

**MX GOLD CORP.**

(Formerly Discovery Ventures Inc.)

**Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

Expressed in Canadian dollars

[Unaudited – prepared by management]

## **MX GOLD CORP.**

900 – 570 Granville Street, Vancouver, BC V6C 3P1  
Telephone (604) 808-1760 Facsimile: (604) 926-4232

### **NOTICE OF NO AUDITOR REVIEW**

Under National Instrument 51-102, Part 4, subsection 4.3(3), if an auditor has not performed a review of the condensed 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 condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

**MX GOLD CORP.**

(Formerly Discovery Ventures Inc.)

## Condensed Interim Consolidated Statements of Financial Position

Expressed in Canadian Dollars

[Unaudited – prepared by management]

As at	June 30 2016	December 31 2015
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,179,114	1,256,669
GST and METC receivables (Note 3(g))	157,228	110,455
Prepaid expenses	95,404	86,012
Due from related party (Note 11)	-	15,143
<b>Total current assets</b>	<b>3,431,746</b>	<b>1,468,279</b>
<b>Reclamation bonds (Note 7)</b>	<b>743,382</b>	<b>741,590</b>
<b>Property, plant and equipment, net (Note 5)</b>	<b>6,919,771</b>	<b>5,824,159</b>
<b>Exploration and evaluation assets (Note 6)</b>	<b>4,946,704</b>	<b>4,721,832</b>
<b>Total assets</b>	<b>16,041,603</b>	<b>12,755,860</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,739,744	2,731,814
Due to related parties (Note 11)	380,081	419,934
Credit facilities (Note 9)	-	55,852
Current portion of lease obligations (Note 13)	67,700	65,864
Flow-through share premium (Note 12)	86,052	86,052
<b>Total current liabilities</b>	<b>3,273,577</b>	<b>3,359,516</b>
<b>Lease obligations (Note 13)</b>	<b>252,608</b>	<b>288,099</b>
<b>Decommissioning obligations (Note 8)</b>	<b>1,431,421</b>	<b>1,431,421</b>
	<b>4,957,606</b>	<b>5,079,036</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital (Note 10)</b>	<b>20,014,116</b>	<b>15,089,401</b>
<b>Contributed surplus (Note 10)</b>	<b>2,713,364</b>	<b>2,606,922</b>
<b>Deficit</b>	<b>(11,643,483)</b>	<b>(10,019,499)</b>
<b>Total shareholders' equity</b>	<b>11,083,997</b>	<b>7,676,824</b>
<b>Total liabilities and shareholders' equity</b>	<b>16,041,603</b>	<b>12,755,860</b>

On behalf of the Board:

"Kenneth C Phillippe"

Director

"Akash Patel"

Director

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

MX Gold Corp.  
(Formerly Discovery Ventures Inc.)

Condensed Interim Statements of Operations, Comprehensive Loss and Deficit  
As expressed in Canadian dollars  
[Unaudited – prepared by management]

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	\$	\$	\$	\$
<b>General and Administrative Expenses</b>				
Amortization	2,088	173	4,173	346
Bank charges	1,192	52	4,021	129
Consulting	587,237	61,000	605,987	124,750
Filing and transfer agent fees	29,976	15,712	47,419	22,315
Insurance	3,484	4,136	7,295	9,361
Interest and penalties	4,747	7,622	4,747	7,622
Investor relations	3,600	17,100	7,200	39,200
Lease expense	44,053	-	87,361	-
Management and administration (Note 11)	55,000	11,200	98,500	23,200
Mine holding costs	165,260	-	402,572	-
Office and miscellaneous	4,489	758	9,418	2,344
Professional fees (Note 11)	134,391	93,856	164,292	114,784
Share based payments (Note 10(c))	56,466	184,049	120,585	306,449
Shareholder communications	39,942	8,659	42,692	8,659
Travel and promotion	11,168	-	15,403	-
Website maintenance	2,450	3,150	4,500	4,650
	1,145,540	407,466	1,626,165	663,809
<b>Other income</b>				
Interest income	1,977	-	2,179	-
Equity pick up from investment in FortyTwo Metals Inc. (Note 5)	-	(39,380)	-	(71,505)
<b>Net loss and comprehensive loss for the period</b>	(1,143,563)	(446,846)	(1,623,984)	(735,314)
<b>Basic and diluted loss per share</b>	(0.01)	(0.01)	(0.02)	(0.04)
<b>Weighted average number of common shares - Basic and diluted</b>	103,618,231	75,496,921	101,591,713	71,138,230

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

**MX GOLD CORP.**

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## Condensed Interim Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

[Unaudited – prepared by management]

	Six months ended June 30 2016	Six months ended June 30 2015
	\$	\$
<b>Cash flows from (used in)</b>		
<b>Operating activities</b>		
Loss for the period	(1,623,984)	(735,314)
Adjustments:		
Share of loss of equity investment in FortyTwo Metals Inc. (Note 4)	-	71,505
Share based payments (Note 10 (c))	120,585	306,449
Interest	(1,792)	
Amortization (Note 5)	4,173	346
	(1,501,018)	(357,014)
Changes in non-cash working capital:		
Due from related party	15,143	-
GST and METC receivables	(46,773)	60,967
Prepaid expenses	(9,392)	49,374
Accounts payable and accrued liabilities	201,020	236,804
Due to related parties	(39,853)	-
<b>Cash from (used in) operating activities</b>	(1,436,725)	(9,889)
<b>Investing activities</b>		
Purchase of equipment	(1,099,785)	-
Acquisition of FortyTwo Metals Inc. (Note 4)	-	(10,000)
Exploration and evaluation assets expenditures	(201,617)	(69,784)
	(1,301,402)	(79,784)
<b>Financing activities</b>		
Issuance of capital stocks and warrants	4,044,138	-
Draw down of credit facilities (Note 9)	616,434	-
<b>Cash used in investing activities</b>	4,660,572	-
<b>Decrease in cash and cash equivalents</b>	1,922,445	(89,653)
<b>Cash and cash equivalents, beginning of year</b>	1,256,669	125,820
<b>Cash and cash equivalents, end of period</b>	3,179,114	36,167

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# **MX GOLD CORP.**

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## **Consolidated Statement of Changes in Equity**

Expressed in Canadian Dollars

[Unaudited – prepared by management]

	<u>Share capital</u>		Contributed	Deficit	Total
	Number	Amount	Surplus		
		\$	\$	\$	\$
Balance, December 31, 2014	66,419,998	11,034,539	1,658,020	(6,812,957)	5,879,602
Shares issued for mineral properties (Note 6 & 10(b))	10,000,000	1,300,000	-	-	1,300,000
Share-based payments (Note 10(c))	-	-	306,449	-	306,449
Net loss and comprehensive loss	-	-	-	(735,314)	(735,314)
Balance, June 30, 2015	76,419,998	11,434,539	1,964,469	(7,548,271)	6,750,737
Shares issued pursuant to conversion of credit facilities					
- at a price of \$0.10 per unit (Note 9 & 10(b))	6,497,220	649,722	-	-	649,722
Equity portion of convertible loan issued (Note 9)			21,468	-	21,468
Shares issued pursuant to settlement of debt					-
- at a price of \$0.12 per share (Note 10(b))	1,062,500	127,500	-	-	127,500
Shares issued upon acquisition of FortyTwo Metal Inc., at \$0.15 per unit	3,000,000	450,000	-	-	450,000
- warrants issued as consideration (Note 4)	-	-	320,000	-	320,000
Flow-through units issued for cash					
- at a price of \$0.20 per flow-through unit (Note 10(b))	3,250,000	487,500	76,448	-	563,948
- cash commissions paid (Note 10(b))	-	(37,500)	-	-	(37,500)
- Warrant issued as finder's fee	-	(7,065)	7,065	-	-
Shares issued for cash pursuant to non-brokered private placement					
- at a price of \$0.15 per unit (Note 10(b))	8,145,000	1,221,750	-	-	1,221,750
- cash commissions paid (Note 10(b))	-	(137,045)	-	-	(137,045)
Share-based payments (Note 10(c))	-	-	217,472	-	217,472
Net loss and comprehensive loss	-	-	-	(2,471,228)	(2,471,228)
Balance, December 31, 2015	98,374,718	15,089,401	2,606,922	(10,019,499)	7,676,824

