MATAMEC

Annual Consolidated Financial Statements
as at December 31, 2015 and 2014

(expressed in Canadian dollars)

MATAMEC EXPLORATIONS INC.

Annual Consolidated Financial Statements

December 31, 2015 and 2014

PETRIE RAYMOND
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Independent Auditor's Report

To the shareholders of
Matamec Explorations Inc.:

We have audited the accompanying consolidated financial statements of Matamec Explorations Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of operations, comprehensive loss, changes in equity and cash flows for the years ended December 31, 2015 and 2014, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Independent auditor's 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 audits 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditor's Report (*cont'd*)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Matamec Explorations Inc. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Emphasis of matter

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

Petrie Raymond [1]

Montreal, Quebec
April 29, 2016

Chartered Professional Accountant Partnership LLP

[1] CPA Auditor, CA, Public Accountancy permit No. A117490

MATAMEC EXPLORATIONS INC.

Consolidated Statements of Financial Position
As at December 31, 2015 and 2014

(In Canadian dollars)

	Notes	2015	2014
		$	$
Assets			
Current assets			
Cash and cash equivalents		-	98,846
Cash restricted to joint operation with Ressources Québec Inc.	3	84,574	-
Short-term deposit, rate of 0,85 %, maturing in October 2016; in 2014 rate of 1,04 % maturing in October 2015		10,021	10,026
Sales taxes recoverable		7,722	17,471
Tax credits recoverable	6	1,291,519	1,266,816
Prepaid expenses		11,090	47,573
		1,404,926	1,440,732
Non-current assets			
Non-current portion of tax credits recoverable	6	70,138	20,736
Investment in shares of a private company		1	1
Available-for-sale financial assets (cost: $60,000; in 2014 $45,000)	7	30,000	25,000
Property and equipment	8	146,971	162,160
Exploration and evaluation assets	9	3,903,842	7,920,145
		4,150,952	8,128,042
Total assets		5,555,878	9,568,774
Liabilities			
Current liabilities			
Bank overdraft		5,801	-
Bank indebtedness		-	79,066
Accounts payable and accrued liabilities	11	1,786,341	1,743,683
		1,792,142	1,822,749
Non-current liabilities			
Non-current portion of accounts payable and accrued liabilities	11	-	35,000
Deferred income taxes	15	697,500	2,755,000
		697,500	2,790,000
Total liabilities		2,489,642	4,612,749
Equity attributable to Matamec Explorations Inc.'s shareholders			
Share capital		24,256,671	24,256,671
Contributed surplus		4,863,521	4,816,114
Accumulated other comprehensive loss		(30,000)	(20,000)
Deficit		(26,023,956)	(24,096,760)
Total equity		3,066,236	4,956,025
Total liabilities and equity		5,555,878	9,568,774

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) André Gauthier, Director

(signed) Marcel Bergeron, Director

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

MATAMEC EXPLORATIONS INC.

Consolidated Statements of Operations
For the years ended December 31, 2015 and 2014

(In Canadian dollars, except the number of shares)

	Notes	2015	2014
		$	$
Revenue			
Rebilling of expenses to the joint operation		203,742	-
Administration fees		50,983	-
		254,725	-
Expenses			
Salaries and fringe benefits		58,903	270,955
Rent and office expenses		115,186	129,544
Consulting fees		134,312	223,683
Stock-based compensation		47,407	20,286
Trustees and registration fees		18,005	16,614
Shareholders' reports		34,558	57,394
Professional fees		283,299	452,382
Insurance, taxes and licenses		21,484	20,223
Travelling and entertainment expenses		23,828	129,990
Telecommunications		10,259	17,803
Amortization of property and equipment		14,907	16,596
Write-off of exploration and evaluation assets	9	4,449,052	4,154,067
Total expenses		5,211,200	5,509,537
Operating loss		**4,956,475**	**5,509,537**
Financial revenues (expenses)			
Interest and other income		4,923	29,363
Gain on disposal of available-for-sale financial assets	7	-	10,060
Financing fees, interest and bank charges		(27,388)	(45,548)
		(22,465)	(6,125)
Loss before income taxes		**4,978,940**	5,515,662
Income taxes	15	(3,051,744)	(149,035)
Net loss		1,927,196	5,366,627
Net loss per share, basic and diluted		0.014	0.043
Weighted-average number of common shares outstanding basic and diluted (in thousands)		136,967	124,271

MATAMEC EXPLORATIONS INC.

Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2015 and 2014

(In Canadian dollars)

	Notes	2015	2014
		$	$
Net loss for the year		1,927,196	5,366,627
Available-for-sale financial assets:			
Loss on change in fair value of available-for-sale financial assets	7	10,000	20,000
Gain on disposal of available-for-sale financial assets		-	(18,760)
Amount reclassified to operations	7	-	10,060
Other comprehensive loss, net of income taxes		**10,000**	11,300
Total comprehensive loss for the year attributable to shareholders		**1,937,196**	5,377,927

MATAMEC EXPLORATIONS INC.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2015 and 2014

(In Canadian dollars, except the number of shares)

	Number of common shares outstanding	Share capital (note 12)	Contributed surplus (note 13)	Accumulated other comprehensive loss	Deficit	Total of equity attributable to Matamec shareholders
	#	$	$	$	$	$
Balance - January 1, 2015	136,966,852	24,256,671	4,816,114	(20,000)	(24,096,760)	**4,956,025**
Net loss for the year	-	-	-	-	(1,927,196)	**(1,927,196)**
Other comprehensive loss	-	-	-	(10,000)	-	**(10,000)**
Comprehensive loss for the year	-	-	-	(10,000)	(1,927,196)	**(1,937,196)**
Share-based compensation	-	-	47,407	-	-	**47,407**
Balance - December 31, 2015	**136,966,852**	**24,256,671**	**4,863,521**	**(30,000)**	**(26,023,956)**	**3,066,236**
Balance - January 1, 2014	120,300,186	23,256,671	4,795,828	(8,700)	(18,620,497)	**9,423,302**
Net loss for the year	-	-	-	-	(5,366,627)	**(5,366,627)**
Other comprehensive loss	-	-	-	(11,300)	-	**(11,300)**
Comprehensive loss for the year	-	-	-	(11,300)	(5,366,627)	**(5,377,927)**
Private placement	16,666,666	1,000,000	-	-	-	**1,000,000**
Share-based compensation	-	-	20,286	-	-	**20,286**
Share issue costs	-	-	-	-	(115,736)	**(115,736)**
Deferred income taxes relating to share issue costs	-	-	-	-	6,100	**6,100**
Balance - December 31, 2014	**136,966,852**	**24,256,671**	**4,816,114**	**(20,000)**	**(24,096,760)**	**4,956,025**

MATAMEC EXPLORATIONS INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2015 and 2014

(In Canadian dollars)

