



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended October 31, 2016 and 2015

(Unaudited - Expressed in Canadian Dollars)

TSXV: TEN

**TERRACO GOLD CORP.**

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# TERRACO GOLD CORP.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited - Expressed in Canadian Dollars)

	October 31, 2016	July 31, 2016
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,394,926	\$ 2,813,966
Receivables	213,862	210,641
Available-for-sale securities (Note 3)	13,680	11,400
Prepaid expenses and deposits	22,434	36,613
	<u>2,644,902</u>	<u>3,072,620</u>
Reclamation bonds	18,225	17,743
Royalty interests (Note 7)	21,894,085	21,894,085
Exploration and evaluation assets (Note 4 and Schedule)	19,448,716	19,375,700
Other assets (Note 14)	1,030,441	1,030,441
	<u>\$ 45,036,369</u>	<u>\$ 45,390,589</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 141,268	\$ 348,032
Convertible debenture (Note 5)	8,898,109	8,374,805
Convertible debenture derivative (Note 6)	10,011,743	11,183,013
Reclamation provision	11,736	11,425
	<u>19,062,856</u>	<u>19,917,275</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital (Note 8)	37,360,271	37,360,271
Contributed surplus	7,956,161	7,889,820
Accumulated other comprehensive income (loss)	1,978	-
Deficit	(19,344,897)	(19,776,777)
	<u>25,973,513</u>	<u>25,473,314</u>
	<u>\$ 45,036,369</u>	<u>\$ 45,390,589</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)  
COMMITMENTS (Notes 4 and 11)

These condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on December 16, 2016 and are signed on its behalf by:

Signed: "Todd Hilditch", Director

Signed: "Alfred Fischer", Director

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

## TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

	Period Ended October 31, 2016	Period Ended October 31, 2015
Accounting and audit	\$ -	\$ 17,085
Amortization	-	153
Consulting fees	84,075	67,500
Foreign exchange	187,144	1,683
Insurance	5,809	6,377
Investor relations	34,194	-
Legal and professional fees	179	-
Salaries, wages, office and sundry	40,000	33,905
Property investigation	29,782	-
Reclamation costs	4,385	-
Shareholder information	3,803	574
Share-based compensation	66,341	26,090
Telephone	1,080	808
Transfer agent and filing fees	4,557	11,581
Travel	1,477	-
<b>INCOME (LOSS) BEFORE OTHER ITEMS</b>	<b>(462,826)</b>	<b>(165,756)</b>
<b>OTHER ITEMS</b>		
Change in fair value of convertible debenture derivative (Note 6)	1,171,270	-
Finance fee	(278,654)	-
Interest income and other	1,788	1
Impairment charge (Note 4)	-	(35,271)
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>431,578</b>	<b>(201,026)</b>
<b>INCOME TAXES</b>		
Future income tax recovery (expense)	302	-
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>431,880</b>	<b>(201,026)</b>
<b>EARNINGS (LOSS) PER SHARE, BASIC AND DILUTED</b>	<b>\$ 0.00</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>146,055,795</b>	<b>143,638,548</b>

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

# TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

	Period Ended October 31, 2016	Period Ended October 31, 2015
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ 431,880	\$ (201,026)
Items not affecting cash		
Amortization	-	153
Change in fair value of the convertible debenture derivative	(1,171,270)	-
Deferred income tax expense (recovery)	(302)	-
Finance fees (Note 12)	289,086	-
Impairment charge	-	35,271
Stock based compensation	66,341	26,090
Unrealized foreign exchange loss on convertible debenture	<u>234,218</u>	<u>-</u>
	(150,047)	(139,512)
Changes in non-cash working capital balances		
Receivables	(3,221)	16,715
Prepaid expenses and deposits	14,179	8,091
Accounts payable and accrued liabilities	(220,802)	(153)
Subscriptions receivable	<u>-</u>	<u>50,444</u>
	<u>(359,891)</u>	<u>(64,415)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares, net	-	(3,075)
Recovery of finance fees	<u>10,432</u>	<u>-</u>
	<u>10,432</u>	<u>(3,075)</u>
<b>INVESTING ACTIVITIES</b>		
Reclamation bonds and deposits	(482)	(2,802)
Exploration and evaluation expenditures	<u>(69,099)</u>	<u>(140,455)</u>
	<u>(69,581)</u>	<u>(143,257)</u>
<b>DECREASE IN CASH</b>	(419,040)	(210,747)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,813,966</u>	<u>534,670</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 2,394,926</u>	<u>\$ 323,923</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION (Note 10)</b>		
Interest paid in cash	\$ <u>-</u>	\$ <u>-</u>
Income taxes paid in cash	\$ <u>-</u>	\$ <u>-</u>