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**MX GOLD CORP.**

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## Consolidated Statement of Changes in Equity

Expressed in Canadian Dollars

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Balance, December 31, 2015	98,374,718	15,089,401	2,606,922	(10,019,499)	7,676,824
Shares issued pursuant to settlement of debt (Note 10(b))					
- at a price of \$0.15 per share (10(b))	1,666,667	250,000	-	-	250,000
Shares issued pursuant to conversion of credit facilities					
- at a price of \$0.10 per unit (Note 9 & 10(b))	6,164,340	616,434	-	-	616,434
Shares issued for cash pursuant to the exercise of stock options					
- at a price of \$0.15 per unit (Note 10(b))	500,000	89,143	(14,143)		75,000
Shares issued for cash pursuant to non-brokered private placement					
- at a price of \$0.12 per unit (Note 10(b))	33,333,333	4,000,000			4,000,000
- cash commissions paid (Note 10(b))		(30,862)			(30,862)
- Warrant issued as finder's fee					
Share-based payments (Note 10(c))	-	-	120,585	-	120,585
Net loss and comprehensive loss	-	-	-	(1,623,984)	(1,623,984)
Balance, June 30, 2016	140,039,058	20,014,116	2,713,364	(11,643,483)	11,083,997

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2016

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## **1. Nature Operations**

The Company was incorporated on October 13, 1999 under the laws of British Columbia under the name 593960 British Columbia Ltd. and was inactive during the fiscal years 1999 to 2007. Commencing in the fiscal year 2008, the Company was reactivated with the purpose of assessing exploration opportunities in western Canada. On February 28, 2008 the Company changed its name to MX Gold Corp. to better reflect a change in the focus of its principal business to the exploration of mineral interests.

The head office and principal address of the Company is located at 900 – 570 Granville Street, Vancouver, BC, V6C 3P1.

## **2. Basis of Preparation and Going Concern**

### **a) Statement of compliance**

The condensed interim financial statements have been prepared in accordance with International Financial Reporting Standard 34 – *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They do not include all of the information required for full annual financial statements.

These interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 29, 2016.

### **b) Going concern**

These interim consolidated financial statements have been prepared on a going concern basis which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at June 30, 2016, the Company had working capital of \$158,169 (December 31, 2015: (\$1,891,237)), and an accumulated deficit of \$11,643,483 (December 31, 2015: \$10,019,499). During the six months ended June 30, 2016 the Company incurred a net loss of \$1,623,984 (2015: \$735,314) and used net cash in operating activities of \$1,123,730 (2015 – \$24,536)

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts incurred for mineral properties and exploration costs is dependent upon the existence of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of its properties, and to attain future profitable production or to obtain proceeds from disposal of its properties.

Although management has taken steps to verify title to mineral properties in which the Company 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 noncompliant with regulatory requirements.

The ability of the Company to carry out its business objectives is dependent on its ability to secure continued financial support from related parties, to obtain public equity financing, or to ultimately attain profitable operations in the future. Whether and when the Company can attain profitability and positive cash flows is uncertain. While the Company has been successful in securing financing in the past, there is no assurance that financing will be available in the future on terms acceptable to the Company.



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## 2. Basis of Preparation and Going Concern (cont'd...)

### b) Going concern (cont'd...)

Accordingly, there is a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments to the carrying value and classification of assets and liabilities and related expense that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not appropriate, material adjustments to the financial statements could be required.

### c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in note 3(c).

### d) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars. The functional currency of the Company and its subsidiary is the Canadian dollar.

### e) Use of estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the reported amount of expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are considered to be relevant. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, and may change if new information becomes available. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3r.

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The Company did not adopt any new accounting standard changes or amendments effective January 1, 2015 that had a material impact on these consolidated financial statements.

### a) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiary.

June 30, 2016 and December 31, 2015				June 30, 2015	
Entity	Location	Ownership	Basis of accounting	Ownership	Basis of accounting
FortyTwo Metals Inc.	Canada	100%	Consolidated	35%	Equity method

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Notes to Condensed Interim Consolidated Financial Statements

June 30, 2016

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## **3. Significant Accounting Policies (cont'd...)**

### **a) Basis of consolidation (cont'd...)**

#### **(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company balances and transactions have been eliminated in preparing the consolidated financial statements.

#### **(ii) Investments in associates**

An associate is an entity over which the Company has significant influence but not control or joint control. Significant influence is presumed to exist where the company has between 20% and 50% of the voting rights, but can also arise where the Company has less than 20% if we have the power to be actively involved and influential in policy decisions affecting the entity. The Company's share of the net assets and net income or loss is accounted for in the consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate.

### **b) Foreign currency translation**

Transactions denominated in foreign currencies are translated to the functional currency of the Company and its subsidiary at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenues and expenses are translated at exchange rates prevailing on the date of transactions. All exchange gains and losses are included in determination of earnings.

### **c) Financial instruments**

#### **(i) Financial assets**

All financial assets are initially recorded at fair value and classified upon inception into one of the categories including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, or available for sale.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss.

Financial assets classified as loans and receivables are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss.

The Company classifies cash as FVTPL, due from related party and reclamation bonds as loans and receivables. Transactions costs associated with financial assets at FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

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Notes to Condensed Interim Consolidated Financial Statements

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## **3. Significant Accounting Policies (cont'd...)**

### **c) Financial instruments (cont'd...)**

#### **(ii) Financial liabilities**

All financial liabilities are initially recorded at fair value and classified upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

The Company's accounts payable and accrued liabilities, lease obligations, and credit facilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified in this category unless they are designated as hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss. The Company has no financial liabilities classified as FVTPL.

### **d) Cash and cash equivalents**

Cash equivalents include money market instruments that are readily convertible to cash and have maturities at the date of purchase of less than ninety days. There were no cash equivalents as at June 30, 2016 and December 31, 2015.

### **e) Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. The Company starts to depreciate property, plant and equipment when assets are ready and put into services. Depreciation of property, plant and equipment is calculated using the following method over their respective estimated useful life at the following annual rates:

Computer Equipment	30% declining balance
Mining property, plant and equipment	30% declining balance
Vehicle under finance lease	7 years straight-line

Depreciation methods and useful lives are reviewed at each reporting date and adjusted if appropriate. Property, plant and equipment are written down to the net recoverable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. Any gain or loss on disposal of an item of property and equipment is recognized in profit or loss.