	Note	2015	2014
		$	$
Operating activities			
Net loss		(1,927,196)	(5,366,627)
Adjustment for :			
Stock-based compensation		47,407	20,286
Amortization of property and equipment		14,907	16,596
Write-off of exploration and evaluation assets		4,449,052	4,154,067
Gain on disposal of available-for-sale financial assets		-	(10,060)
Deferred income tax expense	15	(2,057,500)	449,100
		526,670	(736,638)
Change in non-cash working capital items	19	(787,285)	(146,350)
Cash flows used in operating activities		(260,615)	(882,988)
Investing activities			
Restricted cash to the joint operation with Ressources Québec Inc.		(84,574)	-
Short-term deposit acquisition		(10,021)	(10,026)
Short-term deposit disposal		10,026	100,259
Disposal of available-for-sale financial assets		-	41,760
Government assistance received		980,844	-
Exploration and evaluation assets		(660,419)	(896,889)
Additions to property and equipment		(822)	-
Cash flows generated from investing activities		235,034	(764,896)
Financing activities			
Bank indebtedness		(79,066)	79,066
Shares issued		-	1,000,000
Share issue costs		-	(115,736)
Cash flows used in financing activities		(79,066)	963,330
Decrease in cash and cash equivalents		(104,647)	(684,554)
Cash and cash equivalents – beginning of year		98,846	783,400
Cash and cash equivalents – end of year		(5,801)	98,846

1. Incorporation, nature of operations and going concern

The Company, incorporated under Part 1A of the Québec Companies Act, is a mining exploration business. The Company's head office is located at 1010 Sherbrooke Street West, suite 700, Montreal (Quebec) Canada, H3A 2R7. Shares of the Company are traded on TSX Venture Exchange under the symbot MAT and OTC QX stock exchange under the symbot IMREF. Matamec Explorations Inc. is the ultimate parent company of the group. It has not yet determined whether the mining properties contain economically recoverable ore reserves. The recoverability of the amounts shown for mining properties depends upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to continue exploration work and development of its properties, and upon future profitable production or proceeds from the disposal of properties.

The Company has not yet determined whether the mining properties and the deferred exploration and evaluation ("E&E") expenditures have economically recoverable ore reserves. Recovery of amounts indicated under mining properties, the deferred exploration and evaluation expenditures and the property and equipment are subject to the discovery of economically recoverable reserves, the Company's ability to obtain the financing required to complete exploration, evaluation, development, construction and profitable future production on its assets or the proceeds from the sale of such assets.

Theses consolidated financial statements have been prepared using International Financial Reporting Strandards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, 12 months from the end of the reporting period. In making its assessment, management is aware of material uncertainties related to events and conditions that lend a significant doubt on the Corporation's ability to continue as a going concern and, accordingly, of the appropriateness of the use of accounting principles applicable to a going concern, as described in the following paragraph. These financial statements do not reflect the adjustment to the carrying values of assets and liabilities, incomes, expenses and financial position classifications that would be necessary were the going concern assumption not appropriate. These adjustments could be material.

For year ended December 31, 2015, the Company recorded a net loss of 1,927,196 $ ($5,366,627 in 2014). In addition to ongoing working capital requirements, the Company must secure sufficient funding to meet its obligations and existing commitments for exploration and evaluation programs and pay general and administration costs. As at December 31, 2015, the Company had a negative working capital of $471,790 ($382,017 in 2014). Management estimates that these funds will not be sufficient to meet the Company's obligations and budgeted expenditures through December 31, 2016. Any funding shortfall may be met in the future in a number of ways, including but not limited to, the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations.

Management periodically seeks addtional form of financing through the issuance of new equity instruments and the exercise of stock options to continue its operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Without new funding being available, the Company may be unable to continue its operations, and amounts realized for its assets may be less than amounts recorded in these consolidated financial statements.

Although management has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and may not be in compliance with regulatory requirements.

The Company's financial year ends on December 31, 2015. These consolidated financial statements were approved for issue by the Board of Directors on April 29, 2016.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with the IFRS as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements.

The company has consistently applied the accounting policies throughout all periods presented in these consolidated financial statements.

3. Significant accounting policies

The significant accounting policies used in the preparation of the Company's consolidated financial statements are described below.

a) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments to their fair value (available-for-sale financial assets). In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flows information.

b) Basis of consolidation

Subsidiary

The consolidated financial statements include the accounts of Matamec Explorations Inc., and its wholly owned subsidiary Mabec Uranium Inc. The subsidiary is inactive. The reporting date of the annual information of the subsidiary is December 31.

The subsidiary is an entity controlled by the Company since it has the power to govern the subsidiary's financial and operating policies. The existence and effect of potentials rights to vote that can actually be exercised or converted are taken into account to evaluate if the Company controls another entity. The subsidiary accounts are consolidated from the date the Company gets control and cease to be consolidated from the date the Company ceases to have that control. The subsidiary accounting policies are in compliance with the Company's policies.

Jointly controlled asset

In 2013, the Company and Toyota Rare Earth Canada Inc. ("TRECan") controlled jointly an exploration and evaluation asset, pursuant to a 51/49 joint venture agreement , 51% being the interest of the Company. Information on this asset is presented in Note 9 (Property Kipawa). Jointly controlled assets involve joint control, and often joint ownership, by the group and venturers of assets contributed or acquired for the purpose of the joint venture, without creating a corporation, partnership or other entity. When the Group's activities are conducted through jointly controlled assets, the Group recognizes its share of jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other venturers in relation to the joint venture, and any expenses that it has incurred in respect of its interest in the joint venture. The agreement between TRECan and the Company, in accordance with the practices most commonly used in the industry, has been accounted for as a farm-out agreement without consideration for the legal form of the agreement. A farm-out arrangement typically involves an entity (i.e., the farmor) agreeing to provide a working interest in a mining property (i.e., the farmee), provided that the farmee makes a cash payment to the farmor and/or incurs certain expenditures on the property to earn that interest.

Until September 18, 2014, termination date of the agreement with TRECan, the Company used the book value of its interest before the conclusion of the agreement with TRECan as book value of the retained interest. The Company has not recorded exploration expenditures for the asset pledged to the funds provided by TRECan for the feasibility study.

3. Significant accounting policies (cont'd)

b) Basis of consolidation (cont'd)

Jointly controlled asset (cont'd)

Since January 27, 2015, the Company and Ressources Québec Inc. (RQ) control jointly an exploration and evaluation asset, pursuant to a 72/28 joint operation agreement , 72 % being the interest of the Company. Information on this asset is presented in Note 9 (Property Kipawa). Jointly controlled assets supposes joint control, without creating a corporation, partnership or other entity. When the Group's activities are conducted through jointly controlled assets, the Group recognizes its share of jointly controlled assets, any liabilities that it has incurred, and its share of any liabilities incurred jointly with the other venturers. The agreement between RQ and the Company, in accordance with the practices most commonly used in the industry, has been accounted for as a farm-out agreement without consideration for the legal form of the agreement. A farm-out arrangement typically involves an entity (i.e., the farmor) agreeing to provide a working interest in a mining property (i.e., the farmee), provided that the farmee makes a cash payment to the farmor and/or incurs certain expenditures on the property to earn that interest. As of December 31, 2015, a cash amount of $84,574 is restricted to this asset's exploitation, at the joint operation level.

