



TRISTAR GOLD, INC.

CONSOLIDATED AUDITED FINANCIAL STATEMENTS
(Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of
TriStar Gold, Inc.

We have audited the accompanying consolidated financial statements of TriStar Gold, Inc (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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 is sufficient and appropriate to provide a basis for our audit opinion.



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TriStar Gold, Inc.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TriStar Gold, Inc. as of December 31, 2016 and 2015, 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 2 in the consolidated financial statements, which indicates that the Company is still in exploration stage and, as such, no revenue has been generated from operating activities and the Company has a history of operating losses to the year ended December 31, 2016. Accordingly, the Company depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Pannell Kerr Forster of Texas, P.C.

April 24, 2017

TriStar Gold, Inc.
Consolidated Statements of Financial Position
(Expressed in United States Dollars)

| | December 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 7) | \$ 1,674,263 | \$ 1,081,011 |
| Accounts receivable | 13,266 | 4,842 |
| Prepaid expenses | 56,129 | 17,011 |
| Total current assets | 1,743,658 | 1,102,864 |
| Non-current assets: | | |
| Mineral properties and deferred expenditures (Note 8) | 14,048,562 | 11,847,093 |
| Plant and equipment, net (Note 9) | 1,049 | 1,240 |
| Total non-current assets | 14,049,611 | 11,848,333 |
| Total assets | \$ 15,793,269 | \$ 12,951,197 |
| Liabilities and Shareholders' equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 181,537 | \$ 279,389 |
| Total current liabilities | 181,537 | 279,389 |
| Non-current liabilities: | | |
| Provisions (Note 10) | 310,687 | 218,313 |
| Warrants liability (Note 11) | 782,874 | 1,512,370 |
| Total non-current liabilities | 1,093,561 | 1,730,683 |
| Total liabilities | 1,275,098 | 2,010,072 |
| Shareholders' equity: | | |
| Share capital (Note 12) | 38,389,642 | 32,820,763 |
| Capital reserve (Note 12 and Note 14) | 3,791,752 | 3,640,164 |
| Accumulated deficit | (27,663,223) | (25,519,802) |
| Total shareholders' equity | 14,518,171 | 10,941,125 |
| Total liabilities and shareholders' equity | \$ 15,793,269 | \$ 12,951,197 |

Nature of Operations and Going Concern (Note 2)
Commitments and Contingencies (Note 19)

Approved on behalf of the Board of Directors.

Director: "Mark E. Jones, III"
Director: "Nicholas Appleyard"

See accompanying notes which are an integral part of these consolidated audited financial statements.

TriStar Gold, Inc.
Consolidated Statements of Comprehensive Loss
(Expressed in United States Dollars)

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Expenses: | | |
| General and administrative (Note 14 and Note 15) | \$ 1,892,204 | \$ 2,414,218 |
| Property impairment | 205,536 | - |
| Foreign exchange losses / (gains) | 54,478 | (172,309) |
| | <u>2,152,218</u> | <u>2,241,909</u> |
| Other income (expenses): | | |
| Warrants liability fair value change (Note 11) | 8,868 | 123,622 |
| Bank charges | (6,154) | (4,814) |
| Interest income | 6,083 | 8 |
| | <u>8,797</u> | <u>118,816</u> |
| Net loss and comprehensive loss for the period | <u><u>\$ (2,143,421)</u></u> | <u><u>\$ (2,123,093)</u></u> |
| Basic and Diluted Loss per Share (Note 16) | <u><u>\$ (0.02)</u></u> | <u><u>\$ (0.02)</u></u> |
| Basic and Diluted weighted-average number of shares outstanding (Note 16) | <u><u>117,582,744</u></u> | <u><u>89,758,732</u></u> |

See accompanying notes which are an integral part of these consolidated audited financial statements.

TriStar Gold, Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in United States Dollars)

| | Common Shares | | Capital Reserve | Deficit and Accumulated Other Comprehensive Loss | Total Shareholders' Equity |
|---|--------------------|---------------------|--------------------|--|----------------------------|
| | Number | Amount | | | |
| Balance at December 31, 2014 | 84,366,553 | \$30,749,007 | \$2,032,668 | \$(23,396,709) | \$9,384,966 |
| Shares issued on private placement, net of share issue cost (Note 12) | 17,649,493 | 1,651,327 | - | - | 1,651,327 |
| Shares issued on exercise of warrants (Note 12) | 2,985,000 | 420,429 | - | - | 420,429 |
| Stock-based compensation (Note 14) | - | - | 1,607,496 | - | 1,607,496 |
| Net loss and comprehensive loss for the year | - | - | - | (2,123,093) | (2,123,093) |
| Balance at December 31, 2015 | 105,001,046 | 32,820,763 | 3,640,164 | (25,519,802) | 10,941,125 |
| Shares issued on private placement, net of share issue cost (Note 12) | 14,188,214 | 2,195,841 | - | - | 2,195,841 |
| Shares issued on exercise of warrants (Note 11 and Note 12) | 15,172,600 | 3,073,528 | - | - | 3,073,528 |
| Shares issued on debt payment (Note 12) | 161,909 | 22,058 | - | - | 22,058 |
| Shares issued to mineral property's vendor (Note 8 and Note 12) | 1,000,000 | 277,452 | - | - | 277,452 |
| Stock-based compensation (Note 12 and Note 14) | - | - | 151,588 | - | 151,588 |
| Net loss and comprehensive loss for the year | - | - | - | (2,143,421) | (2,143,421) |
| Balance at December 31, 2016 | 135,523,769 | \$38,389,642 | \$3,791,752 | \$(27,663,223) | \$14,518,171 |

See accompanying notes which are an integral part of these consolidated audited financial statements.

TriStar Gold, Inc.
Consolidated Statements of Cash Flows
(Expressed in United States Dollars)

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Operating activities | | |
| Net loss for the year | \$ (2,143,421) | \$ (2,123,093) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation (Note 9) | 1,216 | 1,137 |
| Stock-based compensation (Note 12 and Note 14) | 73,098 | 1,607,496 |
| Warrants liability fair value change | 1,592,049 | 91,865 |
| Gain on settlement of warrants (Note 11) | (1,600,916) | (215,487) |
| Mineral property write-off | 205,536 | - |
| Unrealized foreign exchange loss | 792,345 | 36,492 |
| Changes in non-cash operating working capital: | | |
| Accounts receivable | (11,838) | (3,787) |
| Prepaid expenses | (34,785) | (5,424) |
| Accounts payable and accrued liabilities | (83,826) | 217,231 |
| Provisions | 45,841 | - |
| Net cash used in operating activities | <u>(1,164,701)</u> | <u>(393,570)</u> |
| Investing activities | | |
| Mineral properties acquisition and exploration (Note 8) | (2,129,553) | (760,750) |
| Purchase of equipment (Note 9) | (1,025) | - |
| Net cash used in investing activities | <u>(2,130,578)</u> | <u>(760,750)</u> |
| Financing activities | | |
| Proceeds from exercise of warrants (Note 12) | 1,553,267 | 284,837 |
| Net proceeds from private placement (Note 12) | 3,073,964 | 1,960,654 |
| Net cash provided by financing activities | <u>4,627,231</u> | <u>2,245,491</u> |
| Effect of exchange rates on cash and cash equivalents | | |
| Net increase in cash and cash equivalents | 593,252 | 942,213 |
| Cash and cash equivalents, beginning of period | 1,081,011 | 138,798 |
| Cash and cash equivalents, end of period | <u>\$ 1,674,263</u> | <u>\$ 1,081,011</u> |

See accompanying notes which are an integral part of these consolidated audited financial statements.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

1. Corporate Information

TriStar Gold, Inc. (“TriStar” or the “Company”) was incorporated on May 21, 2010, in British Columbia, Canada. The Company is listed on the TSX Venture Exchange (“TSX”), under the symbol TSG.V. The address of the Company’s corporate office and principal place of business is 7950 E Acoma Drive, Suite 209, Scottsdale, Arizona, United States, 85260.