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### **3. Significant Accounting Policies (cont'd...)**

#### **f) Exploration and evaluation assets**

Expenditures incurred before the Company has obtained legal rights to explore an area are recognized in the consolidated statement of operation as exploration expenses.

Exploration and evaluation assets reflect expenditures for an area where technical feasibility and commercial viability have not yet been determined. Expenditures, including, but are not limited to, land acquisition, geological and geophysical studies, exploratory drilling and sampling and directly attributable employee salaries and benefits are capitalized and accumulated pending determination of technical feasibility and commercial viability.

Exploration and evaluation assets are not depleted. When assets are determined to be technically feasible and commercially viable, the accumulated costs are tested for impairment and the recoverable amount is transferred to property, plant and equipment. Upon transfer of exploration and evaluation costs into property, plant and equipment, all subsequent expenditures on the construction, installation or completion of infrastructure facilities are capitalized within mine development. After production starts, all assets included in mine development costs are transferred to producing mines. At such time as commercial production commences, these expenditures will be charged to operations on a unit-of-production method based on proven and probable resources.

Exploration and evaluation assets are also assessed for impairment when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The aggregate costs related to abandoned exploration and evaluation assets are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

#### **g) Mining Exploration Tax Credit**

Mining exploration tax credits are recorded when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining exploration tax credits are earned with respect to qualified mining exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related exploration expenditures.

#### **h) Leases**

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and not recognized in the statement of financial position.

Minimum lease payments made under finance leases are apportioned between finance expenses and the reduction of the outstanding liability. Finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in the statement of operation on a straight-line basis over the term of the lease. Lease incentives received are recognized as a reduction to the lease expense over the term of the lease.

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June 30, 2016

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## **3. Significant Accounting Policies (cont'd...)**

### **i) Impairment**

#### **(i) Financial assets**

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date by determining whether there is objective evidence that indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset can be estimated reliably.

#### **(ii) Non-financial assets**

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated by reference to the higher of the value in use and fair value less costs to sell. Fair value less costs to sell is defined as the estimated price that would be received on the sale of the asset in an orderly transaction between market participants at the measurement date. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other groups of assets.

An impairment loss is recognized if the carrying amount of an asset or group of assets exceeds the estimated recoverable amount. Impairment losses are recognized in profit or loss.

When impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimated recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### **j) Decommissioning obligations**

Decommissioning liabilities arise from the legal obligation to abandon and reclaim property, plant and equipment incurred upon the acquisition, construction, development and use of the asset. The initial liability is measured at the discounted value of the estimated costs to reclaim and abandon using a risk free rate, subsequently adjusted for the accretion of discount and changes in expected costs. The decommissioning cost is capitalized in the relevant asset category. Costs capitalized to property, plant and equipment are depreciated into earnings based upon the unit-of-production method consistent with the underlying assets. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent the provision was established.

### **k) Provisions**

Provisions for legal or constructive obligations are recognized when the Company has a present legal or constructive obligation that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

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## **3. Significant Accounting Policies (cont'd...)**

### **l) Income taxes**

Income tax expense comprises current and deferred tax. Income tax is recognized in the statements of operations and comprehensive loss except to the extent it relates to items recognized directly in equity.

Deferred taxes are the taxes expected to be payable or recoverable on the difference between the carrying amounts of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

### **m) Flow-through shares**

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for tax purposes by the investors who purchased the shares. The Company adopted a policy whereby the premium paid for flow through shares in excess of the market value of the shares without the flow through features at the time of issue is credited to other liabilities and included in income at the time the qualifying expenditures are made.

A deferred tax liability is recognized in respect of the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax basis. A portion of the deferred tax assets that were not previously recognized are recognized as a recovery of deferred taxes in the statements of operations and comprehensive loss up to the amount of the deferred tax liability upon renunciation.

### **n) Share issue costs**

Professional, consulting, regulatory and other costs directly attributable to equity financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issue costs related to financing transactions that are not completed are charged to expenses.

### **o) Share Purchase Warrants**

The Company bifurcates units consisting of common shares and share purchase warrants using the residual value approach whereby it first measures the common share component of the unit at fair value using quoted market prices as input values and then allocates any residual amount to the warrant component of the unit. The residual value of the warrant component is credited to contributed surplus. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants. When warrants are exercised, the corresponding assigned value of the warrants is reclassified to share capital. Warrants that are issued as payment for agency fee or other transactions costs are counted for as share-based payments.

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## **3. Significant Accounting Policies (cont'd...)**

### **p) Share based payments**

The Company's Stock Option Plan allows directors, officers and consultants to acquire shares of the Company in exchange for the options exercised. The fair value of share options granted to employees is recognized as an expense over the vesting period using the graded vesting method with a corresponding increase in equity. 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.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest based on an estimate of forfeiture rate.

The compensation cost of stock options granted to consultant is initially measured at fair value of the awards at the grant date and periodically remeasured to fair value until the consultant's performance is complete, and recognized over the periods during which the consultant become unconditionally entitled to the options. The compensation cost is charged to income with a corresponding increase to contributed surplus.

### **q) Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury method. The treasury method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. Diluted loss per share is equal to the basic loss per share as the outstanding options and warrants are anti-dilutive.

### **r) Significant accounting estimates and judgments**

Significant assumptions about the future and key sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### Critical accounting judgments

##### **(i) Going concern**

Management has applied judgements in the assessment of the Company's ability to continue as a going concern when preparing its financial statements for the year ended December 31, 2015. Management prepares the consolidated financial statements on a going concern basis unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Please refer to note 2(b) for additional information.

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## **3. Significant Accounting Policies (cont'd...)**

### **r) Significant accounting estimates and judgments (cont'd...)**

#### **(ii) Exploration and evaluation expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditures capitalized requires judgment in determining which expenditures are recognized as exploration and evaluation assets and applying the policy consistently. In making this determination, the Company considers the degree to which the expenditure can be associated with finding specific mineral resources.

#### **(iii) Decommissioning obligations**

The provision for decommissioning obligations is based on numerous assumptions and judgements including the ultimate settlement amounts, inflation factors, risk free discount rates, timing of settlement and changes in the applicable legal and regulatory environments. To the extent future revisions to these assumptions impact the measurement of the existing decommissioning obligation, a corresponding adjustment is made to the property, plant and equipment balance.

#### **(iv) Asset Acquisition**

The assessment of whether an acquisition meets the definition of a business or whether assets are acquired is an area of key judgment. If deemed to be a business combination, applying the acquisition method to business combinations requires each identifiable assets and liability to be measured at its acquisition-date fair value. The excess, if any, of the fair value of consideration over the fair value of the net identifiable assets acquired is recognized as goodwill. If deemed to be an asset acquisition, acquisition considerations are allocated to assets acquired and liabilities assumed on a relative fair value basis and no goodwill is recognized.

### **Critical accounting estimates**

#### **(i) Impairment of long lived assets**

Determining the amount of impairment of long lived assets requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many of factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments in the Company' long term assets such as property, plant and equipment and exploration and evaluation assets.