Transactions eliminated on consolidation

Intercompany balances and transactions, including unrealized gains and losses arising from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

c) Functional and presentation currency

Items included in the Matamec's consolidated financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

d) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets 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 is reported in the consolidated statements 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.

Upon initial recognition, the Company classifies its financial instruments into the following categories, depending on the purpose for which the instruments were acquired :

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognized initially at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

ii. Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the consolidated statement of operations as part of finance income. When an available-for-sale asset is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income and are included in financial revenues under gain on disposal of available-for-sale financial assets.

Available-for-sale financial assets are classified as non-current, unless the investment matures within twelve months, or management expects to sell them within twelve months.

iii. Financial liabilities at amortized cost

Financial liabilities are initially recognized at fair value plus transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest rate method. Interest expenses are presented, where appropriate, in interest on debts.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

The Company has classified its financial instruments as follows:

Categories	Financial instruments
Loans and receivables	Cash and cash equivalents Short-term deposit
Available-for-sale financial assets	Available-for sale financial assets
Financial liabilities at amortized cost	Bank indebtedness Accounts payables

e) Impairment of financial assets

At each reporting date of the consolidated statement of financial position, the Company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition (a "loss event") and that loss event has an impact on the estimated cash flows of the financial assets that can be reliably estimated. If such evidence exists, the Company recognizes an impairment loss, as follows:

i. Financial assets carried at amortized cost

The impairment loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

3. Significant accounting policies (cont'd)

e) Impairment of financial assets (cont'd)

i. Financial assets carried at amortized cost (cont'd)

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment losses as well as reversals are recognized in the consolidated statements of operations.

ii. Available-for-sale financial assets

The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of operations. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to the consolidated statements of operations.

Impairment losses on available-for-sale financial assets are not reversed.

f) Cash and cash equivalents

Cash and cash equivalents include cash and bank indebtedness.

g) Tax credits receivable

Quebec refundable credits on mining duties are recorded in the consolidated statement of operations as current income tax recovery when the Company's intention is to operate the property and are recorded in exploration and evaluation costs when the intention is to resell the properties. The Company is also entitled to refundable tax credits on qualified mining exploration and evaluation expenses incurred in the province of Quebec which are recorded against the deferred exploration and evaluation costs in the consolidated statements of financial position. Credits related to resources and credits on mining duties are recorded at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with them.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property and equipment consists of the purchase price of the asset. Subsequent costs are included in the book value of the asset or recorded separately, when required, when it is probable that future economic benefits associated with the asset will flow to the Company and when the cost can be measured reliably. The carrying value of an asset replaced has to be derecognized on replacement.

Repairs and maintenance costs are charged to the consolidated statements of operations during the period in which they are incurred. Depreciation of property and equipment is calculated to distribute property and equipment cost, less their residual value, over their useful life, according to the following declining balance method and periods, by major categories:

Building	4 %
Computer Equiqment	30 %
Furniture and office equipment	20 %
Exploration and evaluation equipments	30 %

Depreciation of property and equipment related to exploration and evaluation activities is expensed or capitalized in deferred exploration and evaluation expenditures, according to the capitalization policy. Depreciation of property and equipment related to exploration and evaluation activities is capitalized to deferred exploration and evaluation expenditures. For those assets which are not related to exploration and evaluation activities, depreciation expense is recognized in the consolidated statements of operations.

The Company allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included as part of other gains or losses in the consolidated statements of operations.

i) Exploration and evaluation assets

Exploration and evaluation assets are comprised of deferred exploration and evaluation expenditures and mining properties. Expenditures incurred on activities that precede exploration and evaluation of mineral resources, being all expenditures incurred prior to securing the legal rights to explore an area, are expensed immediately.

Exploration and evaluation assets include rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

Mining rights in mines properties are recorded at acquisition cost or at fair value in the event of an impairment caused by a devaluation loss. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production.

These costs are expensed when properties are abandoned or when the costs recovery or access to resources become uncertain. Proceeds from property sale are recorded against the property carrying value and any excess or deficit is recorded as a gain or loss in the consolidated statements of operations. In the event of a partial sale, if the carrying value is higher than the proceeds, only losses are recognized.

Exploration and evaluation expenditures include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore like topographical, geological, geochemical and geophysical studies. Generally, expenses regarding the exploration and evaluation activities are capitalized.

Exploration and evaluation costs also reflect costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. Exploration and evaluation expenditures include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body or a proved and probable reserve
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- activities related to permits; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

3. Significant accounting policies (cont'd)

i) Exploration and evaluation assets (cont'd)

Exploration and evaluation expenditures are capitalized if Management determines that there is sufficient evidence to support probability of generating positive economic return in the future. When a mine project moves into the development phase, exploration and evaluation expenditures are capitalized to mine development costs in property and equipment. When a mine project is not proved viable, all non recoverable costs are written-off.

Exploration and evaluation expenditures include overhead expenses directly attributable to the related activities.

Cash flows attributable to capitalized exploration and evaluation costs are classified as investing activities in the consolidated statements of cash flows under the heading "Exploration and evaluation assets".

j) Impairment of non-financial assets

Property and equipment, and exploration and evaluation assets are reviewed for impairment if there are indications to the effect that the carrying amount may not be recoverable. If such indications are present, the recoverable amount of the asset is estimated in order to determine if there is a devaluation. Where the asset does not generate cash flows that are dependent on other assets, the Company estimates the recoverable amount of the asset group or cash-generating unit ("CGU") to which the asset belongs.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. In assessing value in use, future estimated cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset for which the future estimated cash flows have not been adjusted.

If the estimated recoverable amount of an asset or CGU is less than its carrying amount, then the carrying amount is reduced to the recoverable amount. A devaluation is recognized immediately as additional depreciation or amortization. When devaluation subsides thereafter, the carrying amount is increased to the revised estimated recoverable amount, but only to the extent it does not exceed the carrying amount that would have been determined had no impairment had at first been found. A reversal is recognized as a reduction of the burden of depreciation or amortization for the period.

k) Current and deferred income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the consolidated statements of operations except to the extent that it relates to items recognized directly in equity or in other comprehensive income. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

i) Income taxes and mining taxes

Current income and mining taxes are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date in the jurisdictions where the Company operates and generates taxable income. Management periodically evaluates positions in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate, based on the amounts expected to be.

ii) Deferred income taxes and deferred mining taxes

Deferred tax and deferred mining taxes are recognized, using the asset and liability method, on temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply to taxable income when the related deferred income tax asset is realized or the deferred income tax liability is settled. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Mining taxes represent Canadian provincial taxes levied on mining operations and are classified as income taxes since such taxes are based on a percentage of mining profits.

Deferred income and mining taxes assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when deferred tax assets and liabilities relate to income or mining taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle balances on a net basis.

l) Equity

Common shares and warrants are classified as equity. The share capital represents the amount received upon issuance of shares. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period where the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the relative fair value method. The Black-Scholes pricing model is used to determine the fair value of warrants issued.

Contributed surplus includes charges related to stock options until such equity instruments are exercised, in which case the amounts are transferred to share capital. Contributed surplus includes warrants expired and unexercised.

m) Flow-through shares

The Canadian tax legislation permits an entity to issue securities to investors whereby the deductions for tax purposes relating to resource expenditures may be claimed by the investors and not by the entity. These securities are referred to as flow-through shares. The Company finances a portion of its exploration programs with flow-through share issues.