TriStar was created to hold certain existing Brazauro Resources Corporation (“Brazauro”) assets as a result of an Arrangement Agreement (the “Arrangement”) between Brazauro and Eldorado Gold Corporation (“Eldorado”). Under the “spin out” Arrangement Brazauro transferred certain Brazilian mineral exploration properties and Eldorado provided a cash contribution for working capital of \$10 million to TriStar. The completion of the Arrangement occurred on July 20, 2010.

2. Nature of Operations and Going Concern

TriStar’s primary business focus is the acquisition, exploration and development of precious metal prospects in the Americas, including its current focus on advancing the exploration success of Castelo de Sonhos (“CDS”) located in the Tapajós Gold District of Brazil’s northerly Pará State. The Company is concentrating its exploration activities on the CDS property because the Company believes CDS has the potential to host several million ounces of gold.

The Company’s current properties are in the exploration stage and have not yet been proven to be commercially developable. The continued operations of the Company and the recoverability of the amounts shown for mineral property are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of such properties, and the future profitable production from or disposition of such properties.

The Company has no source of revenue. Its ability to continue as a going concern and meet its commitments as they become due, including completion of the exploration and development of its mineral property interests and to meet its general and administrative expenses, is dependent on the Company’s ability to obtain the necessary financing. The Company relies on the sale of its treasury securities to fund its operations and the Company’s cash position is currently insufficient to maintain its planned operations for a full year. Management is planning to raise additional capital to finance operations and expected growth. Although the Company has been successful in raising funds in the past, there can be no assurance that adequate funding will be available in the future, or available under terms favorable to the Company.

For the year ended December 31, 2016, the Company incurred a net loss of \$2,143,421 (December 31, 2015: net loss of \$2,123,093). The Company’s accumulated deficit as at December 31, 2016, was \$27,663,223 (December 31, 2015: \$25,519,802). The consolidated audited financial statements have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year, adverse financial conditions may cast substantial doubt upon the validity of this assumption.

These consolidated audited financial statements do not include any additional adjustments to the recoverability and classification of certain recorded asset amounts, classification of certain liabilities and changes to the Consolidated Statements of Comprehensive Loss that may be necessary if the Company was unable to continue as a going concern.

3. Basis of Presentation

Statement of Compliance

These consolidated audited financial statements have been prepared in accordance with IFRS and related IFRS Interpretations Committee (“IFRICs”) as issued by the International Accounting Standards Board (“IASB”) in effect at December 31, 2016.

These consolidated audited financial statements were authorized for issuance by the Board of Directors of the Company on April 24, 2017.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

3. Basis of Presentation (continued)

Basis of Measurement

These consolidated audited financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss.

These consolidated audited financial statements are presented in United States dollars (“U.S. dollars”), unless otherwise noted.

4. Significant Accounting Policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated audited financial statements, unless otherwise indicated, and are consistent with IFRS as adopted in Canada.

Principles of Consolidation

These consolidated audited financial statements include the accounts of the Company and the following subsidiaries:

| <u>Company</u> | <u>Country of Incorporation</u> | <u>Principal activity</u> |
|-----------------------------------|----------------------------------|--|
| TexOro U.S. LLC | United States of America (“USA”) | Administrative services |
| TriStar Gold (Brazil), Inc. | Canada | Holding Company |
| TriStar Mineracao Do Brasil Ltda. | Brazil | Administrative services. Owns mineral properties |
| Mineracao Castelo de Sonhos Ltda. | Brazil | Owns mineral properties |

These subsidiaries are controlled by the Company and are wholly-owned. Control exist when the Company is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the company.

All intercompany transactions and balances have been eliminated upon consolidation.

Foreign Currency Translation and Functional Currency

The individual financial statements of each subsidiary are presented in the currency of the primary economic environment in which that entity operates (its functional currency). The functional currency of the Company and the presentation currency of the consolidated audited financial statements is the U.S. dollar. The Company’s Brazilian and USA operations also have the U.S. dollar as their functional currency.

Management determines the functional currency by examining the primary economic environment of each exploration project. The Company considers the following factors in determining its functional currency:

- The main influences of sales prices for goods procured or consumed and the country whose competitive forces and regulations mainly determine the sales price;
- The currency that mainly influences labor, material and other costs of providing goods;
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

In preparing the functional currency financial statements of the Company and its subsidiaries, transaction amounts denominated in foreign currencies (currencies other than the functional currency of the respective subsidiary) are translated into the Company’s functional currency using exchange rates prevailing at the transaction dates. Foreign currency monetary items are translated at the exchange rate prevailing at the balance sheet statement date. Foreign currency non-monetary items that are measured at fair value in a foreign currency are translated at the exchange rate prevailing at the fair value date.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand and demand deposits that are readily convertible into known amounts of cash within a year or less and are subject to an insignificant risk of change in value.

Mineral Properties and Deferred Expenditures

Expenditures incurred prior to the Company obtaining the right to explore are expensed in the period in which they are incurred.

Direct acquisitions costs, costs directly related to exploration and evaluation expenditures are recognized and capitalized and reduced by related sundry income. The net amount is then amortized over the recoverable mineral reserves when a property is commercially developed. When an area is abandoned or no exploration is planned on it in the foreseeable future, capitalized expenditures are written down to recoverable amount. Write-downs due to impairment in value are charged to profit and loss.

Recorded costs of mineral properties are not intended to reflect present or future values of the properties. Management's capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated gold and commodity prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties and deferred expenditures.

Plant and Equipment

On initial recognition, plant and equipment are valued at cost, being the purchase price and directly attributable costs related to its acquisition. Subsequently, they are measured at cost less accumulated depreciation, less any accumulated impairment losses.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with carrying amount, and are recognized net in the Consolidated Statement of Comprehensive Loss.

Depreciation is recognized in "general and administrative expenses" (Note 15) in the Consolidated Statement of Comprehensive Loss and is provided on a straight-line basis over the estimated useful life of the assets as follows:

| | |
|------------------|-----------|
| Furniture | 3-5 years |
| Office equipment | 2-5 years |
| Vehicles | 2 years |
| Field Equipment | 2 years |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end with any changes accounted for prospectively.

Impairment of Long-Lived Assets

Long-lived assets include mineral properties and deferred expenditures, and plant and equipment. The Company reviews and evaluates its exploration projects for indicators of impairment at the end of each reporting period. Impairment assessments are conducted at the level of cash generating units ("CGU"). A CGU is the lowest level of identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, with each development and exploration project representing a separate CGU. If an indication of impairment exists, the recoverable amount of the CGU is estimated. An impairment loss is recognized when the carrying amount of the CGU is in excess of its recoverable amount.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies (continued)

Impairment of Long-Lived Assets (continued)

The Company assesses at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for a long-lived asset may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount of that CGU. A reversal of an impairment loss is recognized up to the lesser of the recoverable amount or the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for the CGU in prior years.

