



FINANCIAL STATEMENTS

Years Ended February 28, 2017 and February 29, 2016



June 14, 2017

Independent Auditor's Report

To the Shareholders of Sphinx Resources Ltd.

We have audited the accompanying financial statements of Sphinx Resources Ltd., which comprise the statements of financial position as at February 28, 2017 and February 29, 2016 and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also 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 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Sphinx Resources Ltd. as at February 28, 2017 and February 29, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

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

PricewaterhouseCoopers LLP¹

¹ CPA Auditor, CA, public accountancy permit no 123642

SPHINX RESOURCES LTD.**Statements of Financial Position**

As at February 28, 2017 and February 29, 2016

(In Canadian Dollars)

	Notes	February 28, 2017	February 29, 2016
		\$	\$
ASSETS			
Current assets			
Cash	5	1,754,951	199,890
Sales tax and others receivables		41,188	19,340
Tax credits receivable	6	40,111	1,010,906
Prepaid expenses		22,514	23,678
Total current assets		1,858,764	1,253,814
Non-current assets			
Non-current portion of tax credits receivable	6	28,675	11,996
Total non-current assets		28,675	11,996
TOTAL ASSETS		1,887,439	1,265,810
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables		147,099	445,401
Loan payable	8	-	168,664
Current portion of sublease reserve	9	66,520	78,890
Current portion of convertible debentures		-	328,377
Total current liabilities		213,619	1,021,332
Non-current liabilities			
Sublease reserve	9	-	24,630
Convertible debentures	10	113,897	-
Total non-current liabilities		113,897	24,630
Total liabilities		327,516	1,045,962
Equity			
Capital stock	11	59,784,982	58,261,425
Equity component of convertible debentures	10	38,542	62,949
Warrants		1,871,943	1,232,937
Contributed surplus		10,115,840	9,904,454
Deficit		(70,251,384)	(69,241,917)
Total equity		1,559,923	219,848
TOTAL LIABILITIES AND EQUITY		1,887,439	1,265,810

Going concern

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The accompanying notes are an integral part of the financial statements.

Approved by the Board of Directors*(S) Normand Champigny, Director**(S) John W.W. Hick, Director*

SPHINX RESOURCES LTD.

Statements of Loss and Comprehensive Loss

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

		Year ended	
	Notes	February 28, 2017	February 29, 2016
		\$	\$
Expenses			
Exploration and evaluation expenditures	7	381,600	466,023
General and administrative	13	665,533	476,194
Operating loss		(1,047,133)	(942,217)
Other expenses (income)			
Interest income		(302)	(14,366)
Finance costs	14	180,082	57,027
Loss before income taxes		(1,226,913)	(984,878)
Current tax recovery	4	540,661	126,173
Flow-through share premium		-	175,313
Loss and comprehensive loss		(686,252)	(683,392)
Weighted average number of common shares outstanding - basic and diluted		51,893,704	43,021,340
Basic and diluted loss per common share		(0.01)	(0.02)

The accompanying notes are an integral part of the financial statements.

SPHINX RESOURCES LTD.

Statements of Changes in Equity

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

	Notes	Common Shares Number (Note 11)	Capital Stock \$	Equity component of convertible debenture \$	Warrant \$	Contributed Surplus \$	Deficit \$	Total Equity \$
Balance at February 28, 2015		36,294,859	57,882,141	62,949	1,582,370	9,553,131	(68,558,525)	522,066
Shares issued for:								
Project acquisition		9,046,151	314,461	-	-	-	-	314,461
Shares for debt		396,468	19,823	-	-	-	-	19,823
Interest on convertible debenture		900,000	45,000	-	-	-	-	45,000
Warrants expired		-	-	-	(349,433)	349,433	-	-
Share-based payments		-	-	-	-	1,890	-	1,890
Loss and comprehensive loss		-	-	-	-	-	(683,392)	(683,392)
Balance at February 29, 2016		46,637,478	58,261,425	62,949	1,232,937	9,904,454	(69,241,917)	219,848
Shares issued for:								
Private placements		28,910,165	1,250,923	-	428,387	-	-	1,679,310
Project acquisition		2,923,077	106,923	-	-	-	-	106,923
Conversion of convertible debenture		4,500,000	262,770	(37,770)	-	-	-	225,000
Impact of convertible debenture extension	10	-	-	13,363	-	25,179	-	38,542
Interest on convertible debenture	10	900,081	45,004	-	-	-	-	45,004
Issuance costs		-	(142,063)	-	(48,373)	33,534	-	(156,902)
Warrants expired		-	-	-	(64,223)	64,223	-	-
Impact of warrant extension	11	-	-	-	323,215	-	(323,215)	-
Share-based payments		-	-	-	-	88,450	-	88,450
Loss and comprehensive loss		-	-	-	-	-	(686,252)	(686,252)
Balance at February 28, 2017		83,870,801	59,784,982	38,542	1,871,943	10,115,840	(70,251,384)	1,559,923

The accompanying notes are an integral part of the financial statements.

SPHINX RESOURCES LTD.

Statements of Cash Flows

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

		Year ended	
	Notes	February 28, 2017	February 29, 2016
		\$	\$
Operating activities			
Loss for the year		(686,252)	(683,392)
Adjustments for:			
Share-based payments	12	88,450	1,890
Shares issued for project acquisition		106,923	314,461
Shares issued for debt		-	19,823
Shares issued for interest on convertible debt	14	45,004	45,000
Finance income		(302)	(1,028)
Finance costs		135,078	77,182
Flow-through shares premium		-	(175,313)
Changes in non-cash working capital items:	18	597,114	(282,311)
Cash flow from (used) in operating activities		286,015	(683,688)
Financing activities			
Finance costs paid	8	(8,664)	(14,598)
Loan payable repayments	8	(160,000)	-
Common shares issued		1,679,310	-
Issue costs		(156,902)	-
Cash flow used in financing activities		1,353,744	(14,598)
Investing activities			
Finance income received		302	1,028
Disbursement – promissory note	14	(85,000)	-
Cash flow from investing activities		(84,698)	1,028
Change in cash during the year		1,555,061	(697,258)
Cash, beginning of year		199,890	897,148
Cash, end of year		1,754,951	199,890
Supplemental cash flow information	18		

The accompanying notes are an integral part of the financial statements.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN

Sphinx Resources Ltd. (the "Corporation") was incorporated on June 28, 2005 and is governed by the *Canada Business Corporations Act*. The Corporation's shares are listed on the TSX Venture Exchange (the "Exchange") under the trading symbol "SFX". The Corporation operates in one industry segment, being the acquisition, exploration and development of mineral properties. The Corporation's head office is situated at 1000, De La Gauchetière West, Suite 2100, Montreal, Quebec, H3B 4W5.