#### **(ii) Depreciation**

Depreciation of property, plant and equipment begins when it is available for use, which is defined as occurring when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Significant assumptions are involved in the determination of useful life and residual values and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

#### **(iii) Current and deferred taxes**

Accounting for income taxes is a complex process requiring management to interpret frequently changing laws and regulations and make judgments relating to the application of tax law, the estimated timing of temporary difference reversals, and the estimated realization of tax assets. All tax filings are subject to subsequent government audits and potential reassessment. These



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### **3. Significant Accounting Policies (cont'd...)**

#### **r) Significant accounting estimates and judgments (cont'd...)**

interpretations, judgments and changes related to them impact current and deferred tax provisions, deferred income tax assets and liabilities and results of operations.

##### **(iv) Share-based payments**

The fair value of stock options issued are subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

#### **s) New accounting standards issued but not yet effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods noted below. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

##### *New accounting standards effective January 1, 2016*

##### **(i) IAS 1 – Presentation of Financial Statements**

In December 2014, the IASB issued an amendment to address perceived impediments to preparers exercising their judgment in presenting their financial reports. The changes clarify that materiality considerations apply to all parts of the financial statements and the aggregation and disaggregation of line items within the financial statements. The Company does not anticipate this amendment to have a significant impact on its consolidated financial statements.

##### *Standard effective for annual periods beginning on or after January 1, 2018*

##### **(ii) IFRS 9 Financial Instruments**

This is a finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39. The standard contains requirements in the following areas:

- **Classification and measurement** - Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. **Impairment** - The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.
- **Hedge accounting** - Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition** - The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 with early adoption permitted, and must be applied retrospectively with some exemptions permitted.

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### **3. Significant Accounting Policies (cont'd...)**

s) New accounting standards issued but not yet effective (cont'd...)

(iii) IFRS 16 Leases

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

### **4. Acquisitions - FortyTwo Metals Inc.**

On November 4, 2013, the Company entered into a binding letter agreement (the "November 4, 2013 Agreement") with Roca Mines Inc. ("Roca") and FortyTwo Metals Inc. ("FortyTwo"), a wholly-owned subsidiary of Roca, whereby Roca granted an exclusive option to the Company to acquire 100% of the issued and outstanding common shares of FortyTwo. During fiscal 2013 and 2014, the Company acquired 35% equity interests in FortyTwo pursuant to the November 4, 2013 Agreement for a total cash consideration of \$1,750,000. FortyTwo holds, among other assets, the Max Mine which includes an underground molybdenum mine, crushing, milling and concentrating facilities, tailing storage facilities, mineral claims, mining leases, licenses and other holdings located near Trout Lake in the Revelstoke Mining Division of the Province of British Columbia.

On October 5, 2015, the Company signed a Share Purchase Agreement with Roca, pursuant to which both parties agreed to terminate the November 4, 2013 Agreement and the Company acquired the remaining 65% of the outstanding common shares of FortyTwo in exchange for a cash consideration of \$200,000, 3,000,000 common shares of the Company at a price of \$0.15 per share, and 3,000,000 share purchase warrants for purchase of up to 3,000,000 additional common shares of the Company at a price of \$0.15 for a period of 5 years. The transaction was closed on October 5, 2015 upon which the Company obtained the control and owned 100% of FortyTwo. The acquisition of FortyTwo was considered as an asset acquisition. Accordingly, the Company recorded its share of equity income of \$1,058,947 (2014: equity loss of \$147,356) relating to its 35% interest in FortyTwo up to October 5, 2015 and an impairment loss of \$2,304,390 on its equity investment in FortyTwo in the consolidated statement of operations and comprehensive loss for the year ended December 31, 2015. Transaction costs associated with the acquisition totaling \$24,141 were capitalized to property, plant and equipment acquired.

The Company's 35% equity investment in FortyTwo is summarized as below:

Equity investment in FortyTwo	\$
Balance, December 31, 2013	800,000
Investment in shares, at costs	950,000
Cash advance	150,000
Share of equity loss for the year	(147,356)
Balance, December 31, 2014	1,752,644
Cash advance	14,999
Share of equity income for the year	1,058,947
Impairment loss on equity investment in FortyTwo	(2,304,390)
Balance, October 5, 2015	522,200

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**4. Acquisition - FortyTwo Metals Inc. (cont'd...)**

The following table sets out the acquisition date allocation of the purchase price to assets acquired and liabilities assumed, based on management's estimates of fair value:

<b>Total purchase price:</b>	<b>\$</b>
Cash paid for acquisition	199,800
Common shares issued for acquisition	450,000
Warrants issued for acquisition	320,000
35% equity interest in FortyTwo	522,200
<b>Total purchase price to allocate</b>	<b>1,492,000</b>
<b>Fair value of assets acquired and liabilities assumed:</b>	<b>\$</b>
Cash	168
Reclamation bonds	735,864
GST receivable	1,041
Prepaid expenses and deposits	2,395
Exploration and evaluation assets	1
Property, plant and equipment	4,299,027
Other current liabilities	(2,607,405)
Decommissioning obligations	(939,091)
<b>Net assets acquired</b>	<b>1,492,000</b>

**5. Property, plant and equipment**

Cost	Computer equipment	Property, plant and equipment	Vehicles	Total
	\$	\$	\$	\$
December 31, 2014 and June 30, 2015	4,480	661,077	-	665,557
Additions		476,855	55,026	531,881
Changes to decommissioning obligations	-	492,330		492,330
Acquisition of Fortytwo (Note 4)	-	4,299,027	-	4,299,027
Dispositions	-	(65,000)	-	(65,000)
December 31, 2015	4,480	5,864,289	55,026	5,923,795
Additions	-	1,091,438	-	1,091,438
June 30, 2016	4,480	6,955,727	55,026	7,015,233
<b>Accumulated amortization</b>	<b>Computer equipment</b>	<b>Property, plant and equipment</b>	<b>Vehicles</b>	<b>Total</b>
	\$	\$	\$	\$
December 31, 2014	2,173	-	-	2,173
Additions	346	-	-	346
June 30, 2015	2,519	-	-	2,519
Additions	346	-	1,266	1,612
December 31, 2015	2,865	-	1,266	4,131
Additions	242	-	3,931	4,173
June 30, 2016	3,107	-	5,197	8,304

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**5. Property, plant and equipment (cont'd...)**

Write Down	Computer equipment	Property, plant and equipment	Vehicles	Total
	\$	\$	\$	\$
December 31, 2014 and June 30, 2015	-	95,505	-	95,505
Additions	-	-	-	-
December 31, 2015 and June 30, 2016	-	95,505	-	95,505

  

Carrying amount	Computer equipment	Property, plant and equipment	Vehicles	Total
	\$	\$	\$	\$
December 31, 2014	2,307	565,572 *	-	567,879
June 30, 2015	2,961	565,572 *	-	568,533
December 31, 2015	1,615	5,768,784 *	53,760	5,824,159
June 30, 2016	1,373	6,955,727 *	49,829	7,006,929

\* Mining equipment was not available for use as at June 30, 2016, December 31, 2015 and 2014 and no amortization has been provided.