Provisions

Provisions are recorded when a legal or constructive obligation may exist as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation and reflect amounts which are expected to become due.

Warrants Liability

Warrants issued have exercise prices denominated in Canadian dollars, and therefore do not qualify for classification as equity as their exercise price is not in the Company's functional currency. These warrants have been classified as warrants liability and are recorded at the estimated fair value at each reporting date, computed using the Black-Scholes valuation method using level two observable inputs. Changes in fair value for each period are included in the Consolidated Statement of Comprehensive Loss for the year.

Income Taxes

Current income taxes are measured at the amount expected to be paid to tax authorities, based on taxable profit for the year, net of recoveries using enacted tax rates at the balance sheet date. Taxable profit differs from profit as reported in the Consolidated Statement of Comprehensive Loss because of items of income or expense that are taxable or deductible in other periods and items that may not be taxable or deductible. Deferred income tax liabilities are recognized using the asset and liability method on taxable temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that deductions can be utilized. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply in the year when the asset is realized or the liability settled, using enacted or substantively enacted tax rates at the balance sheet date. Valuation allowances are provided if it is uncertain that a deferred tax asset will be realized.

Share-based Payments

The Company maintains a stock option plan for employees, directors and consultants.

The Company uses the fair-value based method to account for all stock options issued to employees and other individuals granted by measuring the compensation cost of the stock options using the Black-Scholes option-pricing model. The earnings effect of stock options which vest immediately is recorded at the date of grant. The earnings effects of stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. The fair value of the share-based payments is recorded as a charge to net earnings based on the vesting period with a credit to capital reserve. Upon exercise of the stock options, consideration paid by the option holder, together with the amount previously recognized in capital reserve, is recorded as an increase to share capital.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

4. Significant Accounting Policies (continued)

Earnings Per Share

Earnings per share are calculated by dividing net income by the weighted average number of common shares issued and outstanding during the year. The Company follows the treasury stock method in the calculation of diluted earnings per share. Under this method, the weighted average number of shares includes the potential net issuances of common shares for “in-the-money” options and warrants assuming the proceeds are used to repurchase common shares at the average market price during the year, if dilutive. The effect of potential issuances of shares under options and warrants would be anti-dilutive if a loss is reported, and therefore basic and diluted losses per share are the same.

Financial Instruments

Non-derivative financial assets

The Company recognizes all financial assets initially at fair value and classifies them into one of the following four categories: held-to-maturity, available-for-sale (“AFS”), loans and receivables or other financial liabilities, or fair value through profit or loss (“FVTPL”). Financial assets held to maturity and loans and receivables are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive loss. Instruments classified as FVTPL are measured at fair value with unrealized gains and losses recognized in net loss.

The fair value of financial instruments traded in active markets (such as FVTPL and AFS securities) are based on quoted market prices at the date of the statement of financial position.

The Company has classified cash and cash equivalents and receivables as loans and receivables. The fair value of cash and cash equivalents and accounts receivable are approximated by their carrying value due to the short term nature of these financial instruments.

Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized in the Consolidated Statement of Comprehensive Loss. Other financial liabilities, are initially measured at fair value net of transaction costs, and subsequently measured at amortized cost.

Accounts payable and accrued liabilities and provisions are classified as other financial liabilities. The fair value of accounts payable and accrued liabilities are approximated by their carrying value due to the short term nature of these financial instruments.

Derivative instruments

Derivative instruments are recorded at fair value on initial recognition and at each subsequent reporting period. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recorded in net loss.

The Company’s share purchase warrants are derivative liabilities and accordingly, they are recorded at fair value at each reporting period, with the gains or losses recorded in the Consolidated Statement of Comprehensive Loss for the period.

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the Company’s consolidated audited financial statements in conformity with IFRS requires management to make estimates based on assumptions about future events that affect the reported amount of assets and liabilities and disclosures of contingent assets or liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported periods.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized prospectively in the period in which the estimate is revised.

Material areas that require estimates and assumptions as the basis for determining the reported amounts include, but are not limited to, the following:

Going concern. Management considers whether there exists any events or conditions that may cast doubt on the Company's ability to continue as a going concern. Considerations take into account all available information about the future including the availability of debt and equity financing as well as the Company's working capital balance and future cash commitments.

Functional currency. The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The functional currency of all entities within the group is the U.S. dollar. Functional currency of each of the entities was determined based on the currency that mainly influences sales prices for goods and services, labor, material and other costs and the currency in which funds from financing activities are generated.

Impairment of assets. Management assesses each CGU at each reporting period to determine whether any indication of impairment exists. In addition, management assesses a CGU for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made which is considered to be the higher of the fair value less costs to sell and its value in use. These assessments require the use of estimates and assumptions such as future capital requirements and assessments of preliminary assay results. Fair value is determined as the amount that could be obtained from the sale of the asset in an arm's-length transaction between knowledgeable and willing parties.

Fair value of derivative financial instruments (Warrants Liability). Management assesses the fair value of the Company's financial derivatives in accordance with the accounting policy stated in Note 4 to the consolidated audited financial statements. Fair values of warrants have been measured using the Black-Scholes model, taking into account the terms and conditions upon which the warrants are granted. These calculations require the use of estimates and assumptions. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's financial derivatives. When these assumptions change or become known in the future, such differences will impact asset and liability carrying values in the period in which they change or become known.

Fair value of stock options and stock based compensation. Management assesses the fair value of stock options granted in accordance with the accounting policy stated in Note 4 to the consolidated audited financial statements. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the Company's stock options.

Mineral resources. The Company estimates its measured and indicated and inferred mineral resources and the exploration target range for Castelo de Sonhos based upon information compiled by Qualified Persons, as defined in National Instrument 43-101.

Information relative to geological data on the size, depth, grade and shape of the mineralized body requires complex geological and geo-statistical judgements to interpret data, which judgements themselves contain significant estimates and assumptions.

Changes in the measured and indicated and inferred mineral resources may impact the carrying value of mineral properties and deferred expenditures.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

5. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Provisions. Provisions recognized in the consolidated financial statements involve judgments on the occurrence of future events which could result in a material outlay for the Company. In determining whether an outlay will be material, the Company considers the expected future cash flows based on facts, historical experience and probabilities associated with such future events. Uncertainties exist with respect to estimates made by management and as a result, the actual expenditure may differ from amounts currently reported.

6. Recent and Future Changes in Accounting Pronouncements

The IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods nor has the Company applied any of these standards.

IFRS 9, "Financial instruments" (2014). This is the finalized version of IFRS 9 which contains accounting requirements for financial instruments replacing *IFRS 39 Financial Instruments: Recognition and Measurement*. The new standard contains requirements in the following areas:

Classification and measurement. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a "fair value through other comprehensive income" category for certain debt instruments. Financial liabilities are classified in a manner similar to that under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment. The 2014 version of IFRS introduces an "expected credit loss" model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized.

Derecognition. The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39. This standard is applicable to the Company for annual periods beginning on July 1, 2018. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, "Revenue from Contracts with Customers" replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts* and a number of related interpretations. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. This standard is mandatory for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company plans to adopt IFRS 15 at the date it becomes effective but its impact is believed to be insignificant.