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## TERRACO GOLD CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited - Expressed in Canadian Dollars)

	Number of Shares	Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance, July 31, 2015	143,638,548	\$ 37,068,442	\$ 7,604,223	\$ 7,425	\$ (15,860,370)	\$ 28,819,720
Share issue costs		(3,075)				(3,075)
Share-based compensation	-	-	26,090	-	-	26,090
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	2,140	-	2,140
Net income (loss) for the period	-	-	-	-	(201,026)	(201,026)
<b>Balance, October 31, 2015</b>	<b>143,638,548</b>	<b>\$ 37,065,367</b>	<b>\$ 7,630,313</b>	<b>\$ 9,565</b>	<b>\$ (16,061,396)</b>	<b>\$ 28,643,849</b>
Balance, July 31, 2016	146,055,795	\$ 37,360,271	\$ 7,889,820	\$ -	\$ (19,776,777)	\$ 25,473,314
Share-based compensation	-	-	66,341	-	-	66,341
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	1,978	-	1,978
Net income (loss) for the period	-	-	-	-	431,880	431,880
<b>Balance, October 31, 2016</b>	<b>146,055,795</b>	<b>\$ 37,360,271</b>	<b>\$ 7,956,161</b>	<b>\$ 1,978</b>	<b>\$ (19,344,897)</b>	<b>\$ 25,973,513</b>

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

# TERRACO GOLD CORP.

## CONDENSED INTERIM CONSOLIDATED SCHEDULE OF EXPLORATION AND EVALUATION ASSETS (Unaudited - Expressed in Canadian Dollars)

	Period Ended October 31, 2016	Activity	Year Ended July 31, 2016	Activity	Year Ended July 31, 2015
<b>Almaden (Nutmeg Mountain Gold) Property</b>					
Property acquisition costs and option payments	\$ 14,045,558	\$ -	\$ 14,045,558	\$ -	\$ 14,045,558
Property maintenance costs	462,878	28,325	434,553	91,825	342,728
Engineering and consulting	1,190,706	16,009	1,174,697	39,431	1,135,266
Assays, surveys and analysis	335,247	-	335,247	-	335,247
Environmental	40,057	-	40,057	-	40,057
Drilling	2,486,933	-	2,486,933	-	2,486,933
PEA	51,008	14,812	36,196	-	36,196
Communications, field supplies and expenses	836,329	13,870	822,459	61,112	761,347
Reclamation costs	-	-	-	(8,423)	8,423
	<u>19,448,716</u>	<u>73,016</u>	<u>19,375,700</u>	<u>183,945</u>	<u>19,191,755</u>
<b>Moonlight Property</b>					
Property acquisition costs and option payments	3,199,311	-	3,199,311	30,496	3,168,815
Property maintenance costs	509,915	-	509,915	50,207	459,708
Engineering and consulting	1,121,065	-	1,121,065	51,110	1,069,955
Assays, surveys and analysis	503,270	-	503,270	-	503,270
Environmental	99,645	-	99,645	(188)	99,833
Drilling	1,437,533	-	1,437,533	-	1,437,533
Communications, field supplies and expenses	129,245	-	129,245	2,796	126,449
Reclamation cost	-	-	-	(109,233)	109,233
Sale of Property	(6,999,984)	-	(6,999,984)	(6,999,984)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,974,796)</u>	<u>6,974,796</u>
<b>Bonanza Property</b>					
Property acquisition costs and option payments	247,871	-	247,871	-	247,871
Property maintenance costs	105,395	-	105,395	2,872	105,375
Engineering and consulting	286,897	-	286,897	289	286,608
Assays, surveys and analysis	160,433	-	160,433	-	160,433
Environmental	248	-	248	-	248
Equipment rental	225	-	225	-	225
Drilling	193,936	-	193,936	-	193,936
Communications, field supplies and expenses	31,701	-	31,701	13	31,688
Sale proceeds	(62,828)	-	(62,828)	-	(62,828)
Recovery	(147,458)	-	(147,458)	-	(147,458)
Impairment charge	(816,420)	-	(816,420)	(3,174)	(816,098)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Middlegate Property</b>					
Property acquisition costs and option payments	11,053	-	11,053	-	11,053
Property maintenance costs	102,988	-	102,988	10,989	91,999
Engineering and consulting	134,105	-	134,105	289	133,816
Assays, surveys and analysis	87,092	-	87,092	-	87,092
Environmental	4,343	-	4,343	-	4,343
Drilling	202,075	-	202,075	-	202,075
Communications, field supplies and expenses	7,857	-	7,857	13	7,844
Reclamation cost	11,442	-	11,442	(4)	11,446
Impairment charge	(560,955)	-	(560,955)	(11,287)	(549,668)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total exploration and evaluation assets</b>	<b>\$ 19,448,716</b>	<b>\$ 73,016</b>	<b>\$ 19,375,700</b>	<b>\$ (6,790,851)</b>	<b>\$ 26,166,551</b>