**6. Exploration and Evaluation Assets**

Willa Property	June 30 2016	December 31 2015
	\$	\$
Acquisition costs	3,082,967	3,082,757
Exploration costs	1,243,737	1,091,075
Net Smelter Royalty advance payments	620,000	548,000
<b>Total exploration &amp; evaluation assets</b>	<b>4,946,704</b>	<b>4,721,832</b>

## a) Rabbitt Mine Property, Similkameen Mining Division, British Columbia

Pursuant to an option agreement signed in 2008, the Company acquired 100% undivided interest in certain mineral claims situated in the Similkameen Mining Division, British Columbia. The agreement is subject to 2% Net Smelter Return Royalty payable by the Company to the Optionor. The Company has the option to purchase the 2% Net Smelter Return Royalty at a purchase price of \$1,000,000 per percentage point during the five year period commencing from that date upon which the Property is put into commercial production. Due to the focus of the Company on other mineral properties, during the fiscal year ended December 31, 2015 management decided to abandon the Rabbitt Mine Property. Accordingly, the aggregate exploration and evaluation assets related to the abandoned Rabbitt Mine Property in the amount of \$452,869 were written off and charged to operations.

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**6. Exploration and evaluation assets (cont'd...)**

## a) Rabbitt Mine Property, Similkameen Mining Division, British Columbia (cont'd...)

	<b>June 30 2016</b>	<b>December 31 2015</b>
<b>Acquisition costs</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	-	198,042
Write off on abandonment	-	(198,042)
Balance, end of year	-	-
<b>Exploration costs</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	-	254,827
Write off on abandonment	-	(254,827)
Balance, end of year	-	-
<b>Total, Rabbitt Mine Property</b>	<b>-</b>	<b>-</b>

## b) Max Mine Property, British Columbia

The Company's subsidiary FortyTwo holds title in certain properties known as the Max Mine Property ("MAX"), located in the Revelstoke Mining Division, B.C., and it is subject to a 2.5% Net Smelter Return ("NSR"). The Company may purchase, at any time, up to 60% of the NSR by paying \$1,000,000 for each 30% (\$2,000,000 for the full 60% of the 2.5% NSR).

FortyTwo has a 100% interest in certain crown grants, mining leases and mineral claims contiguous to the core MAX mineral claims. The Company granted a 2.5% NSR on the contiguous property, which can be reduced to 1% upon payment of \$2,000,000 at any time prior to commencement of commercial production. The Company must also issue 200,000 shares if it commences commercial production from any part of the contiguous property.

The carrying value of the Max Mine Property was written off to \$1 before the Company acquired FortyTwo on October 5, 2015 and there are no expenditures incurred on this mineral property since the acquisition date. The Company currently has no intension or plan to develop the Max Mine Property.

## c) Willa Deposit, British Columbia

Pursuant to an option agreement dated November 16, 2012 (as amended September 24, 2013, January 13, 2014 and further amended on February 27, 2014), an Assignment, Assumption and Framework Agreement dated April 15, 2014 (as amended June 16, 2014, September 28, 2014, November 26, 2014), a Release Agreement dated September 4, 2015, and an Amendment to the Assignment, Assumption and Framework Agreement dated September 14, 2015, the Company acquired a 100% interest in the Willa property, consisting of 5,662 hectares located in the Slocan Mining Division, British Columbia, subject to a 2.5% Net Smelter Royalty ("NSR").

In consideration for certain modifications to the option agreement, the Company has paid an additional \$200,000 (paid August 1, 2014) to the Optionors. The Company has also paid an additional \$20,000 (paid July 3, 2014) to the Optionors to extend the date of payment of the signing bonus.

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### **6. Exploration and evaluation assets (cont'd...)**

#### **c) Willa Deposit, British Columbia (cont'd...)**

As at June 30, 2016 the Company has made cash payments consisting of \$550,000 and has issued 14,600,000 common shares of the Company as follows:

##### **(i) Issue of shares and cash payments:**

- (a)** \$50,000 upon execution of the Option Agreement (paid);
- (b)** \$150,000 and 1,000,000 common shares in the capital of the Company on or before five days from the date of the TSX Venture Exchange ("TSXV") approval (the "Approval Date" being February 19, 2013) (paid and shares were issued on February 19, 2013);
- (c)** \$100,000 (paid) on January 15, 2014 and \$250,000 (paid July 28, 2014) and 4,000,000 common shares in the capital of the Company on August 19, 2014 (issued on March 25, 2015);
- (d)** 3,600,000 common shares in the capital of the Company upon TSXV acceptance for filing of an amended agreement dated February 27, 2014; (Issued on May 9, 2014);
- (e)** and 6,000,000 common shares in the capital of the Company on or before April 12, 2015; (issued April 15, 2015).

Pursuant to an Amendment to the Assignment, Assumption and Framework Agreement dated September 14, 2015 the Optionors granted to the Company the exclusive option to acquire an

undivided 100% interest in and to the Property, subject to a 2.5% NSR, exercisable by paying the aggregate sum of \$130,000 (paid \$97,500 on September 15, 2015 and \$32,500 on October 1, 2015).

If Commercial Production has not commenced by September 15, 2015 and subsequent years, the aggregate annual sum of an additional \$144,000 (the "Advanced Royalty Payment") will be paid in each respective anniversary year in monthly installments of \$12,000 with the first payment due by September 15, 2015 (paid). If upon exercise of the option either Commercial Production has not commenced before September 15, 2020 or if the Optionors have provided written notice of a default of the Advanced Royalty Payment and it has not been cured within three months of receiving such notice, the 100% interest in and to the Property will be transferred by the Company back to the Optionors. The Company has further agreed that in the event of termination, the Company will ensure that it has applied for a minimum of three years' assessment work on the Willa Property

As at June 30, 2016 the Company had made total payments of \$490,000 (December 31, 2015 - \$418,000) as prepayment of the NSR (as defined in the Option Agreement). The Optionors have agreed that the \$490,000 and the \$130,000 to exercise the Option are Advanced Royalty Payments. All payments will be credited against the NSR due to the Optionors after the commencement of Commercial Production.

The Company has further agreed that in the event of termination of the Option Agreement, the Company will ensure that it has applied for a minimum of three years' assessment work on the Willa Property.

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**6. Exploration and evaluation assets (cont'd...)**

## c) Willa Deposit, British Columbia (cont'd...)

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Acquisition costs</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	3,082,757	1,778,957
Additions during the year		
Property option payments – for cash	-	150,000
– for shares	-	558,000
Acquisition costs	210	3,800
	210	1,303,800
Balance, end of period	3,082,967	3,082,757
<b>Exploration costs</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	1,091,075	635,605
Additions during the year	152,662	258,187
Mining tax credit	-	197,283
Balance, end of period	1,243,737	1,091,075
<b>Net Smelter Royalty advance payment</b>	<b>\$</b>	<b>\$</b>
Balance, beginning of year	548,000	350,000
Additions during the year	72,000	198,000
Balance, end of period	620,000	548,000
<b>Total, Willa Deposit</b>	<b>4,946,704</b>	<b>4,721,832</b>

**7. Reclamation Bonds**

As at June 30, 2016, reclamation bonds totalling \$740,000 were held with the British Columbia Ministry of Energy and Mines. As at June 30, 2016 the Company had recorded accrued interest receivable thereon in the amount of \$3,382 (December 31, 2015 - \$1,590).

**8. Decommissioning Obligations**

The Company's decommissioning obligations related to future site restoration and abandonment costs of the MAX Mine and Mill. The expected timing of the cash flows in respect of the provision is based on the estimated life of the mining operations.

As at June 30, 2016 and December 31, 2015, the Company estimated the total undiscounted cash flows required to settle its decommissioning obligations was approximately \$1,339,668. As at June 30, 2016 and December 31, 2015 decommissioning liabilities of \$1,431,421 have been calculated using an inflation rate of 2% per annum and discounted using a risk free rate of 1%.