At the time of share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a liability for flow-through shares obligation. The Company estimates the fair value of the obligation using the residual method, i.e. by comparing the price of the flow-through share to the quoted price of common share at the date of the financing announcement.

A group may renounce the deductions for tax purposes under either what is referred to as the "general" method or the "look-back" method.

When tax deductions are renounced under the general method, and the Company has the expectation of renouncing and has capitalized the expenditures during the current year, then the entity records a deferred tax liability with the corresponding charge of income tax expense. The obligation is reduced to zero, with a corresponding income recorded

When tax deductions are renounced under the look-back method, the Company records a deferred tax liability with a corresponding charge to income tax expense when expenditures are made and capitalized. At that time, the obligation would be reduced to zero, with a corresponding income recorded.

3. Significant accounting policies (cont'd)

n) Share-based payment transaction

The Company grants stock options to buy common shares of the Company to Directors, Officers, and Employees. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company. Each tranche of a grant is considered a separate grant with its own vesting period and its own fair value at grant date. The fair value of the options is measured at the grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period that the options are earned. The fair value is recognized as an expense with a corresponding increase in contributed surplus. The amount recognized as an expense is adjusted to reflect the number of share options expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. The maximum life of the options is five years.

Any consideration paid on exercise of share options is credited to share capital. The contributed surplus resulting from share-based compensation is transferred to share capital when the options are exercised.

o) Earnings (loss) per share

The calculation of earnings (loss) per share ("EPS") is based on the weighted average number of shares outstanding for each period. The basic EPS is calculated by dividing the profit or loss attributable to the equity owners of the Company by the weighted average number of common shares outstanding at the end of the period.

The computation of diluted EPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the EPS. The treasury stock method is used to determine the dilutive effect of the warrants and share options. When the Company reports a loss, the diluted net loss per common share is equal to the basic net loss per common share due to the anti-dilutive effect of the outstanding warrants and share options.

p) Segment disclosure

The Company currently operates in a single segment – acquisition, exploration, evaluation and development of mining properties. All of the Company's activities are conducted in Quebec and Ontario, Canada.

q) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of operations over the period of the lease.

4. Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company and modified adopted standards

At the date of authorization of these Consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective,and have not been early adopted by the Company.

Management anticipates that all of the pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's consolidated financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IAS 1, Presentation of consolidated financial statements ("IAS 1")

IASB issued, in December 2014, amendments to IAS 1, Presentation of consolidated financial statements. These changes provide information on how to exercise professional judgment when determining the level and the structure of disclosures in the consolidated financial statements (the materiality and groupings, the presentation of subtotals, the structure of consolidated financial statements and disclosures on accounting policies). Early application is permitted. The amendments to this standard, applicable to fiscal years beginning on or after January 1, 2016, will have no impact on the results and financial position of the Company as it is a presentation standard.

IFRS 9, Financial instruments

In July 2014, the final version of the IFRS 9 standard was published to replace IAS 39 : Financial instruments : recognition and measurement. It simplifies the classification and measurement of financial assets and financial liabilities by reducing the number of measurement categories. The new standard also includes new requirements with regards to general hedge accounting and impairment of financial assets. The effective date of this new standard will be for periods beginning on or after January 1, 2018 with early adoption permitted. The company is evaluating the impact of this standard on its consolidated financial statements.

IFRS 11, Joint arrangements

In May 2014, IFRS 11, Joint arrangements has been revised to incorporate amendments on how to account for the acquisition of an interest in a joint operation that constitutes a business. The effective date of the amendments will be for periods beginning on or after January 1, 2016 with early adoption permitted. The amendments will have no impact on the Company's consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases. The new standard establishes the principles to present the information with regards to the amount, timing and uncertainty of future net cash inflows from a lease. Under the new standard, the lessee will recognize all assets and liabilities coming from a lease. The effective date to this new standard will be for periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15, Revenue from contracts with customers is applied. The Company is evaluating the impact of this standard on its consolidated financial statements.

5. Judgments, estimates and assumption

Many of the amounts included in the consolidated financial statements require Management to make judgments and/or estimates. These judgments and estimates are continuously evaluated and are based on Management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the consolidated financial statements.

Areas of significant judgments and estimates affecting the amounts recognized in the consolidated statements include:

1) Exploration and evaluation assets

Probability of cost recovery at initial recognition

According to the significant accounting policies of the Company, once the legal rights of exploration and evaluation assets are obtained, the costs associated with the acquisition of mineral rights, expenditures on exploration and evaluation of mineral properties and that tax credits and credits on duties associated with such costs are charged to cost of exploration and evaluation assets if Management considers probable that the costs will be recovered through future development or sale of the property. Assessing the probability to recover capitalized costs related to exploration and evaluation assets requires the exercise of judgment in determining if the future economic benefits are probable, which may be based on assumptions and estimates made by management regarding future events. Assumptions and estimates may change if new information proves to be available.

5. Judgments, estimates and assumption (cont'd)

1) Exploration and evaluation assets (cont'd)

Probability of cost recovery at initial recognition (cont'd)

If informations become available that give rise to uncertainty of the recovery of capitalized costs, the amounts capitalized will be written down to their recoverable amounts in the period when these informations become available (see the paragraph concerning critical accounting estimates, judgments and assumptions for impairment of property and equipment, impairment of non-financial assets).

2) Impairment of non-financial assets

The Company's evaluation of the recoverable amount with respect to the non-financial assets is based on numerous assumptions and may differ significantly from actual values. The recoverable amounts are based, in part, on certain factors that may be partially or totally outside of the Company's control. This evaluation involves a comparison of the estimated recoverable amounts of non-financial assets to their carrying values. The Company's fair value estimates are based on numerous assumptions. The recoverable amount estimates may differ from actual values and these differences may be significant and could have a material impact on the Company's financial position and result of operations. Assets are reviewed for an indication of impairment at each consolidated statement of financial position date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, expiration of the right to operate in the specific area during the period or in the near future and it is not expected to be renewed; significant expenditures for exploration and subsequent evaluation in a specific area is neither budgeted nor planned; exploration and evaluation of mineral resources commercially viable, the Company decided to discontinue such activities in the specific area; or, sufficient data exist to indicate that, although it is likely that a development in the specific area will continue, the carrying amount of the assets may not be recovered in full following the successful development or sale, strong downward trends in the industry or the economy in general, a significant drop in the price of mineral resources.

3) Valuation of share-based payments

The Company records all share-based payments using the fair value method. The Company uses the Black-Scholes options pricing model to determine the fair value of stock options and warrants. The main factor affecting the estimates of the fair value of stock options and warrants is the stock price expected volatility used. The Company currently estimates the expected volatility of its common shares based on its historical volatility for a period of one year before the options and warrants issuance.

4) The estimated useful lives and residual values of property and equipment and the measurement of depreciation expense

Management estimates the useful lives of property and equipment based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property and equipment for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use.