The financial statements of the Corporation for the fiscal year ended February 28, 2017 were reviewed, approved and authorized for issue by the Board of Directors on June 12, 2017.

The measurement of certain assets and liabilities is dependent on future events; therefore the preparation of these financial statements requires the use of estimates, which may vary from actual results. The success of the Corporation's exploration and evaluation activities is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Corporation to discover economically recoverable reserves.

1.1 Basis of presentation and going concern

These financial statements have been prepared in accordance International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). They were prepared using 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, senior management of the Corporation ("Management") takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment of material uncertainties related to events and conditions that lend a significant doubt upon the Corporation's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS 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, expenses and financial position classifications that would be necessary if the going concern assumption would not be appropriate. These adjustments could be material.

The Corporation recorded a loss of \$686,252 for the year ended February 28, 2017 (\$683,392 for the year ended February 29, 2016), and has an accumulated deficit of \$70,251,384 as at February 28, 2017 (\$69,241,917 as at February 29, 2016). In addition to ongoing working capital requirements, the Corporation must secure sufficient funding to meet its other obligations, existing commitments for the exploration and evaluation programs and pay general and administration costs. As at February 28, 2017, the Corporation has a working capital of \$1,645,145 (\$232,482 as at February 29, 2016). These conditions indicate the existence of material uncertainties that may cast a significant doubt regarding the Company's ability to continue as a going concern.

The Corporation's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. While Management has secured financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation. If Management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements and this could have a significant impact on the financial position of the Corporation, its financial performance and its cash flows.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value.

2.2 Interest income

Interest income from financial assets is accrued, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

2.3 Functional and presentation currency

The financial statements are presented in Canadian dollars. The financial statements of the Corporation are presented in its functional currency, which is the currency of the primary economic environment in which the entity operates. Foreign currency transactions are translated into the functional currency at the rate of exchange prevailing on the date of each transaction.

2.4 Exploration and evaluation expenditures

Exploration and evaluation activity on mineral interests involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity include but are not limited to the following items:

- acquiring the rights to explore;
- researching and analyzing historical data;
- gathering exploration data through topographical, geological, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- preparing pre-feasibility and feasibility studies.

Exploration and evaluation expenditures are charged to operations as they are incurred with the exception of expenditures capitalized to mine development costs.

2.5 Share-based payments

Employees (including directors and senior executives) of the Corporation may receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the transaction is measured at the fair value of the goods or services received by the entity. When the value of the goods or services cannot be specifically identified, they are measured at fair value of the share-based payment. The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Corporation's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional amount is recognized on the same basis as the amount of the original award for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.6 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted by the date of the statement of financial position.

Deferred income taxes are provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of loss and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

2.7 Flow-through shares

Resource expenditures for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. Flow-through common shares are recognized in equity based on the Corporation's quoted stock price on the date of the issuance. The difference between the amounts recognized in common shares and the total amount the investor pays for the flow-through common shares is recognized as a liability, the flow-through share premium, which is subsequently reversed into earnings as eligible expenditures are incurred, if the Corporation has the intention to renounce the expenditures. The Corporation recognizes in the statement of comprehensive loss a flow-through share premium and a deferred tax liability for flow-through shares (when applicable), at the moment the eligible expenditures are incurred.

2.8 Tax credits receivable

Tax credits receivable relate to refundable tax credits and mining duties refund from the Québec provincial government. These tax credits are accrued based on a percentage of net eligible resource expenditures incurred in Québec and recognized as a reduction of eligible expenditures, in the case of the refundable tax credits, and as current tax recovery in the case of mining duties refund.

2.9 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. During the years ended February 28, 2017 and February 29, 2016, all the outstanding common share equivalents were anti-dilutive.

2.10 Financial Instruments

a) Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

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

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost using the effective interest method less any allowance for impairment. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered significant or prolonged decline in the fair value of that investment below its cost, which are considered impairments resulting in a reclassification from other comprehensive income (loss) to earnings.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

b) Financial liabilities

All financial liabilities are initially recorded at fair value and designated 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 cost using the effective interest method. The effective interest 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 exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Transaction costs on financial liabilities classified as FVTPL are expensed as incurred. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of loss and comprehensive loss.

c) Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in earnings.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in earnings.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Corporation will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

e) Classification

The Corporation has classified its financial instruments as follows:

<u>Category</u>	<u>Financial instrument</u>
Loans and receivables	Cash
Financial liabilities at amortized cost	Trade and other payables, loan payable, convertible debentures

2.11 Share capital and warrants

Common shares and warrants are classified as equity. 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 Black-Scholes pricing model to determine the fair value of warrants issued.

2.12 Convertible debentures

The liability, equity and other (when applicable) components of convertible notes are presented separately on the statement of financial position, starting from initial recognition. The Company determines the carrying amount of the financial liability by discounting the stream of future payments at the prevailing market rate for a similar liability of comparable credit status and providing substantially the same cash flows. The liability component is then increased by accretion of the discounted amounts to reach the nominal value of the convertible notes at maturity which is recorded in the statement of income as finance cost.

The carrying amount of other components (when applicable), such as warrants, is determined using the Black-Scholes option pricing model. The carrying amount of the equity component is calculated by deducting the carrying amount of the financial liability and the carrying amounts of any other components (when applicable) from the amount of the convertible notes, and is presented in Equity as an equity component of convertible notes. The equity component is not remeasured subsequent to initial recognition, except on conversion or expiry.

The transaction costs are distributed between liability, equity and other (when applicable) components, on a pro-rata basis according to their carrying amounts.

