other related costs. The purchase price consideration was allocated as follows:

|                                                                          |    |           |
|--------------------------------------------------------------------------|----|-----------|
| Estimated fair value of common shares issued including transaction costs | \$ | 4,694,490 |
| Mineral property interests                                               | \$ | 5,056,817 |
| Net current liabilities acquired                                         |    | (316,996) |
| Transaction costs                                                        |    | (45,332)  |
|                                                                          | \$ | 4,694,490 |

**6. MINERAL PROPERTY INTERESTS**

The following is a description of the Company's mineral property interests:

*Alankoy, Turkey*

The Alankoy Property is located in northwestern Turkey within the Biga Peninsula Porphyry-Epithermal Copper Gold District. The property is located 40 km east of Canakkale and 6 km east of Kirazli village and about 250 km southwest of Istanbul.

Pursuant to an agreement with Eurasian Minerals ("EMX"), the Company has the option to acquire 100% of the Alankoy Property by spending \$3,000,000 on exploration activities over 6 years. Additional terms include:

- Expend \$75,000 on exploration activities before the receipt of drill permits (the "Commencement Date");
- Conduct a minimum of 1,500 meters of exploration drilling by the first anniversary of the Commencement Date and \$200,000 on exploration activities by the second anniversary of the Commencement Date;
- Pay 500 troy ounces of gold (or cash equivalent) upon a development decision on the project.
- Increasing advanced mineral royalty payments ranging from the equivalent of 37.5 troy ounces of gold to 100 troy ounces of gold, annually until commercial production; and
- EMX retaining a production royalty of 3% for gold, silver, and other precious metals and 2% for all other minerals produced from the project.

*Kalabak, Bulgaria*

The Company holds a mineral license covering 191 km<sup>2</sup> in southeastern Bulgaria which lies within a porphyry copper-gold belt in the southeastern sector of the Bulgarian Rhodope Mountains.

*Zlatusha, Bulgaria*

The Zlatusha license was approved by the Bulgarian Council of Ministers in June, 2016. Black Sea is expecting issuance of the formal exploration permit from the Minister of Energy in the near future. The license area covers approximately 195 km<sup>2</sup> which lies within a porphyry copper-gold/epithermal belt located northwest of Sofia, the Western Srednogorie segment of the Banat-Timok-Srednogorie magmatic arc.

**7. CONVERTIBLE DEBENTURES**

The Company issued two replacement convertible debentures totalling \$237,500 of principal plus accrued interest of \$27,700 upon its acquisition of BSCG. The debentures are unsecured, due on August 29, 2017 and carry an interest rate of 10% per annum. The principal amounts of the debentures are convertible into units of the Company at \$0.20 per unit, with each unit comprising of one common share and one-half of one warrant, with each warrant exercisable until August 29, 2019, at an exercise price of \$0.20 cents.

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

**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended September 30, 2016 and 2015**  
Presented in Canadian dollars

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**8. 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:

43,727,109 common shares were issued and outstanding at September 30, 2016.

On September 28, 2016, the Company issued 23,190,002 common shares in accordance with the terms of acquisition of BSCG (see Note 4).

Concurrently with the acquisition of BSCG, the Company closed a private placement for gross proceeds of \$2,000,000 upon issuance of 10,000,000 units at \$0.20 per unit. 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 \$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 \$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 \$76,750, on certain subscriptions. Each finder's warrant entitles the holder to acquire one common share at an exercise price of \$0.35 for a period of one year, subject to acceleration on the same basis as the unit share purchase warrants.