5) Going concern

The Company's ability to achieve its strategy by financing its future needs in working capital requires exercising judgments. More information regarding going concern is presented in Note 1.

6) Uncertain tax positions

The refundable tax credits relating to resources and mining duties credits for losses ("tax credits") for the current period and prior periods are measured at the amount the company expects to recover the tax administrations at the closing date. However, there are uncertainties on the interpretation of tax rules, as well as in regard to the amount and timing of the recovery of these tax credits. To determine if its expenses are eligible, the company must demonstrate significant judgment and interpretation, making the recovery of uncertain tax credits. Accordingly, there may be a significant difference between the amount recognized of tax credits receivable and the actual amount of tax credits received as a result of the examination by the tax authorities' review of issues whose interpretation is uncertain. Should such a difference arise, an adjustment would have to be made for tax credits receivable and provisions may potentially be accounted for tax credits previously received by the Company. It may take considerable time before the tax administration report its decisions on issues related to tax credits. Thus, the tax credits payback period can be long. Tax credits that the Company expects to recover within more than one year are classified as non-current assets. The amounts recognized in the consolidated financial statements are prepared based on the best estimates of the Company and according to its best judgment, as noted above. However, given the uncertainty inherent in obtaining the approval of the tax administrations, the amount of tax credits that will actually be recovered or the amount to be repaid and the timing of such recovery or repayment could differ significantly from the accounting estimates, which would affect the financial condition and the Company's cash flows.

7) Mining duties

The accounting treatment of mining duties depends on the Management's intention to achieve production phase or to sell the property to another mining company when the technical feasibility and economical viability of properties are proven. This evaluation is made by property. The Company has determined that it intends to achieve production phase in a near future for Kipawa property only.

(In Canadian dollars)

6. Tax credits recoverable

	2015	2014
Quebec refundable credit on mining duties at rate of 16 %	**$**	**$**
Property Kipawa		
2012	269,470	590,987
2013	977,629	384,929
2014	30,086	20,297
2015	70,138	-
	1,347,323	996,213
Other properties		
2012	-	55,985
2013	13,895	13,895
2014	439	439
	14,334	70,319
Refundable credit for resources related to exploration at rates of 35 % and 38,75 % before June 5, 2014; 31% and 28% since June 5, 2014		
Property Kipawa		
2013 (Net of a payable amount of $ 368,975 in 2014)	-	80,565
2014	-	39,384
2015	-	-
	-	119,949
Other properties		
2013	-	98,116
2014	-	2,955
	-	101,071
Total	1,361,657	1,287,552
Less: Non-current portion of tax credits recoverable	(70,138)	(20,736)
Current portion of tax credits recoverable	1,291,519	1,266,816

7. Available-for-sale financial assets

The Company owned 100,000 shares of Northen Superior Ressources Inc. ("Northen") that where acquired for $9,200. In 2014, the Company sold the shares for an amount of $3,350, which resulted in a loss of $5,850 in the consolidated statements of operations following the reclassification of the cumulative loss of $6,200 recorded previously in other comprehensive income.

In 2014, the Company proceeded to sell the shares for a consideration of $38,410. These shares were pruchased at a $22,500 cost, thus resulting in a gain of $15,910 recognized in the consolidated statements of operations following the reclassifying of the $2,500 cumulative loss recognized previously in other comprehensive income.

On August 19, 2013, the Company signed an agreement with Canada Strategic Metals. This Company can acquire a 50% undivided interest in Sakami property by issuing 2 million common shares and spending $2,250,000 in deferred exploration expenditures on the property, on a period of 3 years. At the date of the agreement, 500,000 shares were issued for a consideration of $22,500. In 2014, the Company sold 500,000 shares for a consideration of $41,760 which generated a gain of $18,760 in the consolidated statements of operations following the reclassifying of the $8,700 cumulative loss recognized previously in other comprehensive income. On August 22, 2014, 500,000 shares were issued for a consideration of $45,000. On December 31, 2014, the shares were trading at $0.05. Consequently, the Company recorded an unrealized loss of $20,000 on change in fair value in other comprehensive income. On August 14, 2015, 500,000 shares were issued for a consideration of $15,000. On December 31, 2015, the shares were trading at $0.03. Consequently, the Company recorded an unrealized loss of $10,000 on change in fair value in other comprehensive income.

(In Canadian dollars)

8. Property and equipment

	Buildings and land	Computer equipment	Office furniture	Exploration amenities and facilities	Total
Net book value	$	$	$	$	$
Balance as at January 1, 2015	128,493	59,313	49,842	70,775	**308,423**
Additions	-	822	-	-	**822**
Balance as at December 31, 2015	128,493	60,135	49,842	70,775	**309,245**
Accumulated depreciation					
Balance as at January 1, 2015	14,224	42,398	28,354	61,287	**146,263**
Depreciation	4,464	4,428	4,287	2,832	**16,011**
Balance as at December 31, 2015	18,688	46,826	32,641	64,119	**162,274**
Net book value at December 31, 2015	**109,805**	**13,309**	**17,201**	**6,656**	**146,971**
Net book value					
Balance as at January 1, 2014	128,493	59,313	49,842	70,775	**308,423**
Additions	-	-	-	-	**-**
Balance as at December 31, 2014	128,493	59,313	49,842	70,775	**308,423**
Accumulated depreciation					
Balance as at January 1, 2014	9,568	36,386	22,990	57,219	**126,163**
Depreciation	4,656	6,012	5,364	4,068	**20,100**
Balance as at December 31, 2014	14,224	42,398	28,354	61,287	**146,263**
Net book value at December 31, 2014	**114,269**	**16,915**	**21,488**	**9,488**	**162,160**

All amortization and impairment charges (or reversals, if any) are included in amortization of property and equipment, with the exception of amortization charges of property and equipment used for exploration and evaluation of specific projects which are capitalized as exploration and evaluation assets. An amount of $1,104 ($3,504 in 2014) has been capitalized as exploration and evaluation assets during the year.

(In Canadian dollars)

9. Exploration and evaluation assets

Mining properties

	Interest	2014	Additions	Disposal	Write-off	2015
		$	$	$	$	$
Sakami	100%	45,110	-	(15,000)	(30,110)	**-**
Zeus	100%	-	14,061	-	(14,061)	**-**
Kipawa Rare Earths Joint Venture	72%	701,809	-	-	-	**701,809**
Tansim	100%	-	-	-	-	**-**
Valmont	100%	-	6,986	-	-	**6,986**
Vulcain	100%	-	1,086	-	-	**1,086**
Matheson Pelangio	100%	27,141	-	-	(27,141)	**-**
Matheson JV	50%	1,581,454	-	-	(720,399)	**861,055**
		2,355,514	**22,133**	**(15,000)**	**(791,711)**	**1,570,936**