3. CHANGES IN ACCOUNTING POLICIES

3.1 Standards and interpretations not yet effective

At the date of authorization of these financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective:

a) IFRS 9 – Financial instruments, classification and measurement

In July 2014, the IASB issued IFRS 9 – Financial Instruments. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39 – Financial Instruments: Recognition and Measurement.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

3. CHANGES IN ACCOUNTING POLICIES (CONT'D)

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

b) IFRS 7 Financial instruments: disclosures

Effective on adoption of IFRS 9, Financial Instruments. Amended to require additional disclosure on transition from IAS 39 to IFRS 9.

c) IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 which sets out the principles of the recognition, measurement, presentation and disclosure of leases for both parties to a contract, which is the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces *IAS 17 Leases*, and related interpretations. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognize:

- i. Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- ii. Depreciation of lease assets separately from interest on lease liabilities in the statement of income.

The new standard is effective for annual period beginning on or after January 1, 2019 with early adoption permitted if *IFRS 15 Revenue from Contracts with Customers* is also applied. Management has not yet evaluated the impact that this standard will have on its financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND ASSUMPTIONS

The preparation of these financial statements requires Management to make judgments and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, Management evaluates its judgments in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments. Actual outcomes may differ from these estimates under different assumptions and conditions. Critical judgments exercised in applying accounting policies with the most significant effect on the amounts recognized in the financial statements are as follows:

a) Recognition of deferred income tax assets and the measurement of income tax expense

Periodically, the Corporation evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Corporation records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires Management to make significant judgment.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

(In Canadian Dollars)

4. CRITICAL ACCOUNTING JUDGMENTS AND ASSUMPTIONS (CONT'D)

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the statement of financial position date could be impacted. Significant judgment is required in determining the income tax recovery as there are transactions and calculations for which the ultimate tax determination is uncertain.

b) Tax credits receivable

The refundable credit for resources and credit on duties refundable for losses (the "tax credits") for the current period and prior periods are measured at the amount the Corporation expects to recover from the tax authorities as at the closing date. However, uncertainties remain as to the interpretation of tax rules and the amount and timing of the recovery of such tax credits. To determine whether the expenses it incurs are eligible, the Corporation must exercise considerable judgment and interpretation, which makes the recovery of tax credits uncertain. Accordingly, there may be a significant difference between the recorded amount of tax credits receivable and the actual amount of tax credits received following the tax authorities' review of issues whose interpretation is uncertain. Should such a difference arise, an adjustment would have to be made to tax credits receivable and provisions may potentially need to be recognized for previous tax credits received by the Corporation. It may take considerable time for the tax administration to render its decisions on issues related to tax credits, and it can therefore take a long time to recover tax credits. Tax credits that the Corporation expects to recover within more than one year are classified as non-current assets. The amounts recognized in the financial statements are based on the Corporation's best estimates and according to its best judgment, as stated above. However, given the uncertainty inherent in obtaining the approval of the relevant tax authorities, the amount of tax credits that will actually be recovered or the amount to be repaid, as well as the timing of such recovery or repayment, could differ materially from the accounting estimates, which would affect the Corporation's financial position and cash flows.

i) Refundable tax credit for resources

In April 2016, the Corporation was informed by Revenu Québec of a resolution in favour of the Corporation of the objection process related to the refundable tax credit for resources for fiscal years 2009, 2010 and 2011. Therefore all payables accrued previously for reassessment were reversed for a net of \$504,223. In addition, a \$234,217 receivable was recorded which represented the portion of the amount already paid that it was expected to be recovered for fiscal years 2009, 2010 and 2011.

ii) Quebec refundable credits on mining duties for losses

As at February 29, 2016, as part of the same process described in i) above, the provision accrued previously for reassessment relating to operating fees paid to Glencore was reversed for \$62,814 as current tax recovery. Finally in January 2017, \$540,661 Quebec refundable credits on mining duties for losses was received and recorded as current tax recovery.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

Years ended February 28, 2017 and February 29, 2016

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4. CRITICAL ACCOUNTING JUDGMENTS AND ASSUMPTIONS (CONT'D)

c) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future cash flows from operations and events that are believed to be reasonable under the circumstances.

5. CASH

As of February 28, 2015, the balance on flow-through financing not spent according to the restrictions imposed by the December 2014 financing represented \$570,688 and was included in cash. The Corporation had to dedicate these funds to Canadian mining properties exploration activities and that work was completed by December 31, 2015.

6. TAX CREDITS RECEIVABLE AND PAYABLE

	February 28, 2017	February 29, 2016
Refundable tax credit for resources	\$ 51,522	\$ 269,193
Quebec refundable credits on mining duties for losses	17,264	753,709
Total tax credits receivable	68,786	1,022,902
Less: non-current portion of tax credits receivable	(28,675)	(11,996)
Tax credits receivable – current	40,111	1,010,906

7. MINERAL PROPERTIES

For mineral properties that have not reached technical feasibility, exploration and evaluation expenditures are charged to operations as they are incurred. The Corporation's exploration and evaluation expenditures incurred are as follows:

	Acquisition and maintenance	Exploration and evaluation expenditures	Tax credits	Year ended February 29, 2017
	\$	\$	\$	\$
Cheechoo-Éléonore Trend	38,085	52,853	(23,070)	67,868
Calumet-Sud	70,156	1,481	(348)	71,289
Green Palladium	8,616	122,112	(41,377)	89,351
Chemin Troilus	68,743	61,919	(27,028)	103,634
Somanike	3,941	61,723	(20,603)	45,061
Generation	-	6,637	(2,240)	4,397
Total exploration and evaluation expenditures	189,541	306,725	(114,666)	381,600

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7. MINERAL PROPERTIES (CONT'D)

	Acquisition and maintenance	Exploration and evaluation expenditures	Tax credits	Year ended February 29, 2016
	\$	\$	\$	\$
Calumet-Sud	43,421	2,365	(703)	45,083
Green Palladium	167,384	323,330	(66,794)	423,920
Somanike	115,265	238,424	(22,617)	331,072
Samson	2,966	202,654	-	205,620
Adam	-	17,742	-	17,742
Tax adjustments related to prior years (note 4b)	-	-	(557,414)	(557,414)
Total exploration and evaluation expenditures	329,036	784,515	(647,528)	466,023

7.1 Cheechoo-Éléonore Trend project

On August 23, 2016, the Corporation signed a letter of agreement to form a 50-50% joint venture with Sirios Resources Inc. ("Sirios") to explore the claims that are presently under request along the northwest extension of the interpreted Cheechoo-Éléonore trend, located in the Eeyou Istchee James Bay territory, Québec. Under the terms of this joint venture agreement, the partners have agreed to spend a minimum of \$500,000 by each party over the next five years. Sirios is the operator of the project. If one of the party's interest dilutes to 10% or less, its interest shall be converted to a 2% net smelter return ("NSR") royalty. At any time, the non-diluted party may purchase half of the Royalty-holder's rights to all future royalty payments for \$1,000,000.