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

# TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Terraco Gold Corp. (the "Company" or "Terraco") was incorporated on November 28, 1995 under the Business Corporations Act (Alberta). The Company continued into British Columbia from Alberta on June 8, 2011 under the Business Corporations Act (British Columbia). The Company's common shares are listed on the TSX Venture Exchange (the "Exchange") under the trading symbol "TEN.V". The Company's principal office is located at #2390 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

The Company is a precious metals exploration and royalty company engaged in the acquisition and exploration of mineral properties and the acquisition of royalty assets. The Company currently has exploration properties and royalty assets in the United States of America. To date, no mineral development projects have been completed and no commercial development or production has commenced.

The Company is primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development programs and ultimately upon future profitable production.

		October 31, 2016		July 31, 2016
Deficit	\$	19,344,897	\$	19,776,777
Working capital	\$	2,503,634	\$	2,724,588

## 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim statements, including IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB").

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those applied in the Company's annual consolidated financial statements for the year ended July 31, 2016. These condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended July 31, 2016 which have been prepared according to IFRS as issued by the IASB. The Audit Committee of the Board of Directors authorized for publication the condensed interim consolidated financial statements on December 16, 2016.

As at the date of these financial statements, the following standards have not been applied in these financial statements:

### (b) Accounting Standards and Interpretations Issued but Not Yet Adopted

- (i) IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.



## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- (ii) IFRS 15 *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.
- (iii) IFRS 16 *Leases*. In January 2016, the IASB issued IFRS 16 which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

### 3. AVAILABLE-FOR-SALE SECURITIES

At October 31, 2016, the Company owns 114,000 common shares of Sama Resources Inc./Ressources Sama Inc. ("Sama"); a company listed on the Exchange with a director and officer in common. This investment is accounted for as an available-for-sale investment measured at fair value with changes in fair value recognized in accumulated other comprehensive income net of deferred income taxes. Management estimates the fair market value of these available-for-sale securities using the quoted market price of the securities at the reporting date.

	Number of shares	Cost \$	Fair value \$	Accumulated unrealized holding gain (loss) \$	Deferred income taxes on accumulated unrealized holding gain (loss) \$	Cumulative gains (losses) \$
October 31, 2016						
Sama	114,000	11,400	13,680	2,280	(302)	1,978
July 31, 2016						
Sama	114,000	11,400	11,400	-	-	-

During the year ended July 31, 2016, the Company sold 100,000 common shares of Sama for proceeds of \$9,750, resulting in a net loss of \$250.

The Company records a deferred income tax recovery in its financial statements where the Company has sufficient previously unrecognized tax loss carry forwards available to offset the deferred tax liability relating to unrealized gains included in other comprehensive income.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

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### 4. EXPLORATION AND EVALUATION ASSETS

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(a) Almaden (Nutmeg Mountain) Property

On January 25, 2011, the Company acquired all of the outstanding securities of Western Standard Metals Ltd. ("Western") in an all-share transaction by way of a plan of arrangement. Accordingly, the Company acquired a 100% interest in the Almaden (Nutmeg Mountain) Property comprising 12 leased patented lode mining claims (approximately 248 acres), 208 unpatented lode mining claims (approximately 4,150 acres) and approximately 280 acres of private fee ground located in Washington County, Idaho.

The minimum future payments required to maintain the leased patented lode mining claims over the next 7 years are as follows:

- US\$35,520 cash before fiscal year ended July 31, 2013 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2014 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2015 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2016 (paid);
- US\$35,520 cash before fiscal year ended July 31, 2017; and
- US\$58,560 cash thereafter.

During the year ended July 31, 2012, the Company staked an additional 2 unpatented mining claims in the surrounding area.

The Almaden Property is subject to a 4% net proceeds royalty interest payable to underlying property owners, a 1% net smelter return ("NSR") royalty (for gold prices equal to or less than US\$425/oz.) or 2% (for gold prices greater than US\$425/oz.) payable to Royal Gold Inc. and a 0.5% NSR royalty payable to a strategic investor (Note 7).

(b) Moonlight Property

During the year ended July 31, 2007, the Company entered into a purchase agreement for a 100% interest in 64 unpatented mining claims comprising approximately 1,380 acres with an option to joint venture on the Moonlight Property located in Pershing County, Nevada, for the consideration of US\$1,000,000 (paid); the Company staked 164 unpatented mining claims in the surrounding area; and the Company entered into four additional mining leases and option to purchase agreements covering a total of 24 claims and approximately 615 acres on private land in the vicinity of the Moonlight Property, US\$11,750 was paid upon execution of the various agreements.