Deferred exploration and evaluation expenditures

	2014	Additions	Disposal	Tax credits	Write-off	2015
	$	$	$	$	$	$
Sakami	2,213,090	-	-	-	(2,213,090)	**-**
Zeus	-	3,813	-	-	(3,813)	**-**
Kipawa Rare Earths Joint Venture	2,086,322	246,731	-	(60,705)	-	**2,272,348**
Tansim	-	111	-	-	-	**111**
Valmont	-	53,707	-	-	-	**53,707**
Vulcain	-	6,740	-	-	-	**6,740**
Matheson Pelangio	304,971	-	-	-	(304,971)	**-**
Matheson JV	960,248	175,219	-	-	(1,135,467)	**-**
	5,564,631	**486,321**	**-**	**(60,705)**	**(3,657,341)**	**2,332,906**
Total	**7,920,145**	**508,454**	**(15,000)**	**(60,705)**	**(4,449,052)**	**3,903,842**

Mining properties

	Interest	2013	Additions	Disposal	Write-off	2014
		$	$	$	$	$
Sakami	100%	90,110	-	(45,000)	-	**45,110**
Zeus	100%	54,234	-	-	(54,234)	**-**
Kipawa Rare Earths Joint Venture	51%	421,667	280,142	-	-	**701,809**
Tansim	100%	44,368	-	-	(44,368)	**-**
Valmont	100%	112,318	-	-	(112,318)	**-**
Vulcain	100%	175,687	-	-	(175,687)	**-**
Matheson Pelangio	100%	27,141	-	-	-	**27,141**
Matheson JV	50%	1,581,454	-	-	-	**1,581,454**
		2,506,979	**280,142**	**(45,000)**	**(386,607)**	**2,355,514**

Deferred exploration and evaluation expenditures

	2013	Additions	Disposal	Tax credits	Write-off	2014
	$	$	$	$	$	$
Sakami	2,206,869	9,402	-	(3,181)	-	**2,213,090**
Zeus	1,701,925	17,273	-	(35,879)	(1,683,319)	**-**
Kipawa Rare Earths Joint Venture	429,083	791,654	-	865,585	-	**2,086,322**
Tansim	227,317	-	-	(1,926)	(225,391)	**-**
Valmont	351,691	-	-	(4,971)	(346,720)	**-**
Vulcain	1,512,030	-	-	-	(1,512,030)	**-**
Matheson Pelangio	304,971	-	-	-	-	**304,971**
Matheson JV	872,247	88,001	-	-	-	**960,248**
	7,606,133	**906,330**	**-**	**819,628**	**(3,767,460)**	**5,564,631**
Total	**10,113,112**	**1,186,472**	**(45,000)**	**819,628**	**(4,154,067)**	**7,920,145**

(In Canadian dollars)

9. Deferred exploration (cont'd)

Sakami

The Company holds a 100% interest in this property located 80 km southeast of Radisson and 30 km east of the Matagami-Radisson road in Mid-Northern Quebec. A portion of the mining claim is subject to a 1% net smelter return (NSR) royalty. On August 16, 2013, the Company has signed an agreement with Canada Strategic Metals. This Company can acquire a 50% undivided interest in Sakami property by issuing 2 million common shares and by investing $2,250,000 in deferred exploration expenditures on the property, spread over 3 years.

In accordance with its accounting policies, the Corporation reviewed the factors and conditions that may indicate the need for an assessment for impairment on its mining properties as at December 31,2015.

Based on an impairment analysis performed, the Sakami property and the related deferred exploration and evaluation assets detailed were impaired by $30,110 and $2,213,090, respectively, representing a total impairment charge of $2,243,200.

Zeus, Tansim, Valmont et Vulcain

The Company holds a 100% interest in the Zeus, Tansim, Valmont and Vulcain properties (Province of Quebec). These properties are subject to NSR royalties ranging from 1% to 2.25% and are redeemable at prices ranging from $250,000 to $500,000.

Following the analysis of market conditions, the strategic guidelines of the company as well as absence of significant exploration expenditures and scheduled evaluation, management has decided to focus on its most promising properties and the most advanced projects.

Therefore, the company proceeded to the write-off of Zeus, Tansim, Valmont and Vulcain properties in 2014.

Nonetheless, the Company renewed the claims for the Zeus, Tansim, Valmont and Vulcain properties and is evaluating financing opportunities for these properties. Therefore, the Company decided to capitalize the 2015 expenditures for these properties.

Kipawa

The Company holds a 72 % (100 % in 2014) interest in the Kipawa property (Province of Quebec). On September 18, 2014, the Company and TRECan proceeded to sign a termination agreement for the Kipawa property. Following the signing of this agreement, Matamec paid the sum of $280,142 to TRECan and TRECan converted its 49% undivided interest in the Kipawa rare earths mining project to a future 10% royalty on the net profit of operating Kipawa. This royalty is secured by an hypothec of $ 2,000,000 for TRECan on the universality of mineral rights and immovable assets present and future related to Kipawa. Matamec then became 100% owner of the Kipawa property.

On January 26, 2015, the Company established the joint operation " Kipawa Rare Earths Joint Venture" and sold a 28 % share of the latter in return for an investment of $3 million from Ressources Québec Inc. for the implementation of an exploration program.

Matheson Pelangio

The Company holds a 100% interest in the Matheson properties comprising the East and West Blocks located in the Matheson township in the East Timmins area (Province of Ontario). The property is subject to a 1% NSR royalty, 0.5% of which is redeemable for $1,000,000 and the issuance of 100,000 common shares of the Company.

Following the analysis of market conditions, the strategic guidelines of the Company as well as absence of significant exploration expenditures and scheduled evaluation, management decided to focus on its most promising properties and the most advanced projects. Therefore, the Company proceeded to the write-off of the Matheson Pelangio property.

Matheson JV

Colbert

The Company holds a 50% interest in two (2) claims in the Matheson-Colbert property (Province of Ontario). The property is subject to an NSR royalty of 1.5%, of which 0.75% is redeemable for $1,500,000.

On February 29, 2016, the Company sold the Matheson JV properties to Glencore Canada Corp. and Goldcorp Canada Ltd. for a total consideration of $500,000, in addition to the reimbursement of legal fees of $361,055 related to the transaction and capitalized to the property.

Explorers

The Company holds a 50% interest in seventy-three (73) claims in the Matheson-Explorers property (Province of Ontario). The property is subject to NSR royalties of 3% to 4% which are applicable on certain claims of which 1.5% to 2% is redeemable for $2,750,000.

On February 29, 2016, the Company sold the Matheson JV properties to Glencore Canada Corp. and Goldcorp Canada Ltd. for a total consideration of $500,000, in addition to the reimbursement of legal fees of $361,055 related to the transaction and capitalized to the property.

Other interests

Montclerg

The Company holds a 1% NSR royalty in the Montclerg property, half of which is redeemable for $1,000,000.

Wachigabau

The company holds a 50% interest in the Wachigabau property.

10. Bank indebtedness

The Company has an authorized line of credit of $100,000 bearing interest at the National Bank's Canadian prime rate plus 1,5% (2,7% on December 31, 2015).

The bank indebtedness is secured by a first rank movable hypothec of $100,000 on the building and land.