Effective July 26, 2016, the Company completed a share consolidation on the basis of two existing common shares for one post-consolidation common share. Immediately prior to the closing of the acquisition of BSCG, the Company completed an additional 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 statement 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 five years. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

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

|                                 | Number of<br>stock options | Weighted<br>average<br>exercise price |
|---------------------------------|----------------------------|---------------------------------------|
| Outstanding, June 30, 2015      | 519,355                    | \$ 1.10                               |
| Exercised                       | (463,710)                  | 0.12                                  |
| Expired                         | (55,645)                   | 9.30                                  |
| Outstanding, June 30, 2016      | -                          | -                                     |
| Granted                         | 3,200,000                  | 0.20                                  |
| Outstanding, September 30, 2016 | 3,200,000                  | \$ 0.20                               |

The options expire between November 12, 2018 and September 28, 2021, with a weighted average remaining life of 3.31 years. Subsequent to the end of the period, 100,000 options expired unexercised.

**BLACK SEA COPPER & GOLD CORP.**

(FORMERLY ALTERNATIVE EARTH RESOURCES INC.)

**Notes to the Condensed Consolidated Financial Statements****For the three months ended September 30, 2016 and 2015**

Presented in Canadian dollars

**8. SHARE CAPITAL – (CONTINUED)****(b) Stock Options – (continued)**

The Company issued 2,050,000 replacement stock options in accordance with the terms of the acquisition of BSCG (See Note 5). The replacement options have exercise prices of \$0.20 to \$0.25 and expire between November 2016 and August 2021. The fair value of the replacement stock options was determined using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.51% to 0.54%; expected life of 1 to 3 years; expected volatility of 175% and dividend yield of nil. The fair value was capitalized as part of the consideration for the BSCG acquisition.

On September 28, 2016, the Company granted 1,150,000 stock options to directors, officers and consultants of the Company at an exercise price of \$0.20 per common share for a period of five years ending September 28, 2021. The share based compensation expense of \$195,500 was recognized, with the fair value determined using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.54%; expected life of 3 years; expected volatility of 175% and dividend yield of nil. The options vested immediately.

**(c) Share purchase warrants**

The following table summarizes the continuity of share purchase warrants:

|                                 | Number of<br>warrants | Weighted<br>average<br>exercise price |
|---------------------------------|-----------------------|---------------------------------------|
| Outstanding, June 30, 2015      | 362,903               | \$ 18.60                              |
| Expired                         | (362,903)             | 18.60                                 |
| Outstanding, June 30, 2016      | -                     | -                                     |
| Issued                          | 12,393,250            | 0.20                                  |
| Outstanding, September 30, 2016 | 12,393,250            | \$ 0.20                               |

Additional information regarding share purchase warrants outstanding as at September 30, 2016, is as follows:

| Exercise price | Weighted average<br>remaining contractual<br>life (years) | Number of<br>warrants |
|----------------|-----------------------------------------------------------|-----------------------|
| \$0.20         | 3.07                                                      | 2,010,000             |
| \$0.35         | 1.96                                                      | 10,383,250            |
|                | 2.14                                                      | 12,393,250            |

The Company issued 2,010,000 replacement warrants in accordance with the terms of the acquisition of BSCG (See Note 5). The replacement warrants have an exercise price of \$0.20 and expire in October and November 2019. The fair value of the replacement warrants was determined using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 0.54%; expected life of 3 years; expected volatility of 175% and dividend yield of nil. The fair value was capitalized as part of the consideration for the BSCG acquisition.

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

**Notes to the Condensed Consolidated Financial Statements**  
**For the three months ended September 30, 2016 and 2015**  
Presented in Canadian dollars

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**9. RELATED PARTY TRANSACTIONS**

- (a) During the three months ended September 30, 2016, the Company incurred \$18,000 (2015 – \$18,000) in salaries and benefits to the former Chief Executive Officer of the Company.
- (b) During the three months ended September 30, 2016, the Company incurred \$34,480 (2015 - \$3,750) in fees paid to the directors of the Company.
- (c) During the three months ended September 30, 2016, the Company incurred \$16,331 (2015 - \$13,910) in consulting fees to a company controlled by the former Chief Financial Officer of the Company.
- (d) During the three months ended September 30, 2016, the Company granted a total of 750,000 stock options with a fair value of \$127,500 to the directors of the Company.

**9. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.