IFRS 16, *Leases* was published in January 2016 and supersedes IAS 17- *Leases*. IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lease accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less or the underlying asset has a low value. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15 has also been applied. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

7. Cash and Cash Equivalents

Cash and cash equivalents include:

| | Balance at December 31, 2016 | Balance at December 31, 2015 |
|---------------------|---------------------------------|---------------------------------|
| <i>Cash:</i> | | |
| Cash at bank | \$ 790,706 | \$ 1,080,846 |
| Investment accounts | 883,557 | 165 |
| Total | <u>\$ 1,674,263</u> | <u>\$ 1,081,011</u> |

As at December 31, 2016 the investment accounts include a Canadian Guaranteed Investment Certificate (GIC) for a balance of \$424,536 with an annual interest rate of 0.08% and maturity date on July 20, 2017, and saving accounts for a balance of \$459,021.

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

For the years ended December 31, 2016 and 2015

8. Mineral Properties and Deferred Expenditures

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures cannot guarantee the Company's title to all of its properties. Such properties may be subject to prior mineral rights applications with priority, prior unregistered agreements or transfers or indigenous land claims, and title may be affected by undetected defects. Certain of the mineral rights held by the Company are held under applications for mineral rights or renewal of mineral rights and, until final approval of such applications is received, the Company's rights to such mineral rights may not materialize and the exact boundaries of the Company's properties may be subject to adjustment. The Company does not maintain title insurance on its properties.

Castelo de Sonhos Property (Brazil)

On November 9, 2010, the Company announced the signing of an agreement (the "Agreement") with third parties, to acquire 100% of the mineral rights of the Castelo de Sonhos Property. The Company paid the property owners \$50,000 upon the signing of a Commitment Letter on April 29, 2010, and \$250,000 on February 23, 2011 after the satisfactory completion of the transfer of mineral right's ownership to the Company according to the Agreement. To maintain the Agreement, an additional stream of six-month option payments totaling \$2.4 million were payable over a period of 36 months. Two payments in the amount of \$100,000 each were made on September 15, 2011, and March 5, 2012, respectively. Another payment in the amount of \$125,000 was made on September 3, 2012. Additionally, a payment in the amount of \$150,000 was made on March 6, 2013.

On November 19, 2013, the Company signed an Amending Agreement. Under the Amending Agreement, the Company paid the vendors \$50,000 and issued to the property owners 1,000,000 shares of the Company, in lieu of a payment of \$200,000 which was due on September 3, 2013.

On February 4, 2014, the Company signed an Amending Agreement ("Second Amending Agreement") with the vendor of CDS to extend the due dates of the remaining payments to the vendor. Under the Second Amending Agreement, a payment of \$300,000 due on March 13, 2014, was amended to three payments of \$100,000 each, with the first such payment due on March 13, 2014, the second payment due in September 2014 and the third payment due in January 2015. The final payment, in the amount of \$1,425,000 formerly due in September 2014, was increased by \$75,000 and was deferred until July 2015. In addition, under the Second Amending Agreement, the Company agreed to issue 1,000,000 shares of the Company to the vendor and pay \$3,600,000 out of production from the property over and above its royalty. At its option, TriStar may pay to the vendor \$1,500,000 on or prior to the making of a construction decision in lieu of the payment out of production. Under the Second Amending Agreement the Company issued 1,000,000 shares to the vendor on February 28, 2014, with an estimated fair value at grant date of \$112,867, on March 10, 2014, made the first \$100,000 payment, on September 3, 2014, made the second \$100,000 payment and on December 30, 2014, made the final \$100,000 payment.

On May 6, 2015, the Company reached an agreement ("Third Amending Agreement") with the vendor of CDS under which the final payment of \$1,500,000, originally due in July 2015 was extended with payments of \$500,000 due in July 2015, \$300,000 due in January 2016 and \$800,000 due in July 2016. The Company also agree to issue 1,000,000 shares of TriStar to the vendor in July 2016. Under the Third Amending Agreement the Company made a payment in the amount of \$500,000 on July 10, 2015, \$300,000 on January 6, 2016 and \$800,000 on July 14, 2016. On July 15, 2016 the Company completed its acquisition of 100% of CDS with the issuance of 1,000,000 shares of the Company to the vendor with an estimated value at grant date of \$277,452.

Should a gold deposit with proven and probable reserves in excess of 1 million troy ounces be identified, the vendor will receive an additional \$1 for each troy ounce. The property owner will retain a 2% Net Smelter Return royalty, half of which can be purchased by TriStar at any time and which amount will be calculated based on the indicated and measured reserves identified by a feasibility study.

Bom Jardim Properties (Brazil)

As part of the Arrangement, the property was transferred to the Company in July 2010.

Bom Jardim is not considered material to the Company at this time although TriStar has retained one exploration license for the Bom Jardim area. No significant work had been conducted on this property in the past 2 to 3 years and no exploration work is planned for the foreseeable future. In December 2016 management decided an impairment was required to reduce Bom Jardim's carrying value to nil.

TriStar Gold, Inc.

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8. Mineral Properties and Deferred Expenditures (continued)

Mineral properties and deferred expenditures were as follows:

| | Balance at December 31, 2015 | Additions | Impairments/ Write-Off | Balance at December 31, 2016 |
|--------------------------------------|---------------------------------|--------------|---------------------------|---------------------------------|
| <i>Castelo de Sonhos Properties:</i> | | | | |
| Acquisition costs | \$ 1,926,493 | \$ 1,377,452 | \$ - | \$ 3,303,945 |
| Exploration costs | 9,715,064 | 1,029,553 | - | 10,744,617 |
| Total Castelo de Sonhos Properties | 11,641,557 | 2,407,005 | - | 14,048,562 |
| <i>Bom Jardim Properties:</i> | | | | |
| Acquisition costs | 13,054 | - | (13,054) | - |
| Exploration costs | 192,482 | - | (192,482) | - |
| Total Bom Jardim Properties | 205,536 | - | (205,536) | - |
| Total acquisition costs | 1,939,547 | 1,377,452 | (13,054) | 3,303,945 |
| Total exploration costs | 9,907,546 | 1,029,553 | (192,482) | 10,744,617 |
| Total Carrying Amount | \$ 11,847,093 | \$ 2,407,005 | \$ (205,536) | \$ 14,048,562 |

| | Balance at December 31, 2014 | Additions | Impairments/ Write-Off | Balance at December 31, 2015 |
|--------------------------------------|---------------------------------|------------|---------------------------|---------------------------------|
| <i>Castelo de Sonhos Properties:</i> | | | | |
| Acquisition costs | \$ 1,426,493 | \$ 500,000 | \$ - | \$ 1,926,493 |
| Exploration costs | 9,454,314 | 260,750 | - | 9,715,064 |
| Total Castelo de Sonhos Properties | 10,880,807 | 760,750 | - | 11,641,557 |
| <i>Bom Jardim Properties:</i> | | | | |
| Acquisition costs | 13,054 | - | - | 13,054 |
| Exploration costs | 192,482 | - | - | 192,482 |
| Total Bom Jardim Properties | 205,536 | - | - | 205,536 |
| Total acquisition costs | 1,439,547 | 500,000 | - | 1,939,547 |
| Total exploration costs | 9,646,796 | 260,750 | - | 9,907,546 |
| Total Carrying Amount | \$ 11,086,343 | \$ 760,750 | \$ - | \$ 11,847,093 |

During the years ended December 31, 2016 and 2015, the additions to exploration cost include the following:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| <i>Castelo de Sonhos Properties:</i> | | |
| Camp costs | \$ 524,932 | \$ 83,198 |
| Wages, salaries and benefits costs (Note 18) | 211,373 | 192,822 |
| Geological analysis costs | 11,637 | - |
| Drilling costs | 210,565 | - |
| Other costs | 71,046 | (15,270) |
| Total Exploration Costs | \$ 1,029,553 | \$ 260,750 |

The amount of \$15,270, included in other cost, represents a refund of fees received during the year ended December 31, 2015.