11. Accounts payable and accrued liabilities

	2015	2014
	$	$
Accounts payable	1,590,638	1,566,972
Government remittances	-	29,630
Taxes on section XII.6 payable	120,523	104,104
Salaries and vacation payable	75,180	77,977
	1,786,341	1,778,683
Less : non-current portion of accounts payable and accrued liabilities	-	(35,000)
	1,786,341	1,743,683

(In Canadian dollars)

12. Share capital

a) The Company is authorized to issue an unlimited number of common shares of no par value.

b) The Company is subject to regulatory requirements related to the use of funds obtained by flow-through shares financing. These funds have to be incurred for eligible exploration expenses. During the year, the Company did not issue any flow-through shares.

Changes in the Company's issued share capital are as follows:

2015
None

2014

On October 2, 2014, Ressources Québec Inc. subscribed to 16,666,666 common shares of the Company at a price of $0.06 per share for a value of $1,000,000.

13. Stock options

The Company has established a stock option plan settled in equity instruments pursuant to which options to purchase common shares may be granted to officers, directors and employees of the Company as well as individuals providing ongoing services to the Company. During the year 2011, the Company changed the number of options that can be granted, increasing it to 12,000,000 options. The exercise price of options, established by the Board of directors, cannot be less than the market price of the Company's shares on the date preceding the date of grant. The options are vested gradually over a period of twelve to eighteen months.

A summary of the status of the Company's stock option plan is presented hereafter:

	2015		2014	
	Number	Weighted average exercice price	Number	Weighted average exercice price
	#	$	#	$
Outstanding at beginning of year	5,196,800	0,25	7,865,000	0,26
Granted	2,375,000	0,10	500,000	0,10
Expired and cancelled	(2,195,000)	0,26	(3,168,200)	0,25
Outstanding at end of year	5,376,800	0,18	5,196,800	0,25
Options exercisable at end of year	3,655,550	0,18	4,896,800	0,25

As at December 31, 2015, the balance of options available for grant under the plan is 6,623,200 (6,803,200 in 2014).

		December 31, 2015	
Maturity dates	Exercise price	Number of options outstanding	Number of options exercisable
	$	$	$
August 17, 2016	0,430	781,800	781,800
August 6, 2017	0,200	1,420,000	1,420,000
December 2, 2017	0,170	400,000	400,000
September 18, 2019	0,100	400,000	340,000
March 1, 2020	0,100	400,000	220,000
August 26,2020	0,100	1,575,000	393,750
August 27, 2020	0,100	400,000	100,000
		5,376,800	3,655,550

With respect to stock options granted during the year, an amount of $47,407 was recognized in the consolidated statements of operations and credited to contributed surplus compared to an amount of $20,286 for 2014.

The fair value of each option granted was estimated using the "Black-Scholes" princing model which is based on the following weighted average assumptions for the awards granted during the year.

	2015	2014
Average share price at grant date	$0,04	$0,07
Expected volatility	114.18%	69,60 %
Risk free interest rate	0.75%	1,58 %
Expected life (in years)	5	4,40
Expected forfeiture rate for the option not granted immediately	0	0
The average exercise price at grant date	$0,10	$0,10
Fair value of stock options granted at market value	$0,03	$0,03

The expected volatility has been calculated using the historical weekly stock price of the Company shares for a twelve month period prior to grant.

(In Canadian dollars)

14. Capital disclosures

The Company's objective for capital management is to ensure that it can continue as a going concern in order to pursue the development of its mining properties and to the production of its mining assets.

The capital of the Company consists of equity for a total amount of $ 3,066,236 ($ 4,956,025 in 2014).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the size of the Company, is reasonable.

There were no significant changes in the Company's approach to capital management during the year ended December 31, 2015. The Company doesn't have any externally imposed capital requirements neither regulatory nor contractual requirements to which it is subject, unless the Company closes a flow-through private placement in which case the funds are restricted in use for exploration expenses.

15. Income taxes

	2015	2014
	$	$
Current income taxes		
Quebec refundable credit for mining duties	(994,244)	(598,135)
Total current income taxes recovery	(994,244)	(598,135)
Deferred income taxes		
Rise and reversal of temporary difference relating to :		
Income taxes	(2,057,500)	449,100
Total deferred taxes	(2,057,500)	449,100
	(3,051,744)	(149,035)

The income tax provision differs from the amount resulting from the application of the combined Canadian statutory income tax rate. The combined statutory tax rate is the sum of the Federal income taxes of 15 % (15 % in 2014) and Provincial of 11.9 % (11.9 % in 2014).

	2015	2014
	$	$
Loss before income taxes	(4,978,940)	(5,515,662)
Combined Canadian statutory income tax rate	26.90%	26.90%
Tax recovery at the combined statutory tax rate	(1,339,300)	(1,483,700)
Unrecognized temporary differences recorded during the year	393,200	-
Utilization of prior years losses	(393,200)	-
Share issue costs	-	6,100
Stock-based compensation	12,800	5,500
Accounting gain on sale of investment	-	(1,300)
Amortization of share issue costs	(6,200)	-
Quebec mining duties refundable credit	(994,244)	(598,135)
Recovery of development cost	708,800	-
Exploration expenses deducted	(186,000)	-
Difference between the fiscal value and the cost of additions of exploration and evaluation assets	(2,446,600)	797,200
Disposal of exploration and evaluation assets	1,196,800	1,117,400
Non deductible expenses and others	2,200	7,900
Income tax expenses	(3,051,744)	(149,035)

The following table shows an analysis of deferred tax assets and liabilities:

	2015	2014
	$	$
Deferred income tax assets		
Deferred tax assets to be recovered in more than 12 months	-	423,000
Deferred tax liabilities		
Deferred tax liabilities to be settled in more than 12 months	697,500	3,178,000
Deferred tax liabilities, net amount	697,500	2,755,000

(In Canadian dollars)

15. Income taxes (cont'd)

The following table shows an the evolution of the deferred tax account:

	2015	2014
	$	$
As at January 1st	2,755,000	2,312,000
Amount recognized in the operations	(2,057,500)	449,100
Amount recognized in the deficit	-	(6,100)
As at December 31	697,500	2,755,000

The following table shows the changes in deferred tax assets and liabilites during the year, regardless of compensation balances relating to the same taxation authority:

Deferred tax assets	**Non-capital losses**	**Share issue costs**	**Total**
	$	$	$
As at January 1st, 2014	-	(31,000)	(31,000)
Amount debited (credited) in the operations	(398,100)	6,100	(392,000)
As at December 31, 2014	(398,100)	(24,900)	(423,000)
Amount debited in the operations	398,100	6,200	404,300
As at December 31, 2015	-	(18,700)	(18,700)

Deferred tax liabilities	**Propery and equipment**	**Exploration and evaluation assets**	**Total**
	$	$	$
As at January 1st, 2014	5,000	2,338,000	2,343,000
Amount debited (credited) in the operations	(400)	835,400	835,000
As at December 31, 2014	4,600	3,173,400	3,178,000
Amount credited in the operations	-	(2,461,800)	(2,461,800)
As at December 31, 2015	4,600	711,600	716,200

16. Commitments and contingencies

a) On May 1, 2013, the Company agreed to pay to its President André Gauthier a compensation sum corresponding of two months salaries plus two months salaries per year of services in case of separation and subject to additional conditions. As of December 31, 2015, the obligation represents an amount of $364,000.

b) In 2012, the Company entered a three-year lease contract for larger premises that was renewed until March 31, 2017. The commitments resulting from this renewed lease are $80,357 and $20,089 respectively for years 2016 and 2017. The lease has a two year renewal option.