7.2 Calumet-Sud Project

On August 6, 2015 (amended on March 25, 2016 (note 20)), the Corporation signed a definitive agreement with Gardin Inc. ("Gardin") for the acquisition of 100% of the Calumet-Sud project in the Pontiac MRC in southwestern Quebec. The Corporation acquired the project by issuing 1,384,615 common shares, valued at \$41,538 based on the Exchange share price of \$0.03 on the date of the share issuance. Another 1,923,077 common shares was issued in August 2016, valued at \$76,923 based on the Exchange share price of \$0.04 on the date of the share issuance. Finally, 2,846,231 common shares must be issued at the earliest on August 6, 2017, under certain conditions. One of these conditions is that Gardin (and Gardin's affiliates and joint actors) would beneficially own no more than 19.9% of the common shares outstanding immediately after giving effect to such issuance. The Corporation must complete the share issuances and exploration work, failing which the project will be returned to Gardin. A 2% NSR royalty was granted to Gardin.

On March 25, 2016, the Corporation signed an option and joint venture agreement with SOQUEM to grant SOQUEM the option to acquire an undivided 50% interest in the Calumet-Sud project. SOQUEM will be the operator during the option period. Upon the exercise of the option, a joint venture would be created between the Corporation and SOQUEM.

Before March 31, 2016, SOQUEM must pay \$93,000 to Gardin and \$7,000 to the Corporation (completed in March 2016). Also, SOQUEM must fund \$450,000 in exploration expenditures as follows:

	Work	
	Commitment	Completed
	\$	\$
On or before February 27, 2017	100,000	100,000
On or before August 31, 2018	150,000	83,680
On or before February 28, 2020	200,000	-
Total	450,000	183,680

SPHINX RESOURCES LTD.

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(In Canadian Dollars)

7. MINERAL PROPERTIES (CONT'D)

7.3 Green Palladium project

On March 12, 2015, the Corporation signed a definitive agreement with Amixam Resources Inc. ("Amixam") for the acquisition of 100% of the Green Palladium project, located in the Pontiac MRC, adjacent to the Quebec Abitibi-Temiscamingue region. Under the terms of this agreement, the Corporation acquired the Green Palladium project by issuing 4,000,000 common shares, valued at \$160,000 based on the Exchange share price of \$0.04 on the date of the share issuance. Another 461,536 common shares were issued in February 2016, valued at \$6,923 based on the Exchange price of \$0.015 on the date of the share issuance. Amixam was granted with a 2% of net smelter return ("NSR"). In addition, the Corporation must complete the following exploration work, failing which the project will be returned to Amixam:

	Work	
	Commitment	Completed
	\$	\$
On or before January 20, 2016	50,000	50,000
On or before January 20, 2017	100,000	100,000
On or before January 20, 2018	600,000	337,872
Total	750,000	487,872

Michel Gauthier, president of Gardin, was elected director of the Corporation on August 27, 2015. On November 2, 2015, Gardin announced it had acquired from Amixam on a private placement basis for an aggregate purchase price of \$75,000 direct ownership of the 4,000,000 common shares of the Corporation and the rights to receive the additional 461,536 shares pursuant to the Green Palladium project acquisition agreement, representing a price of approximately \$0.01681 per share of the Corporation.

7.4 Chemin Troilus project

On June 4, 2016, the Corporation signed a project acquisition agreement with Les Ressources Tectonic Inc. whereby the Chemin Troilus project was purchased under the following considerations: issuance of 1,000,000 common shares of the Corporation (completed and valued at \$30,000), \$35,000 cash payment (completed) and 2% NSR royalty of which 1.5% can be bought back by the Corporation for \$2,000,000. In addition, the Corporation acquired contiguous claims through map staking.

7.5 Somanike project

a) Marbridge agreement

On June 1, 2015, the Corporation signed an acquisition agreement with Royal Nickel Corporation ("Royal Nickel") for the purchase of 100% of the Marbridge nickel-copper mine project ("Marbridge") by issuing 2,000,000 common shares (valued at \$70,000). This project comprises 10 claims for a total surface area of about 5.8 km² and is located within the municipality of La Motte just east of the Corporation's Preissac project. Royal Nickel also received a 2% NSR on the Marbridge mining concessions and the Corporation has the right and option to purchase this 2% NSR for \$2,000,000. The 8 mining claims remain subject to a 2% NSR in favour of Jefmar Inc. and the Corporation has the right to purchase 50% of this NSR for \$1,000,000.

b) Pikogan agreement

The Preissac and Marbridge projects are renamed the Somanike project in connection with the signing of a cooperation agreement between the Corporation and the Abitibiwinni first nation (the "Abitibiwinni Nation"), based at Pikogan, Quebec. In connection with the cooperation provided and services rendered by the Abitibiwinni Nation in finalizing all of these initiatives, the Corporation issued 142,857 common shares (valued at \$5,000) to the Abitibiwinni Nation.

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Notes to the Financial Statements

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7. MINERAL PROPERTIES (CONT'D)

c) Globex agreement

On June 15, 2015 (and as amended on June 7, 2016), the Corporation signed a definitive agreement to acquire 7 claims from Globex Mining Enterprises Inc. ("Globex") in the area of the Somanike project for consideration that is comprised of:

- 1,200,000 common shares of the Corporation valued at \$36,000; and
- a graduated Gross Metal Royalty ("GMR") defined as 1% of all metals produced from the 7 Claims when the nickel ("Ni") price quote is \$6.00 US/lb. or less, 1.5% GMR when it is greater than \$6.00 US/lb. but less than \$8.00 US/lb. and 2% GMR when it is \$8.00 US/lb. or greater.