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For the years ended December 31, 2016 and 2015

9. Plant and Equipment, net

Plant and equipment were as follows:

| | Balance at December 31, 2015 | Additions | Disposals | Balance at December 31, 2016 |
|----------------------------------|---------------------------------|-----------------|-------------|---------------------------------|
| <i>Cost:</i> | | | | |
| Furniture | \$ 9,678 | \$ - | \$ - | \$ 9,678 |
| Office equipment | 25,030 | 1,025 | - | 26,055 |
| Vehicles | 213,969 | - | - | 213,969 |
| Field equipment | 55,268 | - | - | 55,268 |
| Total costs | 303,945 | 1,025 | - | 304,970 |
| <i>Accumulated Depreciation:</i> | | | | |
| Furniture | (9,678) | - | - | (9,678) |
| Office equipment | (23,790) | (1,216) | - | (25,006) |
| Vehicles | (213,969) | - | - | (213,969) |
| Field equipment | (55,268) | - | - | (55,268) |
| Total accumulated depreciation | (302,705) | (1,216) | - | (303,921) |
| Total net book value | \$ 1,240 | \$ (191) | \$ - | \$ 1,049 |

| | Balance at December 31, 2014 | Additions | Disposals | Balance at December 31, 2015 |
|----------------------------------|---------------------------------|------------|-----------|---------------------------------|
| <i>Cost:</i> | | | | |
| Furniture | \$ 9,678 | \$ - | \$ - | \$ 9,678 |
| Office equipment | 33,861 | - | (8,831) | 25,030 |
| Vehicles | 213,969 | - | - | 213,969 |
| Field equipment | 55,268 | - | - | 55,268 |
| Total costs | 312,776 | - | (8,831) | 303,945 |
| <i>Accumulated Depreciation:</i> | | | | |
| Furniture | (9,678) | - | - | (9,678) |
| Office equipment | (31,484) | (1,137) | 8,831 | (23,790) |
| Vehicles | (213,969) | - | - | (213,969) |
| Field equipment | (55,268) | - | - | (55,268) |
| Total accumulated depreciation | (310,399) | (1,137) | 8,831 | (302,705) |
| Total net book value | \$ 2,377 | \$ (1,137) | \$ - | \$ 1,240 |

10. Provisions

The provision represents the Company estimates of the taxes it may have to pay on a possible contingent liability for labor severance obligations in Brazil. The possibility of the contingent liability being payable is remote. The Company is uncertain about the amount or timing of any outflows of funds, if any were to occur.

The following table presents the changes in the Provision:

| | <u>Amount</u> |
|-------------------------------------|-------------------|
| Balance at December 31, 2014 | \$ 317,321 |
| Change in provision estimate | (99,008) |
| Balance at December 31, 2015 | 218,313 |
| Change in provision estimate | 92,374 |
| Balance at December 31, 2016 | \$ 310,687 |

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

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10. Provisions (continued)

Each reporting period the Company reviews estimated amounts and other assumptions used in the valuation of the provision to reflect events, changes in circumstances and new information available. Changes in these estimates and assumptions may have a corresponding impact on the value of the provision. The changes in the provision estimate are reported in general and administrative expenses (Note 15).

During the year ended December 31, 2016, included in the change in the provision estimate are \$46,533 from effect of exchange rates (December 31, 2015: \$99,008).

11. Warrants Liability

Warrants have their exercise prices denominated in Canadian dollars which is not the Company's functional currency and therefore the warrants have been accounted for as a non-hedged derivative financial liability. The derivative liability is recorded at the estimated fair value though profit and loss at each reporting date based upon a Black-Scholes Option Pricing Model. At initial recognition when warrants are issued with the issuance of shares the Company allocates their full fair value as a warranty liability at issuance with the residual value of proceeds raised from the shares issued recorded in common shares. Subsequent changes in the fair value of the warrants liability are recorded in the Consolidated Statement of Comprehensive Loss for the period.

On July 6, 2015, under a private placement, the Company issued 4,683,207 share purchase warrants exercisable to acquire 4,683,207 shares at Can\$0.20 per share until January 6, 2017. The estimated fair value of the warrant liability at issuance was \$309,326.

On August 13, 2015 the Company received approval by the TSX Venture Exchange to extend the term of 19,682,250 share purchase warrants outstanding previously issued by the Company on March 7, 2014. The Warrants were scheduled to expire on September 7, 2015, but were extended until December 21, 2016. The estimated fair value of the warrant liability at extension date was \$1,260,521.

On October 30, 2015, the Company received approval by the TSX for an Early Warrant Exercise Incentive Program ("Warrant Incentive Program") to encourage the early exercise of up to 19,682,250 outstanding common share purchase warrants (the "Eligible Warrants"). The Eligible Warrants were originally exercisable into one common share of the Company at Can\$0.13 per share and after the extension the expiration date was December 21, 2016. The Company offered to the warrant holders the option to receive a Warrant Exercise Unit comprised of one common share and one-half of a warrant (a "New Warrant") for each Eligible Warrant exercised from November 16, 2015, until January 15, 2016, at the price of Can\$0.13 per Warrant Exercise Unit. Each whole New Warrant allowed the holder to acquire an additional common share of the Company at a price of Can\$0.20 per share until December 21, 2016. This offer was not available to Warrant holders who were insiders and pro group members. If an Eligible Warrant holder did not exercise their Eligible Warrants by January 15, 2016, the Eligible Warrants continued to be exercisable into common shares on the same terms that previously existed.

In December 2015, under the Warrant Incentive Program, a total of 2,710,000 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.13. A total of \$119,727 representing the net the fair value of the warrants liability was settled to common shares in the period. Additionally, under the terms of the Warrant Incentive Program, 1,355,000 New Warrants were issued at a price of Can\$0.20 per share exercisable until December 21, 2016. The estimated fair value of the warrant liability at issuance was \$79,896. Additionally, during 2015 a total of 275,000 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.13. A total of \$15,865 representing the fair value of the warrants liability was settled to common shares in the period.

On December 20, 2015, a total of 21,685,000 share purchase warrants with an exercise price of Can\$0.30 expired unexercised and were cancelled. The estimated fair value of the warrant liability at the expiration date was \$147,351.

TriStar Gold, Inc.

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For the years ended December 31, 2016 and 2015

11. Warrants Liability (continued)

In January 2016, under the Warrant Incentive Program, a total of 3,460,076 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.13. A total of \$126,482 representing the net fair value of the warrants liability was allocated to common shares. Additionally, under the terms of the Warrant Incentive Program, 1,730,038 New Warrants were issued at a price of Can\$0.20 per share exercisable until December 21, 2016. The estimated fair value of the warrant liability at issuance was \$80,655.

During 2016, after closing of the Warrant Incentive Program, a total of 11,712,524 common shares were issued as a result of exercise of the same number of share purchase warrants with exercise prices between Can\$0.13 and Can\$0.20. A total of \$1,393,780 representing the fair value of the warrants liability was allocated to common shares.