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### **9. Credit Facilities**

On June 10, 2015 (as amended July 8, 2015) the Company entered into a definitive amended loan agreement with a Company controlled by the Chief Executive Officer (the “Lender”), whereby the Lender has agreed to provide two secured credit facilities to the Company: a \$2 million convertible credit facility (the “Convertible Credit Facility”) and a \$5 million credit facility (the “Credit Facility”), together with the Convertible Credit Facility, the “Credit Facilities”.

Any funds drawn down on the Convertible Credit Facility will be convertible at the option of the Company or the Lender into units (each, a “Unit”) of the Company at a price of \$0.10 per Unit. Each Unit will consist of one common share of the Company and one warrant, with each warrant entitling the Lender to purchase an additional common share at a price of \$0.15 per share for a period of three years. Any conversion that would result in the Lender owning more than 20% of the issued and outstanding shares of the Company would be subject to the Company obtaining shareholder approval of the Credit Facilities. The Convertible Credit Facility matures and is payable in cash on the date which is the earlier of: (a) two years from each draw down date; or (b) an event of default. The Credit Facility shall mature and shall be payable in cash on the date which is the earlier of (a) three years from each draw down date; or (b) an event of default. The Credit Facilities bear interest at a rate of 6% per annum. The Credit Facilities may be repaid by the Company at any time. The proceeds from the Credit Facilities will be used to fund the advancement of its mining properties and generate working capital. 6,000,000 share of the Company and all shares in the capital of its wholly-owned subsidiary FortyTwo Metals Inc. has been pledged to the Lender. During the six months ended June 30, 2016 the Company converted \$616,340 (December 31, 2015: \$649,722) from the convertible credit facilities, for an aggregate amount of \$1,266,155 (Note 10(b)).

### **10. Share Capital**

Authorized: Unlimited number of common shares with no par value.

#### **a) Issued and outstanding:**

As at June 30, 2016 the total issued and outstanding share capital is 140,039,058 common shares (December 31, 2015 – 98,374,718).

#### **b) Transactions**

*Transactions incurred during the six months ended June 30, 2016*

- (i) The Company settled all debt owing to Genex Mining Company Ltd. for a cash payment of \$450,000 and the issue on January 27, 2016 of 1,666,667 of the Company's common shares at \$0.15 per share for \$250,000.
- (ii) On June 17, 2016 the Company issued 500,000 shares pursuant to the exercise of incentive stock options at a price of \$0.15 per share for net proceeds in the amount of \$75,000.
- (iii) On June 22, 2016, the Company completed a private placement of 33,333,333 Units at a price of \$0.12 per Unit for gross proceeds of \$4,000,000. Each unit consists of one common share and one share purchase warrant, entitling the holder to purchase one additional common share on or before June 22, 2020 at a price of \$0.20 per share, subject to an acceleration provision whereby, in the event that the Company's common shares trade above \$0.50 on the TSX Venture Exchange for a period of fifteen consecutive trading days, the warrants will terminate on the date that is 30 days following receipt of a call notice in the event the holder has not exercised the warrants by such date. The Company paid a finder's fee of \$30,086.



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### **10. Share Capital (cont'd...)**

#### **b) Transactions**

*Transactions incurred during the six months ended June 30, 2016 (cont'd...)*

- (iv) On June 28, 2016 the Company issued 6,164,340 Units at \$0.10 per Unit pursuant to the conversion of amount drawn down on the Credit Facilities. Each Unit is comprised of one common share and one share purchase warrant (Note 9).

*Transactions incurred during the fiscal year ended December 31, 2015.*

- (v) On March 25, 2015 the Company issued 4,000,000 common shares at \$0.10 per share pursuant to the acquisition of mineral properties (See Willa Deposit, Note 6).
- (vi) On April 15, 2015 the Company issued 6,000,000 common shares at \$0.15 per share pursuant to the acquisition of mineral properties (See Willa Deposit, Note 6).
- (vii) On July 21, 2015 the Company issued 1,170,000 Units at \$0.10 per Unit pursuant to the conversion of amount drawn down on the Credit Facilities. Each Unit is comprised of one common share and one share purchase warrant. (Note 9).
- (viii) On August 27, 2015 the Company issued 1,227,220 Units at \$0.10 per Unit pursuant to the conversion of amount drawn down on the Credit Facilities. Each Unit is comprised of one common share and one share purchase warrant. (Note 9).
- (ix) On September 16, 2015 Company issued 1,062,500 common shares at \$0.12 per share pursuant to the settlement of debt.
- (x) On October 5, 2015 the Company issued 3,000,000 Units at \$0.15 per Unit pursuant to acquisition of the remaining 65% shares of FortyTwo Metals Inc. Each Unit is comprised of one common share and one share purchase warrant (Note 4).
- (xi) On October 7, 2015 the Company issued 4,100,000 Units at \$0.10 per Unit pursuant to the conversion of amount drawn down on the Credit Facilities. Each Unit is comprised of one common share and one share purchase warrant (Note 9).
- (xii) On December 11, 2015, the Company completed a private placement of 8,145,000 Units at a price of \$0.15 per Unit for gross proceeds of \$1,221,750. Each Unit consists of one common share and one share purchase warrant. The Company paid a finder's fee of \$137,045.
- (xiii) On December 23, 2015, the Company completed a private placement of 3,250,000 Units at a price of \$0.20 per Unit for gross proceeds of \$650,000. Each Unit consists of one flow through common share and one half share purchase warrant. \$487,500 was allocated to share capital based on the trading market price of the Company's share on the issuance date. \$76,488 was allocated to contributed surplus based on the estimated fair value of the warrants issued and the remaining \$86,052 was recorded as flow-through share premium (Note 12). The Company paid a commission of \$30,000, disbursements of \$7,500, and issuance of an additional 150,000 warrants at a fair value of \$7,065. Each warrant entitles the holder to purchase one additional common share on or before December 11, 2020 at a price of \$0.20 per share. Each full warrant entitles the holder to purchase one additional non flow through common share on or before December 23, 2017 at a price of \$0.30 per share.

The units issued under iii, iv, vi, vii, viii above were issued at a price lower than the market trading price on their respective issuance date. Accordingly, \$nil was allocated to contributed surplus as fair value for the warrants under the residual value method.

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## c) Stock Options

The Company has a stock option plan whereby it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option granted under the Plan is determined at the discretion of the Board. Options granted under the Plan generally expire no later than the fifth anniversary of the date the options were granted and vesting provisions for issued options are determined at the discretion of the Board although the Company has a practice of having options vest every three months in four equal installments.