In addition, the Corporation must complete the following exploration work, falling which the 7 claims will be returned to Globex:

	Work	
	Commitment	Completed
	\$	\$
On or before June 15, 2018	300,000	10,800
On or before June 15, 2019	100,000	-
On or before June 15, 2020	100,000	-
Total	500,000	10,800

7.6 Samson project

On September 3, 2014, the Corporation signed an agreement with Midland Exploration Inc. ("Midland") for the Samson project, located about 50 km west of the town of Matagami, in Abitibi, Québec. Under the terms of this agreement, the Corporation could have earned 50% of Midland's interest over a period of 4 years, by paying \$275,000 in cash (\$40,000 completed) and completing \$3,500,000 of exploration work (\$565,494 completed). On December 11, 2015, the Corporation terminated the Samson agreement with Midland.

7.7 Dollier

On September 25, 2014, the Corporation signed a binding letter of agreement with Cartier Resources Inc. ("Cartier") to grant in favour of the Corporation an option to purchase, in three staged options, an interest of up to 100% in the Dollier gold project, located 45 km south of the town of Chibougamau, Québec. The Corporation could have earned, with the first option, a 50% undivided interest in the Dollier project over a period of 3 years, by issuing 600,000 common shares of the Corporation (150,000 issued valued at \$15,000) and completing \$1,800,000 of exploration work (\$420,483 completed). On August 5, 2015, the Corporation terminated the Dollier agreement with Cartier.

7.8 Adam

On December 12, 2014, the Corporation signed an agreement with Midland for the Adam project, located about 50 km west of the town of Matagami, in Abitibi, Québec. Under the terms of this agreement, the Corporation could have earned 50% of Midland's interest over a period of 4 years, by paying \$250,000 in cash (\$20,000 completed) and completing \$3,000,000 of exploration work (\$180,318 completed). On December 11, 2015, the Corporation terminated the Adam agreement with Midland.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

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7. MINERAL PROPERTIES (CONT'D)

7.9 Valmond

In December 2013, the Corporation entered into an option agreement with Midland for the Valmond gold project. This project is located about 50 kilometres west of the town of Matagami, in Abitibi, Québec. Under the terms of this agreement, the Corporation could have earned 50% of Midland's interest over a period of 4 years, by paying \$250,000 in cash (\$30,000 completed) and completing \$2,500,000 of exploration work (\$666,818 completed). On August 11, 2015, the Corporation terminated the Valmond agreement with Midland.

8. LOAN PAYABLE

On March 13, 2013, the Corporation closed a loan financing of \$6,000,000 with lenders. The loan bore interest at a rate of 14%. The loan had a term of three years and following a December 2013 forbearance agreement, the lenders were fully reimbursed by March 2016. The loan is summarized as follows:

	February 28, 2017	February 29, 2016
Principal	\$ -	\$ 160,000
Accrued interest	-	8,664
Loan payable	-	168,664

9. SUBLEASE LOSS RESERVE

During fiscal 2014, the Corporation signed an amendment agreement relating to the Vancouver office no longer in use. The Corporation agreed to pay the difference between the original lease and the subtenant lease by way of yearly lump sum payments from February 1, 2014 to February 1, 2018 totaling \$190,651. Starting February 1, 2016, an accommodation was reached whereby the Corporation makes monthly payments instead of yearly lump sum payments. This sublease is considered an onerous contract and an original sublease loss reserve of \$184,739 has been calculated with a discount rate of 1.55%.

	Year ended	
	February 28, 2017	February 29, 2016
Balance, beginning of year	\$ 103,520	\$ 108,748
Payment	(38,016)	(6,860)
Accretion expensed as finance costs	1,016	1,632
Sublease loss reserve, end of year	66,520	103,520
Sublease loss reserve – non-current portion	-	(78,890)
Sublease loss reserve – current portion	66,520	24,630

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10. CONVERTIBLE DEBENTURES

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Balance, beginning of year	328,377	275,299
Convertible debenture reaching maturity	(150,000)	
Convertible debentures extended	150,000	-
Conversion into shares	(225,000)	
Discounting	(38,542)	-
Accretion expense	44,970	47,930
Issuance cost amortization	4,092	5,148
Convertible debentures, end of year	113,897	328,377
Convertible debentures – non current portion	(113,897)	-
Convertible debentures – current portion	-	328,377

On December 19, 2014, the Corporation closed a non-brokered private placement of convertible debentures totaling \$375,000. The convertible debentures will mature in 24 months and bear interest at a rate of 12% per year, payable in cash or shares every six months, at a price per share based on the 20-day volume weighted average price of the common shares (“VWAP”) and subject to Exchange approval. The debentures are convertible into common shares at a price of \$0.13 during the term of the debentures. At the maturity date, each debenture can be repaid in cash or in shares at a price per share based on the VWAP, subject to Exchange approval. As part of the private placement, 1,442,308 common share purchase warrants were issued. Each warrant entitles the holder to purchase one common share at \$0.17 for 24 months.

To estimate the fair value, the debt component was estimated first at \$378,644 using an effective rate of 30% corresponding to a rate that the Corporation would have obtained for a similar financing without the conversion option. Secondly, the \$31,010 fair value of the warrants (\$0.02150 per warrant) was determined using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 1.50%, an expected stock price volatility of 80% and an expected life of two years. The \$65,346 residual value was attributed to the equity component of the convertible debentures and is presented in equity. The Corporation incurred cash issuance costs of \$13,775, of which \$10,235 was attributed to the debt component, \$1,143 to the warrants and \$2,397 to the equity component.

During the year ended February 29, 2016, the Corporation issued 448,767 and 451,233 common shares in lieu of a cash payment for the interest on the first and second six-month tranches of \$22,438 and \$22,562 respectively, in accordance with the terms of the convertible debentures issued by the Corporation on December 19, 2014.