During the year ended July 31, 2008, the Company entered into one additional mining lease and option to purchase agreement and one corrective deed sale covering approximately 60 acres on private land in the vicinity of the Moonlight Property, US\$10,500 was paid upon execution of the various agreements.

The minimum future payments required to maintain the mining lease and option to purchase agreements over 28 years are as follows:

- US\$45,000 cash before fiscal year ended July 31, 2014 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2015 (paid);
- US\$45,000 cash before fiscal year ended July 31, 2016; and
- US\$300,000 cash thereafter.

Work commitments covering 15 of the claims are as follows:

- US\$135,000 expenditures to incur before fiscal year ended July 31, 2016 and each year thereafter up to and including the twentieth anniversary (December 6, 2026) of the agreement date. During the year ended July 31, 2015, the landowner waived the 2015 expenditure commitment in exchange for a cash payment of US\$5,000 (paid).

Purchase option payments to acquire 100% of the properties under the agreements total US\$1,500,000. Certain land parcels within the Moonlight Property area are subject to a NSR royalty of up to 3%.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

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### 4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

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#### (b) Moonlight Property (Cont'd)

During the year ended July 31, 2012, the Company entered into a purchase agreement for a 100% interest in 88 land parcels comprising 1,040 acres of net surface rights and 2,860 acres of net mineral rights in Pershing County, Nevada, for consideration of US\$1,169,929 (paid) and the issuance of 773,000 (issued) common shares. The Company also staked an additional 2 unpatented mining claims in the surrounding area during the year.

On June 15, 2016, the Company sold 100% of its claims, leases, title and mineral rights relating to the Moonlight Property for approximately \$9.04 (US\$7.0) million in cash and a 2% NSR royalty on the Moonlight Property.

#### (c) Bonanza Property

Pursuant to an assignment agreement effective January 27, 2005, the Company acquired rights and obligations under an option to lease agreement relating to the Bonanza Property consisting of 9 patented and 14 unpatented mining claims comprising approximately 450 acres located in La Paz County, Arizona. The Company paid US\$9,000 and issued 200,000 common shares as consideration for this agreement.

The Company exercised the option and entered into a mining and lease agreement on September 20, 2005.

In accordance with this agreement, the following advance royalty payments are required (credited against the 2% production royalty):

- US\$10,000 cash before fiscal year ended July 31, 2011 (paid);
- US\$10,000 cash before fiscal year ended July 31, 2012 (paid);
- US\$20,000 cash before fiscal year ended July 31, 2013 (paid); and
- US\$5,000 cash before fiscal year ended July 31, 2014 (paid) and annually thereafter for the duration of the agreement.

The original 9 remaining acquired claims are subject to a 1% NSR royalty agreement. Also, under this agreement, the Company would be required to pay a production royalty of 2% upon commencement of commercial production. Prior to paying the production royalty, the original claims are subject to a 5% NSR royalty payable to a maximum of US\$200,000. The Company has the option of pre-paying the US\$200,000 up front or a 5% NSR royalty to a maximum of US\$200,000.

During the year ended July 31, 2015, management centralized its efforts and focus on its core royalty and exploration and evaluation assets; as a result, the Company recorded an impairment charge of \$210,743 against the carrying value of the Bonanza Property. A further impairment charge of \$3,174 was recorded for the year ended July 31, 2016.

#### (d) Middlegate Property

On November 30, 2007, the Company entered into an Exploration and Option Purchase Agreement ("EA") for the Middlegate Property consisting of the Thunder and Lightning unpatented mining claims comprising approximately 40 acres in Churchill County, Nevada (the "Middlegate Claims"). The Company, through its wholly-owned Nevada subsidiary, staked an additional 43 unpatented mining claims comprising approximately 1,940 acres (the "TGC Claims" and collectively with the Middlegate Claims, the "Middlegate Property"), which total approximately 3 square miles.

Pursuant to the terms of the EA, the Company has an option to earn an undivided 100% interest in the Middlegate Claims by incurring a minimum of US\$480,000 in exploration expenditures on the Middlegate Property within a four-year period.

On February 24, 2012, the Company entered into a Restatement and Termination of Exploration and Option to Purchase Agreement ("RTEOPA") for the Middlegate Claims whereby the Company made a final payment of US\$7,438 to earn an undivided 100% interest in the Middlegate Claims.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED OCTOBER 31, 2016 AND 2015  
(Unaudited - Expressed in Canadian Dollars)

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### 4. EXPLORATION AND EVALUATION ASSETS (Cont'd)

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#### (d) Middlegate Property (Cont'd)

The RTEOPA allows for a 5% NSR royalty on the Middlegate Claims which, on or before November 27, 2015 at the Company's option, can be reduced to 2% by buying down the NSR royalty for a total of US\$135,000, structured as follows: purchase first 1% by paying US\$35,000; second 1% by paying US\$50,000; and third 1% by paying US\$50,000. The additional TGC Claims hold to the seller's benefit a 3% NSR royalty, which the Company may buy down to 2% by paying a one-time fee of US\$75,000 on or before November 27, 2015.