In July 2016, under a private placement, the Company issued 7,094,104 share purchase warrants exercisable to acquire 7,094,104 shares at Cad\$0.55 per share until July 2018 subject to acceleration in certain circumstances. The estimated fair value of the warrant liability at issuance was \$799,633.

On December 21, 2016, a total of 5,537,288 share purchase warrants with exercise prices of Can\$0.20 and Can\$0.13 expired unexercised and were cancelled. The estimated fair value of the warrant liability at expiry date was \$1,092,685.

The following is a summary of changes in warrants:

| | Number of Warrants | Weighted Average Exercise Price | Amount |
|---|--------------------|---------------------------------|-------------------|
| Balance at December 31, 2014 | 41,642,250 | Can\$0.22 | \$ 1,462,257 |
| Issued warrants in private placement | 4,683,207 | Can\$0.20 | 309,326 |
| Issued warrants in incentive exercise program | 1,355,000 | Can\$0.20 | 79,896 |
| Exercise of warrants | (2,985,000) | Can\$0.13 | (215,487) |
| Warrants expired | (21,685,000) | Can\$0.30 | (147,351) |
| Warrants liability fair value change | - | - | 23,729 |
| Balance at December 31, 2015 | 23,010,457 | Can\$0.15 | 1,512,370 |
| Issued warrants in private placement | 7,094,104 | Can\$0.55 | 799,633 |
| Issued warrants in incentive exercise program | 1,730,038 | Can\$0.20 | 80,655 |
| Exercise of warrants | (15,172,600) | Can\$0.14 | (1,600,916) |
| Warrants expired | (5,537,288) | Can\$0.15 | (1,092,685) |
| Warrants liability fair value change | - | - | 1,083,817 |
| Balance at December 31, 2016 | 11,124,711 | Can\$0.42 | \$ 782,874 |

The warrants liability fair value change as reported in the Consolidated Statement of Comprehensive Loss includes:

| | December 31, 2016 | December 31, 2015 |
|--------------------------------------|-------------------|-------------------|
| Warrants expired | \$ 1,092,685 | \$ 147,351 |
| Warrants liability fair value change | (1,083,817) | (23,729) |
| Balance | \$ 8,868 | \$ 123,622 |

At December 31, 2016, outstanding warrants are as follows:

TriStar Gold, Inc.

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For the years ended December 31, 2016 and 2015

11. Warrants Liability (continued)

| Number of Warrants | Weighted Average Exercise Price | Issuance Date | Expiry Date |
|--------------------|------------------------------------|---------------|-----------------|
| 4,030,607 | Can\$0.20 | July 6, 2015 | January 6, 2017 |
| 6,618,917 | Can\$0.55 | July 7, 2016 | July 7, 2018 |
| 475,187 | Can\$0.55 | July 18, 2016 | July 18, 2018 |
| 11,124,711 | | | |

At December 31, 2016 and 2015 the fair value of the Company's warrants was estimated using the Black-Scholes option-pricing model with the following assumptions

| | December 31, 2016 | December 31, 2015 |
|-------------------------|-------------------|-------------------|
| Expected dividend yield | 0% | 0% |
| Expected volatility | 97.17%-125.11% | 127.17% |
| Risk-free interest rate | 0.69% | 0.62% |
| Expected life | 0 – 18 months | 1 year |
| Share Price | Can\$0.27 | Can\$0.175 |

12. Share Capital and Capital Reserve

The Company's authorized share capital consists of an unlimited number of common shares without par value. At December 31, 2016, the Company had 135,523,769 common shares outstanding, and a total of 25,326,583 common shares were reserved for issuance after exercise of options and warrants outstanding.

- a. On February 12, 2015, the Company granted options to a Director and to a consultant to purchase 1,500,000 and 100,000 common shares of the Company, respectively, at Can\$0.20 per share. The options expire on February 11, 2020 and had an estimated fair value at grant date of \$166,869 and \$11,124, respectively.
- b. On July 6, 2015, the Company closed its private placement, announced February 12, 2015, consisting of 9,366,413 units at the price of Can\$0.15 per unit for gross proceeds of \$1,111,429 from which the Company deducted legal fees paid in the amount of \$9,784 for net proceeds of \$1,101,645. Each unit consists of one common share and one half (1/2) non-transferable common share purchase warrant. Each of the 4,683,207 common share purchase warrants entitles the holder to purchase one additional common share of the Company at Can\$0.20 per share until January 6, 2017. The fair value of warrants issued in the amount of \$309,326 was reported as warrants liability and the Company deducted this amount from the net proceeds and reported the remaining amount of \$792,319 in Common Shares.
- c. During 2015, a total of 275,000 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.13 for gross proceeds of \$27,941 which in addition to \$15,865 representing the fair value of the warrants liability, for a total amount of \$43,806, were allocated to common shares in the period.
- d. In December 2015, under the Warrant Incentive Program, a total of 2,710,000 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.13 for gross proceeds of \$256,896 which in addition to \$119,727 representing the fair value of the warrants liability, for a total amount of \$376,623, were allocated to common shares in the period.
- e. On December 10, 2015, a total of 8,650,000 stock options were granted to directors, officers, employees and consultants of the Company with an exercise price of Can\$0.18 per share. The options expire on December 9, 2020 and had an estimated fair value at grant date of \$1,406,379.

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For the years ended December 31, 2016 and 2015

12. Share Capital and Capital Reserve (continued)

- f. On December 18, 2015, the Company closed the second and final tranche of its private placement. The total placement consisted of 7,994,989 units at the price of Can\$0.15 per unit for gross proceeds of \$879,299 from which the Company deducted legal fees paid in the amount of \$20,291 for net proceeds of \$859,008. Additionally, the Company issued 288,091 shares for payment of \$32,693 in finder's fees for this private placement.
- g. On January 27, 2016, the Company issued 161,909 shares of common shares to settle debt of \$22,058.
- h. On July 15, 2016, under the terms of the Third Amending Agreement signed on May 6, 2015, the Company issued a total of 1,000,000 shares to the vendors of CDS. The shares had an estimated fair value at grant date of \$277,452.
- i. On July 18, 2016 the Company closed its private placement, announced June 13, 2016, consisting of 14,188,214 units at the price of Can\$0.30 per unit for gross proceeds of Can\$4,256,464 from which the Company deducted share issue costs, including legal and other fees paid, in the amount of \$204,367 for net proceeds of \$3,073,964. Each unit consists of one common share and one half (1/2) transferable common share purchase warrant. Each of the 7,094,104 common share purchase warrants entitles the holder to purchase one additional common share of the Company at Can\$0.55 per share until July 2018, subject to acceleration in certain circumstances. The fair value of warrants issued in the amount of \$799,633 was recorded in warrants liability. In addition, the Company issued 611,872 broker compensation options and the estimated fair value at grant date of \$78,490 was recorded in capital reserve. The Company deducted the amount of the fair value of warrants and the broker compensation options from the net proceeds and recorded the remaining amount of \$2,195,841 in Common Shares.
- j. In July 2016, upon closing of the private placement, 375,000 options, representing 50% of options granted to a consultant of the Company on April 19, 2016, vested and the estimated fair value of \$73,098 was recorded in capital reserve. The options expire on April 18, 2021 and have an exercise price of Can\$0.28 per share.
- k. During 2016, a total of 15,172,600 common shares were issued as a result of exercise of the same number of share purchase warrants with an weighted average exercise price of Can\$0.14 for gross proceeds of \$1,553,267 which in addition to \$1,520,261 representing the fair value of the warrants liability, were allocated to common shares in the period.