On January 9, 2017, the Corporation issued 4,500,000 common shares as repayment of \$225,000 convertible debentures. The conversion price was based on the VWAP, subject to a \$0.05 per common share minimum. Also on January 9, 2017, the Corporation issued 900,081 common shares in lieu of a cash payment for the interest from December 19, 2015 to December 19, 2016 for \$45,004, in accordance with the terms of the convertible debentures issued by the Corporation on December 19, 2014.

The \$150,000 convertible debenture issued to Société d’investissement dans la diversification de l’exploration s.e.c. (“SIDEX”) was extended for 2 years. To estimate the fair value, the debt component was estimated first at \$111,458 using an effective rate of 30% corresponding to a rate that the Corporation would have obtained for a similar financing without the conversion option. The \$38,542 residual value was attributed to the equity component of the convertible debentures and is presented in equity. The \$25,179 equity component initially recorded on the \$150,000 convertible debenture issued to SIDEX in December 2014 was transferred to contributed surplus.

SPHINX RESOURCES LTD.

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11. COMMON SHARES AND WARRANTS

11.1 Authorized

An unlimited number of common shares without par value.

11.2 Private placements

a) September 22, 2016

On September 22, 2016, the Corporation closed a private placement for aggregate gross proceeds of \$276,500, comprised of 5,530,000 units at a price of \$0.05 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.08 per common share until September 22, 2019.

Management and one director of the Corporation subscribed for an amount of \$15,000 of the private placement. In connection with the private placement, the Corporation has agreed to pay to certain finders a fee of up to 7% in cash, representing an aggregate amount of up to \$13,755, and issued 173,600 non-transferable finders Warrants, each such entitling the finder to acquire one common share at a price of \$0.08 per common share for a period of three years from the date of grant.

The value allocated to the warrants of \$66,360 (\$0.012 per warrant) was determined using the Black-Scholes option pricing model to estimate the fair value of the warrants issued assuming no expected dividends, a risk-free interest rate of 0.52%, an expected stock price volatility of 80% and an expected life of three years.

The Corporation incurred total issuance costs of \$42,826 of which \$37,618 was incurred in cash and \$5,208 was incurred through the issuance of the 173,600 non-transferable finders warrants. The fair value of the finders warrants of \$0.003 per finder warrant was determined using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 0.52%, an expected stock price volatility of 80%, and an expected life of three years.

b) February 28, 2017

On February 28, 2017, the Corporation closed a private placement for aggregate gross proceeds of \$1,402,810, comprised of 23,380,165 units at a price of \$0.06 per unit. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.09 per common share until February 28, 2020.

Management and one director of the Corporation subscribed for an amount of \$15,300 of the private placement. In connection with the private placement, the Corporation has agreed to pay to certain finders a finder's fee of up to 7% in cash, representing an aggregate amount of up to \$66,992, and issued 1,011,628 non-transferable finders Warrants, each such entitling the finder to acquire one common share at a price of \$0.09 per common share until February 28, 2020.

The value allocated to the warrants of \$269,886 (\$0.012 per warrant) was determined using the Black-Scholes option pricing model to estimate the fair value of the warrants issued assuming no expected dividends, a risk-free interest rate of 0.91%, an expected stock price volatility of 80% and an expected life of three years.

The Corporation incurred total issuance costs of \$147,611 of which \$119,285 was incurred in cash and \$28,326 was incurred through the issuance of the 1,011,628 non-transferable finders warrants. The fair value of the finders warrants of \$0.028 per finder warrant was determined using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 0.91%, an expected stock price volatility of 80%, and an expected life of three years.

SPHINX RESOURCES LTD.

Notes to the Financial Statements

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(In Canadian Dollars)

11. COMMON SHARES AND WARRANTS (CONT'D)

11.3 Shares for debt

On January 18, 2016, the Board of Directors approved a resolution to pay in shares the \$16,000 owed to the Directors (less deduction at source) for their fees up to December 31, 2015. These 296,468 shares were issued at \$0.05 per share.

11.4 Warrants

The changes in warrants issued are as follows:

	Year ended			
	February 28, 2017		February 29, 2016	
	Number of warrants	Weighted average exercise prices	Number of warrants	Weighted average exercise prices
		\$		\$
Balance, beginning of year	14,937,223	0.57	23,566,189	0.42
Issued	28,910,165	0.09	-	-
Expired	(3,030,385)	0.16	(8,628,966)	0.16
Balance, end of year	40,817,003	0.26	14,937,223	0.57

Outstanding warrants entitle their holder to subscribe to an equivalent number of common shares as follow:

Expiry date	February 28, 2017	
	Number of warrants	Exercise price
		\$
September 5, 2018 ¹⁾	8,389,615	0.175
September 12, 2018 ¹⁾	1,925,000	0.175
December 19, 2018 ²⁾	576,923	0.17
July 17, 2018	941,900	6.00
August 7, 2018	73,400	6.00
September 22, 2019	5,530,000	0.08
February 28, 2020	23,380,165	0.09
	40,817,003	

- 1) The 8,389,615 warrants due to expire on September 5, 2016 and the 1,925,000 warrants due to expire September 12, 2016 were extended for two years such that the new expiry dates are September 5, 2018 and September 12, 2018, respectively. Total costs of the warrant extension amounts to \$319,753 for an estimated fair value of \$0.031 per warrant, recorded under warrants and the offsetting entry was recorded in the deficit. The fair value of the warrants extension was estimated using the Black-Scholes model calculated for the deference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follow for the two periods respectively: no expected dividend yield, 80% and 10% expected volatility, 0.61% and 0.54% risk-free interest rate and 2.06 and 0.06 years warrant expected life.
- 2) Following the 2 years extension of the Sidex convertible debt, the 576,923 warrants issued to Sidex were also extended for 2 years. Total costs of the warrant extension amounts to \$3,462 for an estimated fair value of \$0.006 per warrant, recorded under warrants and the offsetting entry was recorded in the deficit. The fair value of the warrants extension was estimated using the Black-Scholes model calculated for the deference between the extended period and the remaining period when the decision was taken to extend the warrants. The assumptions used were as follow for the two periods respectively: no expected dividend yield, 80% and 10% expected volatility, 0.50% and 0.53% risk-free interest rate and 2.06 and 0.02 years warrant expected life.