During the year ended July 31, 2015, management centralized its efforts and focus on its core royalty and exploration and evaluation assets; as a result, the Company recorded an impairment charge of \$549,668 against the carrying value of the Middlegate Property. A further impairment charge of \$11,287 was recorded during the year ended July 31, 2016.

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### 5. CONVERTIBLE DEBENTURE

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On June 15, 2016, TGC Holdings Inc. ("TGC") issued a senior unsecured convertible debenture (the "Debenture") for gross proceeds of approximately \$15.53 (USD\$12.03) million. The Debenture bears interest at a rate of 0.05% per annum, payable annually in cash, and has a maturity date of June 15, 2021 (the "Maturity Date"). On the Maturity Date, the outstanding amount of the Debenture is due and payable in either cash or by converting the outstanding amount into common shares of the Company at the market price on the Maturity Date. The Company has guaranteed all amounts under the Debenture.

The holder of the Debenture ("Holder") may convert any portion of the Debenture into:

- common shares of the Company at a price of C\$0.18 per share (the "Parent Conversion Option");
- common shares of TGC based on the following formula: (amount to be converted) multiplied by (45) divided by US\$12.03 million (the "Subsidiary Conversion Option"). Assuming full conversion, the holder of the Debenture can convert into a maximum of 45% of TGC; or
- any combination of the Parent Conversion Option or the Subsidiary Conversion Option.

From June 15, 2016 to June 15, 2020, the Holder will be prohibited from owning greater than 19.99% of the Company (the "Ownership Limit"). During the term of the Debenture, Company shareholder approval will be required should the holder wish to exercise the Parent Conversion Option to acquire 20% or more of the Company's common shares.

The Holder will not be permitted to exercise the Parent Conversion Option or the Subsidiary Conversion Option until June 15, 2018 unless the Company's common shares trade at or above \$0.40 for twenty consecutive days prior to June 15, 2018.

Further, commencing on June 15, 2019, provided the Company's common shares trade at or above \$0.40 for twenty consecutive days, TGC shall be permitted to redeem all or any portion of the Debenture in exchange for the Company's common shares. The Holder has the right to participate in any future equity or convertible debt offerings of the Company to maintain its pro-rata ownership as long as the Holder owns (or can convert into) less than 5% of the issued and outstanding shares of the Company.

The Holder additionally agrees for a period of three years from June 15, 2016, to vote all Company common shares held in accordance with the recommendations of the Company's Board of Directors except in the event that: (i) an event of default under the Debenture has occurred; or (ii) a change of control of the Company has been proposed or announced.

The Debenture has been deemed to contain an embedded derivative ("Debenture Derivative") relating to the Parent Conversion Option. The Debenture Derivative was valued upon initial recognition using the residual approach at approximately \$6.99 million (Note 6). At inception, the gross proceeds of the Debenture were reduced by the estimated fair value of the Debenture Derivative (approximately \$6.99 million) and the transaction costs related to the Debenture of (approximately \$0.40 million) resulting in a balance of approximately \$8.14 million. The Debenture is measured at amortized cost and will be accreted to maturity over the term using the effective interest method.

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### 5. CONVERTIBLE DEBENTURE (Cont'd)

The components of the Debenture are summarized as follows:

	Convertible Debenture
Balance, June 15, 2016	\$ 8,140,271
Accretion	143,200
Foreign exchange adjustments	91,334
Balance, July 31, 2016	8,374,805
Accretion	289,086
Foreign exchange adjustments	234,218
Balance, October 31, 2016	\$ 8,898,109

### 6. CONVERTIBLE DEBENTURE DERIVATIVE

The Convertible Debenture Derivative related to the Convertible Debenture (Note 5) was valued upon initial recognition at a fair value of approximately \$6.99 million using the residual value approach, and is subsequently at each period end re-measured at fair value through the statement of net loss and comprehensive loss using the Black Scholes valuation method. The fair value upon initial recognition was reduced by the transaction costs related to the Debenture Derivative of approximately \$0.32 million, resulting in a balance of approximately \$6.67 million.

The components of the Debenture Derivative are summarized as follows:

	Convertible Debenture Derivative
Balance, June 15, 2016	\$ 6,673,415
Fair value adjustments including foreign exchange	4,509,598
Balance, July 31, 2016	11,183,013
Fair value adjustments including foreign exchange	(1,171,270)
Balance, October 31, 2016	\$ 10,011,743

Upon conversion of the Debenture, the fair value of the Debenture Derivative and the carrying value of the Debenture will be reclassified to share capital. There are no circumstances in which the Company would be required to pay any cash upon conversion of the Debenture.