A summary of stock option activities for the years is as follows:

	Number of options	Weighted- average exercise price \$
Balance, December 31, 2014 and June 30, 2015	6,081,999	0.245
Options cancelled - consultant	(400,000)	0.25
Options cancelled – directors and officers	(1,440,000)	0.25
Options expired	(250,000)	0.135
Options granted and exercisable on or before January 15, 2020	2,000,000	0.18
Options granted and exercisable on or before October 7, 2020	500,000	0.15
Options granted and exercisable on or before November 2, 2020	500,000	0.15
Options granted and exercisable on or before December 17, 2020	300,000	0.15
Balance, December 31, 2015	7,291,999	0.17
Options granted and exercisable on or before January 6, 2018	300,000	0.15
Options cancelled	(500,000)	(0.18)
Options granted and exercisable on or before June 2, 2021	500,000	0.15
Options exercised	(500,000)	0.15
Balance, June 30, 2016	7,091,999	0.16

As at June 30, 2016, the Company has the following options outstanding and exercisable:

Number of Options	Exercisable Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Expiry Date
100,000	100,000	\$ 0.25	0.14	August 20, 2016
300,000	300,000	0.15	1.52	January 6, 2018
500,000	500,000	0.25	2.11	August 8, 2018
3,366,999	3,366,999	0.15	3.14	August 20, 2019
1,500,000	1,500,000	0.15	3.55	January 15, 2020
500,000	375,000	0.15	4.27	October 7, 2020
300,000	150,000	0.15	4.47	December 17, 2020
500,000	500,000	0.15	4.93	June 2, 2021
7,091,999	6,941,999	\$ 0.16	3.30	

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**10. Share Capital (cont'd...)**

## c) Stock Options (cont'd)

The weighted average fair value of options granted during the six months ended June 30, 2016 was \$0.07 per option (fiscal year ended December 31, 2015 – \$0.07 per option) as estimated on the date of each grant using the Black-Scholes option pricing model. The following weighted average assumptions used in the Black-Scholes model to determine the fair value of the share options granted were as follows

	2016	2015
Risk-free interest rate	0.41% to 0.62%	0.29% to 1.07%
Dividend yield	-	-
Volatility	85% to 92%	81% to 104%
Expected life	2 to 5 years	0.6 to 5.0 years

During the fiscal year ended December 31, 2015, the Company received shareholders' approval to re-price 3,366,999 options with a per share exercise price of \$0.25 to \$0.15 per share. As a result, the Company recorded \$62,113 incremental expenses. For the six months ended June 30, 2016 the Company recorded total share based compensation expense of \$120,585 (2015: \$306,448) in the consolidated statement of operations and comprehensive loss. 2,000,000 options expiring on or before January 15, 2020 were re-priced from \$0.18 to \$0.15 and 500,000 of such options were cancelled.

## d) Warrants

	Number of Warrants Exercisable	Weighted Average Exercise Price	Years to expiry	Expiry Date
Balance, December 31, 2014 and June 30, 2015	<u>27,313,320</u>	<u>\$ 0.33</u>		
Warrants expired	(4,779,000)	\$ 0.40	-	November 15, 2015
Warrants expired	(286,740)	\$ 0.40	-	November 15, 2015
Warrants issued	1,625,000	\$ 0.30	1.73	December 23, 2017
Warrants issued as finder's fee	150,000	\$ 0.30	1.73	December 23, 2017
Warrants issued	1,170,000	\$ 0.15	2.31	July 21, 2018
Warrants issued	1,227,220	\$ 0.15	2.41	August 27, 2018
Warrants issued	4,100,000	\$ 0.15	2.52	October 7, 2018
Warrants issued	3,000,000	\$ 0.15	4.52	October 5, 2020
Warrants issued	<u>8,145,000</u>	<u>\$ 0.20</u>	<u>4.70</u>	December 11, 2020
Balance, December 31, 2015	<u>41,664,800</u>	<u>\$ 0.26</u>	<u>2.71</u>	
Warrants issued	6,164,340	\$0.15	2.99	June 28, 2019
Warrants issued	<u>4,000,000</u>	<u>\$0.20</u>	<u>3.98</u>	June 22, 2020
Balance, June 30, 2016	<u>51,829,140</u>	<u>\$ 0.25</u>	<u>2.44</u>	

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**10. Share Capital (cont'd...)**

## d) Warrants (cont'd)

	<b>Number of Warrants Exercisable</b>	<b>Weighted Average Exercise Price</b>	<b>Years to expiry</b>	<b>Expiry Date</b>
Warrants issued	2,912,125	\$ 0.30	0.76	April 2., 2017
Agent's warrants issued	361,455	\$ 0.30	0.76	April 2, 2017
Warrants issued	3,985,667	\$ 0.30	1.01	July 2, 2017
Agent's warrants issued	213,500	\$ 0.30	1.01	July 2, 2017
Warrants issued	4,192,833	\$ 0.30	1.06	July 21, 2017
Agent's warrants issued	203,400	\$ 0.30	1.06	July 21, 2017
Warrants issued	9,568,000	\$ 0.45	1.42	November 30, 2017
Agent's warrants issued	203,400	\$ 0.45	1.44	December 7, 2017
Warrants issued	1,625,000	\$ 0.30	1.48	December 23, 2017
Warrants issued as finder's fee	150,000	\$ 0.30	1.48	December 23, 2017
Warrants issued	1,170,000	\$ 0.15	2.06	July 21, 2018
Warrants issued	1,227,220	\$ 0.15	2.16	August 27, 2018
Warrants issued	4,100,000	\$ 0.15	2.27	October 7, 2018
Warrants issued	6,164,000	\$ 0.15	3.00	June 28, 2019
Warrants issued	4,000,000	\$ 0.20	3.98	June 22, 2020
Warrants issued	3,000,000	\$ 0.15	4.27	October 5, 2020
Warrants issued	<u>8,145,000</u>	<u>\$ 0.20</u>	<u>4.45</u>	December 11, 2020
Balance, June 30, 2016	<u>51,829,140</u>	<u>\$ 0.25</u>	<u>2.44</u>	

**11. Related party transactions**

During the six months ended June 30, 2016 the Company entered into the following transactions with related parties:

- Paid or accrued management fees of \$38,500 (2015 - \$23,200) to a director and officer and \$60,000 (2015 - \$Nil) to the Company's Chief Executive Officer.
- Included in professional fees is \$35,000 (2015 - \$24,000) paid to an officer and director for accounting services.
- Included in due from related party as at June 30, 2016 is \$Nil (December 31, 2015 - \$15,143) of funds paid in advance to an officer and director for credit card and out of pocket expenses.
- Included in amounts due to related parties as at June 30, 2016 is \$380,081 (December 31, 2015 - \$419,934) due to the Company's officers, directors and/or entities controlled by officers or directors for management fees, professional fees and/or expenses incurred on behalf of the Company. During the six months ended June 30, 2016, Trappers Transport Ltd, which is controlled by the Company's CEO charged a total amount of \$350,950 (2015 - \$Nil) to the Company for goods and services provided.

These transactions are in the normal course of operations and have been valued in these consolidated financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Please also see Note 9 for credit facilities provided by related parties.

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**12. Liabilities and income tax effect on flow-through shares**

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances that have not been spent.

On December 23, 2015, the Company completed a private placement of 3,250,000 Units at a price of \$0.20 per Unit for gross proceeds of \$650,000. Each Unit consists of one flow through common share and one half share purchase warrant (see Note 10 (b.ix)). The Company recognized a liability on flow-through shares of \$86,052 as at December 31, 2015.

At December 31, 2015, the Company incurred \$Nil of qualified expenditures. At June 30, 2016, the amount of flow-through proceeds remains to be expended is \$650,000 (December 31, 2015 - \$650,000). The total proceeds of \$650,000 has been renounced effective December 31, 2015.