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11. COMMON SHARES AND WARRANTS (CONT'D)

11.5 Agent's compensation options:

The changes in agent's compensation options and underlying warrants issued are as follows:

	Year ended			
	February 28, 2017		February 29, 2016	
	Number of agent compensation options and underlying warrants	Weighted average exercise prices	Number of agent compensation options and underlying warrants	Weighted average exercise prices
Balance, beginning of year	491,978	\$ 0.61	1,007,978	\$ 0.38
Issued	1,185,228	0.09	-	-
Expired	(491,978)	0.61	(516,000)	0.15
Balance, end of year	1,185,228	0.09	491,978	0.61

Outstanding agent's compensation options entitle their holder to subscribe to an equivalent number of common shares as follow:

Expiry Date	February 28, 2017	
	Number	Exercise price
September 22, 2019	173,600	\$ 0.08
February 28, 2020	1,011,628	0.09
	1,185,228	

12. SHARE-BASED PAYMENTS

12.1 Stock option plan

The Corporation has a stock option plan whereby the Corporation may grant options to directors, officers, employees, independent contractors or consultants. The exercise price associated with each grant of options is determined by the Corporation and is subject to the policies of the Exchange. The maximum term of each option is 10 years. The options vest on a basis as determined by the directors or a committee thereof at the time of grant. The option price shall not be less than the price on the Exchange on the close of the previous trading day, provided that certain conditions are met as defined in the Stock Option Plan. The maximum number of common shares that can be issued upon exercise of stock options granted under the Stock Option Plan was increased from 1,543,000 to 4,700,000 common shares on July 28, 2016. Such number represents less than 10% of the total number of shares issued and outstanding and the amendment was approved by the Exchange.

On October 13, 2016, the Corporation granted 1,450,000 stock options to directors, officers, advisors and consultants at an exercise price of \$0.10 with an expiry date of October 13, 2026, vesting immediately. At the time of the grant, the exercise price was above the market price on the Exchange. Total stock-based compensation costs amounts to \$88,450 for an estimated fair value of \$0.061 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 100% expected volatility, 1.08% risk-free interest rate and 6 years options expected life. These expected life and volatility were estimated by benchmarking comparable situations for companies that are similar to the Corporation.

SPHINX RESOURCES LTD.

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12. SHARE-BASED PAYMENTS (CONT'D)

12.2 Stock options

The changes in stock options issued are as follows:

	Year ended		Year ended	
	February 28, 2017		February 29, 2016	
	Number of options	Weighted average exercise prices	Number of options	Weighted average exercise prices
Balance, beginning of year	1,400,000	\$ 0.125	1,525,000	\$ 0.125
Granted	1,450,000	0.10	-	-
Forfeited	-	-	(125,000)	0.125
Balance, end of year	2,850,000	0.11	1,400,000	0.125

Outstanding stock options entitling their holder to subscribe to an equivalent number of common shares as follow:

Expiry Date	February 28, 2017	
	Number	Exercise price
		\$
October 10, 2024	1,400,000	0.125
October 13, 2026	1,450,000	0.10
	2,850,000	

13. GENERAL AND ADMINISTRATION

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Directors fees	48,000	42,000
Filing and transfer agent fees	44,023	47,158
Management fees	60,900	53,049
Office and miscellaneous	35,396	28,009
Professional fees	113,997	120,756
Promotion	111,530	68,066
Rent	-	(7,387)
Salaries and benefit	132,475	111,934
Share-based payments	88,450	1,890
Travel	30,762	10,719
General and administration	665,533	476,194

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14. FINANCE COSTS

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Provision on promissory note receivable	85,000	-
Accretion of sublease reserve	1,016	1,632
Accretion of convertible debentures	44,970	47,930
Issuance costs on convertible debentures	4,092	5,148
Common shares issued in lieu of interest payment on convertible debentures	45,004	45,000
Interest paid and accrued on loan payable	-	22,472
Interest accrued on tax credits payable	-	(65,155)
Finance costs	180,082	57,027

On July 17, 2016, the Corporation signed a promissory note with Eco-Niobium Resources Inc. ("Eco-Niobium") whereby the Corporation lent \$85,000 to Eco-Niobium. The Exchange approved this transaction. The loan bears interest at the rate of 3% per annum and matures in 36 months. The promissory note is not convertible into Eco-Niobium Shares and is secured by a movable hypothec on all present and future movable assets of Eco-Niobium. The net proceeds of the loan will be used for general corporate purposes and to advance mining projects of Eco-Niobium including the social acceptability aspects of a niobium project of the Oka area.

Sphinx had entered into an agreement with Eco-Niobium providing for a strategic investment in Eco-Niobium of up to \$250,000 by way of a non-brokered private placement of unsecured convertible debentures of Eco-Niobium. The TSX-V had conditionally approved the investment. One of the conditions that had to be satisfied was the approval by the shareholders of Corporation, excluding the votes of non-arms' length parties. The investment is a non-arms' length transaction under the policies of the Exchange as a result of three directors being also directors of Eco-Niobium, namely Normand Champigny, Kerry E. Sparkes and John W. W. Hick. The Corporation decided not to seek the disinterested shareholder approval at its October 6, 2016 shareholder meeting to complete the strategic investment in Eco-Niobium by way of a non-brokered private placement of unsecured convertible debentures of Eco-Niobium. Considering the current status of this project and the various approvals that Eco-Niobium has to achieve to successfully move this project forward, including obtaining the legal mineral rights, management has provided for 100% of the promissory note.

15. RELATED PARTY TRANSACTION

15.1 Compensation to key management

The Corporation's key management personnel are members of the Board of Directors, the chief executive officer and the chief financial officer:

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Short-term benefits		
Exploration and evaluation expenditures	56,910	2,750
Salaries, including benefits	132,475	111,934
Directors fees	48,000	42,000
Management fees	60,900	53,049
Issuance costs (allocated between capital stock, warrants and convertible debentures)	7,866	-
Long-term benefits		
Share-based payments	88,450	-
Total compensation	394,601	209,733

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15. RELATED PARTY TRANSACTION (CONT'D)

Certain employment agreements between the executive team and the Corporation contain termination and change of control provisions. If a termination or change of control had occurred as at February 28, 2017, the amounts payable for the executive team would have totaled \$332,371 (February 29, 2016 - \$263,684).