The fair value of the Debenture Derivative was calculated using the Black Scholes valuation method. The assumptions used in the valuation model include:

	October 31, 2016	July 31, 2016
Risk-free interest rate	0.69%	0.60%
Expected term (years)	4.62	4.88
Share Price	\$ 0.165	\$ 0.18
Expected share price volatility	93.90%	95.70%

### 7. ROYALTY INTERESTS

#### Spring Valley Royalty #1

On December 21, 2011, the Company entered into an Assignment and Option Agreement ("Assignment and Option Agreement") pursuant to which a wholly-owned subsidiary acquired an option to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project and received in cash US\$5,000,000. The terms of the option provide the Company with the ability to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project for

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### 7. ROYALTY INTERESTS (Cont'd)

US\$12,500,000 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company. In exchange for the option, the Company issued a 1% NSR royalty on its Moonlight Property; a 0.5% NSR royalty (and up to a 1.0% NSR royalty in certain circumstances) on its Almaden Property; an off-take for 30% of the minerals produced from the Almaden (Nutmeg Mountain) Property during the life of the mine; and 1,000,000 share purchase warrants with an exercise price of \$0.35 per share for a period of 5 years, subject to early expiry at the discretion of the Company, if the Company shares trade at \$0.70 or higher for 20 consecutive trading days. The fair value attributed to the share purchase warrants was estimated to be \$228,399 using the Black-Scholes option-pricing model with the following assumptions: expected warrant life of 5 years, risk-free interest rate of 1.15%, dividend yield of 0% and expected volatility of 151%. The Company incurred a success fee of \$300,000 (paid) in conjunction with this transaction.

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.71%
\$300-\$399	1.07%
\$400-\$499	1.43%
\$500-\$599	1.79%
\$600-\$699	2.14%
\$700+	2.50%

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #1, under the Assignment and Option Agreement dated December 21, 2011. As a result of the exercise of the Spring Valley Royalty Option #1, the Company has paid US\$12,500,000, and in return the Company received a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project.

#### Spring Valley Royalty #2

On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement pursuant to which a wholly-owned subsidiary acquired an option to acquire a 0.5% NSR royalty on a portion of the Spring Valley Project. The terms of the option provide the Company with the ability to purchase a 0.5% NSR royalty on a portion of the Spring Valley Project for US\$983,211 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company.

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #2 under the Royalty Assignment, Purchase and Option Agreement dated March 8, 2012. As a result of the exercise of the Spring Valley Royalty Option #2, the Company has paid US\$983,211, and in return the Company received a 0.5% NSR royalty on a portion of the Spring Valley Project.

#### Spring Valley Royalty #3

On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement ("Royalty Assignment, Purchase and Option Agreement") pursuant to which the Company acquired a 0.5% NSR royalty from a strategic partner on a portion of the Spring Valley Gold Project ("Spring Valley Project") located in Pershing County, Nevada, in exchange for 2,500,000 common shares with an estimated fair value of \$587,500. The Spring Valley Project is 100% owned and controlled by Waterton Global Resource Management. The Company issued 2,500,000 common shares as consideration for the full purchase price.

#### Spring Valley Royalty #4

On April 21, 2013, the Company entered into a Royalty Purchase Agreement ("RPA") and a Royalty Purchase and Option Agreement ("RPOA") pursuant to which a wholly-owned subsidiary acquired for US\$4,200,000 and sold for US\$5,200,000 a 1.0% NSR sliding scale royalty on a portion of the Spring Valley Project while retaining an option to acquire a NSR sliding scale royalty on a portion of the Spring Valley Project.

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### 7. ROYALTY INTERESTS (Cont'd)

The terms of the option provide the Company with the ability to purchase a 0.5% NSR sliding scale royalty on a portion of the Spring Valley Project for US\$2,600,000 for a period of 3.7 years from the closing of the transaction (expiring on December 30, 2016) or within 1 year of a change of control of the Company. Pursuant to the RPA and RPOA, the Company issued 800,000 common shares as consideration with an estimated fair value of \$88,000 and received a net cash infusion of US\$1,000,000.

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.14%
\$300-\$399	0.21%
\$400-\$499	0.29%
\$500-\$599	0.36%
\$600-\$699	0.43%
\$700+	0.50%

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #4 under the Royalty Purchase Agreement ("RPA") and a Royalty Purchase and Option Agreement ("RPOA") dated April 21, 2013. As a result of the exercise of the Spring Valley Royalty Option #4, the Company has paid US\$2,600,000, and in return has received a 0.5% NSR sliding scale royalty on a portion of the Spring Valley Project.