The following is a summary of changes in common share capital and capital reserve:

| | Common Shares | | Capital Reserve |
|---|--------------------|----------------------|---------------------|
| | Number | Amount | |
| Balance at December 31, 2014 | 84,366,553 | \$ 30,749,007 | \$ 2,032,668 |
| Shares issued on private placement, net of share issue cost | 17,649,493 | 1,651,327 | - |
| Shares issued on exercise of warrants | 2,985,000 | 420,429 | - |
| Stock-based compensation (Note 14) | - | - | 1,607,496 |
| Balance at December 31, 2015 | 105,001,046 | 32,820,763 | 3,640,164 |
| Shares issued on private placement, net of share issue cost | 14,188,214 | 2,195,841 | - |
| Shares issued on exercise of warrants | 15,172,600 | 3,073,528 | - |
| Shares issued on debt payment | 161,909 | 22,058 | - |
| Shares issued to mineral property's vendor | 1,000,000 | 277,452 | - |
| Stock-based compensation | - | - | 151,588 |
| Balance at December 31, 2016 | 135,523,769 | \$ 38,389,642 | \$ 3,791,752 |

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13. Stock Option Plan

The Company maintains a stock option plan (“the Plan”) for directors, senior officers, employees and consultants of TriStar and its subsidiaries. Under the terms of the Plan, the options are exercisable over periods of up to ten years, and the exercise price of each option equals the closing market price of the Company’s stock on the trading day immediately before the date of grant. Any consideration paid by the option holder on the exercise of options is credited to share capital and offset against amounts previously recorded in capital reserve.

The number of shares which may be issued pursuant to options previously granted and those granted under the Plan shall not exceed 18,800,000 at the time of the grant. The options granted under the Plan vest at determination of the Board. In addition, the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued and outstanding shares on a yearly basis.

The Plan will terminate when all of the options have been granted or when the Plan is otherwise terminated by TriStar. Any options outstanding when the Plan is terminated will remain in effect until they are exercised or they expire.

The following is a summary of the changes in options outstanding and exercisable:

| | Number of Options Outstanding | Number of Options Vested | Weighted Average Exercise Price of Options Outstanding (in Can\$) |
|-------------------------------------|----------------------------------|-----------------------------|---|
| Balance at December 31, 2014 | 7,140,000 | 6,952,500 | \$0.42 |
| Options granted | 10,250,000 | 10,250,000 | \$0.18 |
| Options cancelled | (750,000) | (750,000) | \$0.49 |
| Options expired | (1,725,000) | (1,725,000) | \$0.20 |
| Options vested from previous year | - | 187,500 | \$0.20 |
| Balance at December 31, 2015 | 14,915,000 | 14,915,000 | \$0.28 |
| Options granted | 1,361,872 | 986,872 | \$0.29 |
| Options expired | (2,075,000) | (2,075,000) | \$0.79 |
| Balance at December 31, 2016 | 14,201,872 | 13,826,872 | \$0.21 |

During the year ended December 31, 2015, a total of 10,250,000 stock options were granted and vested. This amount includes a total of 2,950,000 options granted to senior officers in lieu of salaries in the amount of \$835,537. The amount is included in the accounts of consulting and salaries expenses (Note 14 and Note 15). The weighted average exercise price of options granted during the year ended December 31, 2015, was Can\$0.18 per option.

During 2015 a total of 187,500 stock options granted to an investor relations consultant on September 2, 2014, were vested.

On March 15, 2016, a total of 1,775,000 options with an exercise price of Can\$0.81, granted to directors, consultants and employees on March 14, 2011, expired unexercised.

On April 18, 2016, a total of 750,000 options were granted to a consultant. The options expire on April 18, 2021 and have an exercise price of Can\$0.28 per option. On July 7, 2016, 375,000 options vested. The estimated fair value at grant date of \$73,098 was recorded in capital reserve. The remaining 375,000 options will vest upon the consultant achieving certain objectives.

On July 6, 2016, a total of 300,000 options with an exercise price of Can\$0.69, granted to a director on July 6, 2011, expired unexercised.

TriStar Gold, Inc.

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For the years ended December 31, 2016 and 2015

13. Stock Option Plan (continued)

On July 7, 2016, the Company issued 611,872 broker compensation options with an exercise price of Can\$0.30 per option. The options expire on July 7, 2018. The estimated fair value at grant date of \$78,490 was recorded in capital reserve.

The weighted average fair value at grant date of options granted during the year ended December 31, 2016, was Can\$0.21 per option (December 31, 2015: Can\$0.14).

During the year ended December 31, 2015, a total of 750,000 options with a weighted average exercise price of Can\$0.49 were cancelled (December 31, 2016: nil).

During the year ended December 31, 2016, a total of 2,075,000 options with a weighted average exercise price of Can\$0.79 expired unexercised (December 31, 2015: 1,725,000 with an average exercise price of Can\$0.20).

During the periods previously mentioned the estimated forfeiture rates were nil.

The fair value of options granted during the years ended December 31, 2016 and 2015, has been estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Expected dividend yield | 0% | 0% |
| Expected volatility | 123.59% - 125.03% | 113.53% - 123.80% |
| Risk-free interest rate | 0.54% - 0.60% | 0.57% - 0.80% |
| Expected life | 1.5 - 3.5 years | 3.5 years |
| Share price | Can\$0.31 - Can\$0.32 | Can\$0.18 - Can\$0.20 |
| Weighted average fair value of options granted | Can\$0.21 | Can\$0.14 |

Option pricing models require the input of subjective assumptions including the expected price volatility, the expected life and forfeiture rate. Changes in these assumptions can materially affect the estimated fair value of the stock options granted. The expected price volatility used was based on the historic volatility of the Company's share price.

The following table summarizes stock options outstanding at December 31, 2016:

| Grant Date | Options Outstanding | Options Vested | Exercise Price | Proceeds upon exercise of options outstanding (in Can\$) | Fair Value of Options Outstanding | Weighted Average Remaining Life in Years | Expiration Date |
|------------|---------------------|-------------------|----------------|--|-----------------------------------|--|-----------------|
| 8/23/2012 | 840,000 | 840,000 | Can\$0.45 | \$ 378,000 | \$ 239,985 | 0.6 | 8/22/2017 |
| 4/29/2014 | 1,750,000 | 1,750,000 | Can\$0.15 | 262,500 | 124,515 | 2.3 | 4/29/2019 |
| 2/12/2015 | 1,600,000 | 1,600,000 | Can\$0.20 | 320,000 | 177,994 | 3.1 | 2/11/2020 |
| 12/10/2015 | 8,650,000 | 8,650,000 | Can\$0.18 | 1,557,000 | 1,406,379 | 3.9 | 12/9/2020 |
| 4/19/2016 | 750,000 | 375,000 | Can\$0.28 | 210,000 | 73,098 | 4.3 | 4/18/2021 |
| 7/7/2016 | 611,872 | 611,872 | Can\$0.30 | 183,562 | 78,489 | 1.5 | 7/7/2018 |
| | 14,201,872 | 13,826,872 | | \$ 2,911,062 | \$ 2,100,460 | 3.3 | |

The weighted average exercise price of the options outstanding at December 31, 2016, is Can\$0.21 (December 31, 2015: Can\$0.28).

TriStar Gold, Inc.