15.2 Related party transactions

In the normal course of operations, in addition to the amounts listed above in the compensation to key management (Note 15.1):

- a) A company controlled by a director charged legal fees amounting to \$3,841 in the year ended February 29, 2016 for his staff;
- b) A company controlled by an officer and director charged accounting fees of \$23,605 (\$18,003 in the year ended February 29, 2016) for her staff;
- c) Directors and officers of the Corporation participated in the following private placements:
 - (1) September 22, 2016 for \$15,000;
 - (2) February 28, 2017 for \$15,300.

As at February 28, 2017, the balance due to the related parties and key management amounted to \$20,068 (\$169,452 as at February 29, 2016). Amounts due to related parties are unsecured, non-interest bearing.

16. FINANCIAL INSTRUMENTS

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's Management manages financial risks. The Corporation does not enter into financial instruments agreements, including derivative financial instruments for speculative purposes. The Corporation's main financial risks exposure and its financial policies are described below.

16.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's cash is exposed to credit risk. Management believes the credit risk on cash is small because the counterparties are chartered Canadian banks.

16.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is not exposed to significant interest rate risk as cash only comprised bank balances as of February 28, 2017 and the convertible debenture bears a fix interest rate of 12%. The Corporation had no interest rate swaps or financial contracts in place as at or during the year ended February 28, 2017.

16.3 Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. 90% of the Corporation's trade and other payables are over 90 days. The Corporation seeks to ensure that it has sufficient capital to meet short term financial obligations after taking into account its exploration, development, and operating obligations and cash on hand. The Corporation anticipates seeking additional financing in order to fund general and administrative costs, loan service costs and exploration and evaluation costs. The Corporation's options to enhance liquidity include the issuance of new debt or equity instruments (refer to note 1.1 for going concern discussion).

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16. FINANCIAL INSTRUMENTS (CONT'D)

The following table summarizes the carrying amounts and contractual maturities of financial liabilities as at February 28, 2017:

	Trade and other payables	Convertible debentures
	\$	\$
Within 1 year	147,099	-
1 to 5 years	-	113,897
Total	147,099	113,897

16.4 Fair value risk

Fair value estimates are made at the statement of financial position date, based on relevant market information and other information about financial instruments. As at February 28, 2017, the Corporation's financial instruments are cash, trade and other payables and convertible debentures. For all the financial instruments except the convertible debentures, the amounts reflected in the statement of financial position are carrying amounts and approximate their fair values due to their short-term nature. For the convertible debenture, the fair value of the debt component was estimated using an effective rate of 30% corresponding to a rate that the Corporation would have obtained for a similar financing without the conversion option.

17. CAPITAL MANAGEMENT

The Corporation includes as capital its common shares, equity component of convertible debentures, warrants and contributed surplus. Total capital as at February 28, 2017 was \$70,251,384 (February 29, 2016 - \$69,461,765).

The Corporation's objectives are to safeguard the Corporation's ability to continue as a going concern in order to pursue its exploration and evaluation activities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. As the Corporation does not have cash flow from operations, to maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. In order to maximize ongoing development efforts and to continue operations, the Corporation does not pay out dividends. Also, see note 8 for the Forbearance Agreement details.

18. SUPPLEMENTAL CASH FLOW INFORMATION

Non cash transactions included in the statement of financial position are the following:

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Agent compensation options issued as a share issue cost	33,534	-

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18. SUPPLEMENTAL CASH FLOW INFORMATION (CONT'D)

Change in non-cash working capital items:

	Year ended	
	February 28, 2017	February 29, 2016
	\$	\$
Sales tax receivable and other receivables	(21,848)	99,582
Tax credits receivable	954,116	(305,686)
Advances for exploration	-	145,327
Prepaid expenses	1,164	3,387
Trade and other payables	(298,302)	153,473
Sublease reserve	(38,016)	(6,860)
Tax credits payable	-	(371,534)
	597,114	(282,311)

19. INCOME TAXES

Tax expense differs from the amount computed by applying the combined Canadian federal and provincial income tax rates, applicable to the Corporation, to the loss before income taxes due to the following:

	February 28, 2017	February 29, 2016
	\$	\$
Loss before income taxes	(1,226,913)	(984,878)
Canadian federal and provincial income tax rates	26.88%	26.9%
Income tax recovery based on Canadian federal and provincial income tax rates	(329,841)	(264,932)
Increase (decrease) attributable to:		
Changes in unrecognized deferred tax assets	96,958	77,334
Non-deductible expenditures	32,753	(19,772)
Properties acquired with no tax base	28,745	56,076
Flow-through share premium	-	(175,313)
Effect of flow-through share renunciation	-	153,515
Adjustment to prior years	-	(2,221)
Québec refundable mining tax	(540,661)	(126,173)
Change in provincial tax rate	173,553	-
Other	(2,168)	-
Tax expense (recovery)	(540,661)	(301,486)

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

	As at February 29, 2016	Amount debited (credited) in the statement of loss	Amount debited (credited) to Equity	As at February 28, 2017
	\$	\$	\$	\$
Deferred tax assets				
Share issue costs	12,542	-	(2,975)	9,567

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19. INCOME TAXES (CONT'D)

	As at February 29, 2016	Amount debited (credited) in the statement of loss	As at February 28, 2017
	\$	\$	\$
Deferred tax liabilities			
Convertible debenture	12,542	(2,975)	9,567

Unrecognized deductible temporary differences, unused tax losses and unused tax credits are attributable to the following:

	February 28, 2015	February 29, 2016
	\$	\$
Non-capital losses carry forwards	17,486,676	15,907,950
Capital loss carry forwards	3,100,486	3,100,486
Property, plant and equipment	25,458,266	25,167,143
Share issuance costs	602,283	1,211,544
Non-deductible reserve	66,520	103,520
Non-refundable tax credits	3,451,561	3,342,777
	50,165,792	48,923,420

The non-capital losses and tax credits expire on various dates from 2027 to 2036.