As at October 31, 2016, the Company had capitalized acquisition costs of \$21,894,085 (July 31, 2016 - \$21,894,085) under royalty interests.

### 8. CAPITAL

- (a) Authorized:  
Unlimited number of voting common shares  
Unlimited number of non-voting preferred shares, none issued and outstanding

- (b) Share purchase options

As at October 31, 2016, the Company had outstanding share purchase options enabling holders to acquire common shares of the Company as follows:

Number	Vested	Price per share	Expiry date
2,925,000	2,925,000	\$0.11	October 29, 2018
5,051,000	5,051,000	\$0.16	June 9, 2019
4,050,000	2,025,000	\$0.12	November 26, 2020
300,000	300,000	\$0.18	August 15, 2021
12,326,000	10,301,000		

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## 8. CAPITAL (Cont'd)

## (b) Share purchase options (Cont'd)

A summary of the Company's options and the changes for the period/year are as follows:

	October 31, 2016		July 31, 2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	14,001,000	\$0.15	12,126,000	\$0.22
Granted	300,000	0.18	4,050,000	0.12
Exercised	-	-	-	-
Expired	(1,975,000)	0.26	(2,175,000)	0.45
<u>Outstanding, end of the period/year</u>	<u>12,326,000</u>	<u>\$0.14</u>	<u>14,001,000</u>	<u>\$0.15</u>

During the period ended October 31, 2016, the Company granted 300,000 share purchase options to a consultant of the Company and 1,975,000 options expired. The weighted average grant-date fair value of the stock options granted during the period is \$0.11.

During the year ended July 31, 2016, the Company granted 4,050,000 stock options to employees, officers, directors, and consultants of the Company and 2,175,000 options expired. The weighted average grant-date fair value of the stock options granted in the year is \$0.08.

The weighted average fair value of the stock options granted was determined by using the Black-Scholes option pricing model with the following assumptions:

	Period ended October 31, 2016	Year ended July 31, 2016
Risk-free interest rate	0.57%	0.74%
Estimated volatility	88.79%	98.07%
Expected life	3.72 years	3.60 years
Expected dividend yield	nil	nil

The Company has a share purchase option plan under which directors, officers, employees and consultants of the Company are eligible to receive share purchase options. The aggregate number of shares available to be issued upon the exercise of all share purchase options granted under the plan shall not exceed 10% of the issued and outstanding shares of the Company. The plan limits the maximum number of share purchase options issuable in any one 12-month period to any one optionee to 5% of the total common shares outstanding. The Board of Directors shall determine the terms and provisions of the options at the time of grant. The exercise price of each share purchase option shall not be less than the market price of the common shares on the date of the grant less the discount permitted by the Exchange. The maximum term of share purchase options shall not exceed 10 years or such other term as permitted by the Exchange.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measures of the fair value of the Company's share purchase options.



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### 8. CAPITAL (Cont'd)

#### (c) Share purchase warrants

As at October 31, 2016, the Company had outstanding share purchase warrants enabling holders to acquire common shares of the Company as follows:

Expiry date	Exercise price per share	Number
December 22, 2016 <sup>(1)</sup>	\$0.35	1,000,000
July 31, 2017	\$0.10	4,420,698
		<u>5,420,698</u>

<sup>(1)</sup> On December 22, 2011, the Company issued 1,000,000 share purchase warrants in connection with royalty interests (Note 7).

A summary of the Company's share purchase warrants and the changes for the year are as follows:

	October 31, 2016		July 31, 2016	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	5,420,698	\$0.15	5,420,698	\$0.15
Issued	-	-	-	-
Outstanding, end of the period/year	<u>5,420,698</u>	<u>\$0.15</u>	<u>5,420,698</u>	<u>\$0.15</u>

#### (d) Shareholder rights plan

On April 16, 2013, the board of directors approved the adoption of a shareholder rights plan (the "Plan"). The Plan is designed to provide shareholders and the Company's board of directors with adequate time to consider and evaluate any unsolicited bid made for the Company, to provide the board of directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid, to encourage the fair treatment of shareholders in connection with any take-over bid for the Company and to ensure that any proposed transaction is in the best interests of the Company's shareholders.

The rights issued under the Plan will become exercisable only if a person, together with its affiliates, associates and joint actors, acquires or announces its intention to acquire beneficial ownership of shares which when aggregated with its current holdings, total 20% or more of the Company's outstanding common shares (determined in the manner set out in the Plan), other than by a permitted bid (as described in the Plan).

Permitted bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days.

In the event that a take-over bid does not meet the permitted bid requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market price of the common shares at that time.