**13. Lease Obligations**

The Company lease certain assets under finance lease arrangements. The finance lease have imputed interest rates ranging from 0.4284% to 0.4626% per annum and expire between October 2020 and November 2020. Finance lease liabilities are payable as follows:

<b>At June 30, 2016</b>	<b>Future minimum lease payments</b>	<b>Interest</b>	<b>Present value of minimum lease payment</b>
	\$	\$	\$
Less than one year	83,139	15,439	67,700
Between one and five years	276,231	23,623	252,608
Current			67,700
Non-current			252,608
			\$ 320,308

**14. Financial Instruments**

The Company classifies its fair value measurements in accordance with the three level fair value hierarchies as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments include cash and cash equivalents, due from related party, reclamation bonds, accounts payable and accrued liabilities, lease obligations and due to related parties. The carrying amounts of cash and cash equivalents, due from related party, reclamation bonds, and accounts payable and accrued liabilities, and due to related parties approximate their fair values because of the short term nature of these instruments. The carrying amount of lease obligations approximate its fair value as the interest rates applied to the lease is not considered to be materially different from market rates.

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**14. Financial Instruments (cont'd...)**

The following table summarizes the carrying values of the Company's financial instruments:

	June 30, 2016	December 2015
	\$	\$
Financial assets at fair value through profit or loss (i)	3,179,114	1,256,669
Loans and receivables (ii)	743,382	756,733
Other financial liabilities (iii)	3,440,133	3,561,563

- (i) Cash and cash equivalents
- (ii) Due from related party and reclamation bonds
- (iii) accounts payable and accrued liabilities, credit facilities, lease obligations, and due to related parties

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

<i>Cash</i>	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
As at June 30, 2016	3,179,114	-	-	3,179,114
As at December 31, 2015	1,256,669	-	-	1,256,669

**15. Financial risk management objectives and policies**

The risks associated with financial instruments and the policies on how to mitigate these risks are set out below. Management monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**a) Credit risk**

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents and reclamation bonds are subject to credit risk for a maximum of the amounts shown on the statements of financial position. The Company limits its exposure to credit risk on cash and cash equivalents and reclamation bonds by depositing only with reputable financial institutions.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company maintaining sufficient cash on hand through debt or equity financing.

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**15. Financial risk management objectives and policies (cont'd...)**

Significant commitments in years subsequent to June 30, 2016 are as follows:

	Carrying value	Contractual Cash flows	Within 1 year	1 - 5 Years
	\$	\$	\$	\$
Lease obligations	320,308	359,370	83,139	276,231
Accounts payable and accrued liabilities	3,526,185	33,526,185	3,526,185	-

**c) Interest rate risk**

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. The Company's credit facilities bear a fixed interest rate; therefore, is not exposed to significant interest risk.

**16. Capital Management**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its resource properties and to maintain flexible capital structure which optimizes the cost of capital within a framework of acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in the economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. To meet these objectives, the Company monitors its financial position on an ongoing basis.

The Company is dependent on the capital markets and debt as its source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. There were no changes in the Company's approach to capital management during the year.

**17. Commitments**

The Company's contractual obligations, not recorded on the balance sheet, at June 30, 2016, include:

	2016	2017	2018	2019 and later
	\$	\$	\$	\$
Operating leases	25,624	25,624	21,919	20,708
Management fees	120,000	120,000	70,000	-
	145,624	145,624	91,919	20,708

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### **18. Supplemental Disclosure With Respect To Cash Flows**

The significant non-cash transactions during the six months ended June 30, 2016 were as follows:

- a) Issued 1,666,667 common shares to settle \$250,000 of debt (Note 10(b)).
- a) Unpaid exploration and evaluation assets of \$130,812.

The significant non-cash transactions during the fiscal year ended December 31, 2015 were as follows:

- b) Issued for acquisition of 65% of shares of subsidiary, FortyTwo Metals Inc. (Note 4).
  - 3,000,000 common shares at a fair value of \$450,000.
  - 3,000,000 share purchase warrants at a fair value of \$320,000.
- c) 10,000,000 common shares for acquisition of Willa mineral property at a fair value of \$1,300,000
- d) 150,000 share purchase warrants issued as a finder's fee
- e) Unpaid exploration and evaluation assets of \$107,557
- f) The Company acquired property, plant and equipment for total amount of \$409,030 through finance lease.

### **19. Legal Actions**

In 2007, Gladiator Equipment Inc. ("Gladiator") took legal action against the Company, seeking rental and repair payments for a generator that was used on the Company's property for total amount of \$34,272. The Company defended by making a statement that all required payments had been made and no liability was owing to Gladiator. The last legal step taken was an affidavit sworn in response to interrogatories delivered by Gladiator on May 20, 2009. No meaningful steps have been taken by both parties since then, leaving the litigation dormant. The Company believe the claim has no merit and no provision was recorded at December 31, 2015.

Finning International Inc. ("Finning") was claiming damages of \$77,576 and accrued interest calculated in accordance with the agreed interest rate of 1.5% per month against the Company for failing to pay its parts and services account when due and owing. Judgment was granted in Finning's favour on March 1, 2013. The judgment amount of \$77,567, plus pre-judgment interest in the amount of \$16,933 and costs as Scale B were registered on title of the Company's properties on June 7, 2013. As at December 31, 2015, the judgment amount of \$77,567 and interest in amount of \$20,569 has not been paid and has been recorded as accounts payable.

A Notice of Claim dated December 11, 2012 was filed by United Rentals of Canada Inc. ("United Rentals") against the Company and numerous other defendants in the Nelson Registry of the BC Supreme Court whereby United Rentals seeks \$26,841 for equipment rentals and other relief. Judgment was granted in United Rental's favour on June 1, 2015. The judgment amount of \$26,841, plus pre-judgment interest in the amount of 24% per year from October 15, 2011 to the date of judgement and costs in the amount of \$3,526 were registered on title of the Company's properties on June 11, 2015. As at December 31, 2015, the judgment amount of \$26,841 and interest in amount of \$22,494 has not been paid and has been recorded as accounts payable.



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### **20. Subsequent events**

Pursuant to a purchase agreement dated July 7, 2016 the Company paid \$50,000 and issued 1,500,00 common shares (on the Closing date) to acquire a 100% interest in two mineral claims located adjacent to the Company's Willa Property. The Company is further committed to issue 1,500,000 common shares 4 months following the Closing date and a further 1,500,000 on or before the date which is 8 months following the Closing Date.

On August 12, 2016 the Company closed a private placement consisting of 5,200,00 units at \$0.25 per unit for proceeds in the amount of \$1,300,000. Each unit consists of one common share and one share purchase warrant entitling the holder to acquire one common share at a price of \$0.75 for a period of three years. The Company paid cash finder's fees of \$7,650 and issued 30,600 finder's warrants which have the same terms as warrants issued in the financing. All securities issued in connection with the financing are subject to a statutory hold period expiring on December 13, 2016.

Subsequent to June 30, 2016 the Company:

- Issued 1,500,000 common shares pursuant to the acquisition of mineral claims, as above.
- Issued 5,200,000 Units pursuant to a private placement at a price of \$0.25 per share for proceeds in the amount of \$1,300,000, as above.
- Issued 650,000 common shares pursuant to the exercise of stock options at a price of \$0.15 per share for proceeds in the amount of \$97,500.
- issued 100,000 common shares pursuant to the exercise of stock options at a price of \$0.25 per share for proceeds in the amount of \$25,000
- issued 1,803,083 common shares pursuant to the exercise of warrants at a price of \$0.30 per share for proceeds in the amount of \$540,925.