The rent expense for the year included in the net loss amounts to $82,417 ($80,586 in 2014).

c) On October 2, 2014, the Company signed a subscription agreement with Ressources Québec Inc. Under this agreement, the Company is committed to incur $1,000,000 less the expenses relating to the issuance of $67,145, in the phase 1 of Kipawa's heavy rare earths development program. On December 31, 2015, $383,452 ($175,779 in 2014) was incurred. In addition, an amount of $84,574 is restricted for the Kipawa Rare Earths Joint Venture. Therefore, a commitment of $464,829 ($665,865 in 2014) remains to be incurred when the tax credits will be received.

17. Compensation of key management

Key members of management include directors (member of the Board of Directors or not) and senior executives. The compensation paid or payable to key management for their services as employees is presented hereafter:

	2015	2014
	$	$
Salaries and fringe benefits	261,680	178,117
Stock-based compensation	5,201	12,580
Compensation paid by the joint operation	(219,500)	-
	47,381	190,697

(In Canadian dollars)

18. Related party transactions

During the year, the Company incurred expenditures related to exploration of mining properties as well as professional and consulting fees. These transactions occurred in the normal course of operations and were measured at the exchange amount, which is the amount established and agreed to by the parties.

Company held by a director and officer

	2015	2014
Expenses	$	$
Professional fees	-	25,216
Travelling and entertainment expenses	-	2,081
Deferred exploration and evaluation expenditures		
Geology, geophysics, geochemical and prospecting	-	25,273
Lodging, transport and communications	-	4,637
Other expenses	-	109,797
Accounts payable and accrued liabilites	-	171,432

A second officer and director of the Company	2015	2014
Expenses	$	$
Professional fees	5,566	8,127
Accounts payable and accrued liabilites	14,987	8,574

A third officer and director of the Company	2015	2014
Expenses	$	$
Consulting fees	30,000	68,700
Accounts payable and accrued liabilites	88,988	76,966

A fourth officer and director of the Company	2015	2014
	$	$
Expenses		
Professional fees	3,600	-

19. Supplemental Cash flow information

	2015	2014
	$	$
Changes in non-cash working capital items		
Increase of mining duties receivable	(994,244)	(598,135)
Decrease of sales taxes recoverable	9,749	124,256
Decrease of other receivables	-	25,726
Decrease (increase) of prepaid expenses	36,483	(24,703)
Increase of accounts payable and accrued liabilities	160,727	326,506
	(787,285)	(146,350)

	2015	2014
	$	$
Non-cash transactions		
Sales taxes recoverable applied to tax credits	-	5,602
Acquisition of an investment in exchange of a property	15,000	45,000
Mining properties costs included in accounts payable and accrued liabilities	759,382	912,451
Amortization expense included in exploration and evaluation assets	1,104	3,504
Decrease of reported exploration and evaluation assets after recording the refundable tax credits	60,705	(819,628)

(In Canadian dollars)

20. *Financial instruments and risk management*

Financial risks factors

The Company is exposed to various financial risks resulting from both its operations and its investing activities. The Company's management manages financial risks. The Company does not enter into financial instruments agreements, including derivative financial instruments for speculative purposes. The Company's main financial risks exposure and its financial policies are as follows:

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and fair value. The Company is exposed to market risk in trading on its investment in Northern Superior Resources Inc. and Canada Strategic Metal, listed issuers whose activities are in the exploration field. As of December 31, 2015, a 10% decrease (increase) in the price on the stock market would not result in a significant change in the Company's results.

Credit risk

The financial instruments which expose the Company to credit risk and concentration of credit risk include cash and cash equivalents, short-term deposit, funds restricted for exploration, other receivables and tax credits recoverable. The Company invests its cash and cash equivalents and short-term deposit in high quality instruments issued by Canadian financial institutions. The Company does not have any security on its financial instruments subject to credit risk, but mitigates such risk by only transacting with a diversified group of partners with strong financial conditions, and consequently does not anticipate any losses.

Liquidity risk

The Company manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its exploration programs. The Company also ensures that it has sufficient working capital available to meet its day-to-day commitments.

As at December 31, 2015, the Company has cash and cash equivalents of ($5,801) ($98,846 as at December 31, 2014) and $84,574 funds restricted for exploration (none as at December 31, 2014) to settle its accounts payable and accrued liabilities of $1,786,341 ($1,778,683 as at December 31, 2014). As at December 31, 2015, management estimates that funds available will not be sufficient to meet the Company's obligations and budgeted expenditures until December 31, 2016.

Interest rate risk

Part of cash and cash equivalents and short-term deposit bear interest at a fixed rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company has a cash balance and the Company's current policy is to invest excess cash in term deposits of interest-bearing accounts of Canada's major chartered banks. As of December 31, 2015, the Company had $10,021 ($10,026 as at December 31, 2014) invested in term deposits bearing interest at 0,85% (1,04% as at December 31, 2014). A plus or minus 1% change in the rates would not significantly affect the reported net loss and reported shareholders' equity.

Fair value

Fair value of financial instruments is presented as follow:

	December 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	$	$	$	$
Financial assets				
Loans and receivables				
Cash and cash equivalents	-	-	98,846	98,846
Restricted cash to the joint operation with Ressources Québec Inc.	84,574	84,574	-	-
Short-term deposit	10,021	10,021	10,026	10,026
Total	94,595	94,595	108,872	108,872
Available-for-sale				
Investment in share of a private company	1	1	1	1
Investment in shares of a listed company	30,000	30,000	25,000	25,000
	30,001	30,001	25,001	25,001
Financial liabilities, at amortized cost				
Bank indebtedness	5,801	5,801	-	-
Bank advance	-	-	79,066	79,066
Accounts payable and accrued liabilities	1,786,341	1,786,341	1,778,683	1,778,683
	1,792,142	1,792,142	1,857,749	1,857,749

* The fair value of the investment in a private company cannot be determined since it does not trade on an active market.

The estimative fair value is established at the date of the consolidated statements of financial position using the relevant information available on the market and other information on financial instruments.

The Company's financial instruments presented above, classified as loans and receivables, have a fair value which approximates their carrying value due to their short-term maturity. The fair value of the investment in listed shares is based on market prices.

Fair value hierarchy

- Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level two includes inputs that are observable other than quoted prices included in level one;
- Level three includes inputs that are not based on observable market data.

Input level used by the Company to assess fair value is level one.

21. Subsequent event

On March 2, 2016, the Company announced the closing of a property exchange agreement (the «PREAA») between the Company, International Explorers and Prospectors Inc. («IEP»), Glencore Canada Corp. («Glencore») and Goldcorp Canada Ltd. («Goldcorp») with regards to the sale by the Company and IEP of the Colbert property and the surface rights of 8 mining titles of the Explorers property located in Hoyle and Matheson Townships in Timmins for a consideration of $500,000, the reimbursement of legal fees related to the transaction of $351,055 and NSR royalties on the new Hoyle-Matheson Royalties property.