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### 9. RELATED PARTY TRANSACTIONS

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#### (a) Transactions with key management personnel

During the period ended October 31, 2016, the Company paid consulting fees of \$62,000 (October 31, 2015 – \$55,500) and salaries, wages, office and sundry fees of \$4,500 (October 31, 2015 – \$7,500) to officers and companies controlled by officers and/or directors of the Company.

As at October 31, 2016, \$16,754 (July 31, 2016 – \$8,686) is payable to companies controlled by officers and/or directors of the Company, which is included in accounts payable and accrued liabilities.

During the period ended October 31, 2016, the Company paid engineering and consulting fees of US\$35,385 (October 31, 2015 - US\$17,325) to companies controlled by an officer or director of the Company. Of these fees, US\$12,180 (October 31, 2015 - US\$17,325) has been capitalized under exploration and evaluation assets as the fees were incurred directly for exploration and evaluation projects.

During the period ended October 31, 2016, the Company incurred share-based payments of \$29,570 (October 31, 2015 – \$22,594) to officers and directors of the Company.

#### (b) Transactions with other related parties

As at October 31, 2016, \$4,578 (October 31, 2015 – \$5,698) is due from a director of the Company and a company with a director and officers in common. This amount is included in receivables.

Included in available-for-sale securities as at October 31, 2016 is 114,000 common shares with a market value of \$13,680 (October 31, 2015 - \$32,100) received from a company with a director and officer in common.

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### 10. SUPPLEMENTAL CASH FLOW INFORMATION

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The following significant non-cash transactions have been excluded from the condensed interim consolidated statements of cash flows:

As at October 31, 2016, exploration and evaluation expenditures incurred of \$10,378 (July 31, 2016 – \$6,772) are included under accounts payable and accrued liabilities.

As at October 31, 2016, a recovery of finance fees of \$10,432 (July 31, 2016 - \$Nil) are included under accounts payable and accrued liabilities.

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### 11. COMMITMENTS

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The Company has an operating lease commitment for office premises in Vancouver, British Columbia, requiring basic annual rent payments of \$16,950 to September 30, 2016, and basic annual rent payments of \$26,139 to July 31, 2018.

The Company has an operating lease commitment for office premises in Weiser, Idaho, requiring basic annual rent payments of US\$43,200 to March 31, 2016 and basic annual rent payments of US\$36,150 subject to the closing price of gold (COMEX) per ounce ("oz") payable to March 31, 2021 as follows:

Annual rent If the closing price of gold on the last trading day of each month exceeds US\$1,400/oz	US\$42,150
Annual rent If the closing price of gold on the last trading day of each month exceeds US\$1,800/oz	US\$48,150
Annual rent If the closing price of gold on the last trading day of each month exceeds US\$2,200/oz	US\$54,150

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### 11. COMMITMENTS (Cont'd)

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Minimum payments relating to the above commitments in each of the next three fiscal years are as follows (based on the closing price of gold of less than US\$1,400/oz):

2017	\$	56,015
2018	\$	74,620
2019	\$	48,481

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### 12. FINANCE FEES

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The Company's finance fees for the period ended October 31, 2016 were comprised of accretion costs of \$289,086 associated with the convertible debenture (Note 5), as well as a recovery of finance fees of \$10,432.

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### 13. FINANCIAL INSTRUMENTS – FAIR VALUE

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Financial instruments are classified into one of the following four categories: fair-value-through-profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	October 31, 2016	July 31, 2016
Cash	FVTPL	\$ 2,394,926	\$ 2,813,866
Receivables	Loans and receivables	213,862	210,641
Available-for-sale securities	Available-for-sale	13,680	11,400
Reclamation bonds	Loans and receivables	18,225	17,743
Accounts payable and accrued liabilities	Other liabilities	(141,268)	(348,032)
Convertible debenture	Other liabilities	(8,898,109)	(8,374,805)
Convertible debenture derivative	FVTPL	(10,011,743)	(11,183,013)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's fair value of cash and available-for-sale securities under the fair value hierarchy are measured using Level 1 inputs. The recorded amounts for receivables, accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the reclamation bonds approximates its fair value. The convertible debenture derivative under the fair value hierarchy is measured using level 2 inputs.

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### 14. OTHER ASSETS

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#### Right-of-First-Refusal – Spring Valley Project

On December 21, 2011, the Company issued 4,000,000 common shares at an estimated fair value of \$1,020,000 to acquire a right of first refusal on a separate 1% area of interest royalty located on the Spring Valley Project.

As at October 31, 2016, the Company had capitalized acquisition costs of \$1,030,441 (July 31, 2016 - \$1,030,441) under other assets.

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### 15. COMPARATIVE FIGURES

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Certain of the 2016 comparative figures have been reclassified to conform to current presentation.