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14. Stock-based Compensation

Stock-based compensation expense related to options granted to employees, directors and consultants were included in the following expense accounts (Note 15) reported in the Consolidated Statements of Comprehensive Loss:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|------------|---------------------------------|---------------------------------|
| Consulting | \$ 73,098 | \$ 520,862 |
| Salaries | - | 1,086,634 |
| | \$ 73,098 | \$ 1,607,496 |

These amounts have been recorded as capital reserve (Note 12) in the Consolidated Statements of Financial Position.

15. General and Administrative Expenses

General and administrative expenses consist of the following:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Consulting and directors' fees (Note 10, Note 13, Note 14 and Note 18) | \$ 121,005 | \$ 520,862 |
| Change in provisions (Note 10) | 45,841 | - |
| Depreciation (Note 9) | 1,216 | 1,137 |
| Insurance | 12,699 | 10,458 |
| Office | 74,815 | 50,455 |
| Professional fees (Note 18) | 237,724 | 99,350 |
| Rent | 71,837 | 44,554 |
| Exploration expenses | 7,257 | 432 |
| Salaries and benefits (Note 13, Note 14 and Note 18) | 1,123,147 | 1,594,858 |
| Shareholder relations | 67,570 | 57,868 |
| Travel and meals | 129,093 | 34,244 |
| | \$ 1,892,204 | \$ 2,414,218 |

16. Basic and Diluted Loss per Share

The following table sets forth the computation of basic and diluted loss per share:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|---|---------------------------------|---------------------------------|
| <u>Numerator:</u> | | |
| Numerator for basic and diluted loss per share: Net loss | \$ (2,143,421) | \$ (2,123,093) |
| <u>Denominator:</u> | | |
| Initial balance of issued common shares | 105,001,046 | 84,366,553 |
| Effect of shares issued on debt payment | 150,407 | - |
| Effect of shares issued to mineral property's vendor | 464,481 | - |
| Effect of warrants exercised | 5,095,094 | 325,466 |
| Effect of shares issued on private placement | 6,871,716 | 5,066,713 |
| Denominator for basic and diluted loss per share: Basic and diluted weighted average number of common shares | 117,582,744 | 89,758,732 |
| Basic and diluted loss per share | \$ (0.02) | \$ (0.02) |

TriStar Gold, Inc.

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For the years ended December 31, 2016 and 2015

16. Basic and Diluted Loss per Share (continued)

For the years ended December 31, 2016 and 2015, the share purchase warrants and stock options were excluded from the computation of diluted loss per share as their inclusion would be antidilutive.

17. Income Taxes

The following table reconciles the income taxes calculated at statutory rates with the income tax expense in the Consolidated Statement of Comprehensive Loss:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Loss before income taxes | \$ (2,143,421) | \$ (2,123,093) |
| Statutory rates | 26% | 26% |
| | | |
| Income tax expense (recovery) at statutory rates | \$ (557,289) | \$ (552,004) |
| Non-deductible items | 24,991 | 369,510 |
| Differences in foreign tax rates | (128,404) | (41,201) |
| Foreign exchange non-monetary assets | (511,522) | 877,030 |
| Unrecognized tax benefits | 1,172,224 | (653,335) |
| Net income tax expense | \$ - | \$ - |

As of December 31, 2016, the Company has net deductible temporary differences of approximately \$16,620,931 (December 31, 2015: \$25,217,785) for which no deferred tax asset has been recognized. Deferred tax assets have not been recognized in respect of these items because the Company does not have a history of earnings and their utilization is not more likely than not.

The following table summarizes the Company's losses and net deductible temporary differences that can be applied against future taxable profits.

| Type | Country | Amount | Expire Date |
|---------------------------|---------|----------------------|---------------|
| Net operating losses | Canada | \$ 2,407,933 | 2031 - 2036 |
| Net operating losses | USA | 14,143,325 | 2018 - 2036 |
| Net operating losses | Brazil | 3,556,594 | No expiration |
| Net temporary differences | Canada | 267,380 | No expiration |
| Net temporary differences | USA | 1,417 | 2021 |
| Net temporary differences | Brazil | (3,755,718) | No expiration |
| Total | | \$ 16,620,931 | |

18. Related Party Transactions

Key management personnel compensation comprised:

| | Year ended December 31, 2016 | Year ended December 31, 2015 |
|--|---------------------------------|---------------------------------|
| Short term employee benefits: Salaries | \$ 835,704 | \$ - |
| Consulting fees | 195,041 | 128,820 |
| Stock-based compensation (Note 12 and Note 14) | - | 1,395,463 |
| | \$ 1,030,745 | \$ 1,524,283 |

TriStar Gold, Inc.

Notes to the Consolidated Audited Financial Statements (Expressed in United States Dollars)

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18. Related Party Transactions (continued)

For the year ended December 31, 2016, the amounts of short term employee benefits received by key management personnel have been recorded in the salary expenses account (Note 15) in the Consolidated Statement of Comprehensive Loss.

During the years ended December 31, 2016 and 2015, the Company paid consulting fees of \$195,041 and \$128,820 respectively, to directors and officers for advisory services, and did not pay any directors' fees.

For the year ended December 31, 2016, consulting fees paid to key management personnel in Brazil in the amount of \$147,135 (December 31, 2015: \$128,820) were reported in Mineral properties and deferred expenditures (Note 8) under exploration cost of the Castelo de Sonhos project.

The stock option compensation amounts received by key management personnel have been recorded as capital reserve on the Consolidated Statement of Financial Position (Note 12 and Note 14). They were also included in the consulting and salaries expenses accounts (Note 15) in the Consolidated Statement of Comprehensive Loss.

As of December 31, 2016, the total number of outstanding warrants and options held by directors and officers of the Company was 3,293,906 units and 10,225,000 units, respectively (December 31, 2015: 2,841,067 units and 11,975,000 units, respectively).

During the years ended December 31, 2016 and 2015, the Company paid legal fees in the amounts of \$11,968 and \$0, respectively, to a company where one director has ownership interests. The amount mentioned was recorded in the professional fees account (Note 15) in the Consolidated Statement of Comprehensive Loss.

During the year ended December 31, 2016, directors and officers participated for a total of 3,955,679 units in the private placement closed on July 18, 2016 (December 31, 2015: 2,632,133 units).

During the year ended December 31, 2016, directors exercised a total of 1,525,000 warrants.

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and the Board of Directors.

19. Commitments and Contingencies

The Company leases offices in USA and Brazil and a house in Brazil, with expiration dates ranging between March 2017 and December 2017, for an estimated cost of approximately \$6,500 per month and are cancellable within one to three months' notice.

The Company has various property access agreements related to its projects at an estimated cost of approximately \$2,000 per month.

There are no material pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their property is subject.

20. Segmented Information

Segments are defined as material components of an enterprise about which separate financial information is available and deemed relevant in managing the business. All of the Company's operations are within the mineral exploration sector. The Company's exploration operations are centralized whereby the Company's head office is responsible for the exploration results and for providing support in addressing local and regional issues. The Company's mineral properties are located in Brazil.

Information relating to each of the Company's reportable segments is presented as follows:

TriStar Gold, Inc.

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For the years ended December 31, 2016 and 2015

20. Segmented Information (continued)

| | <u>Total Assets</u> | <u>Total Liabilities</u> |
|--------------------------------|---|---|
| As at December 31, 2016 | | |
| Corporate Office | \$ 1,788,959 | \$ 898,300 |
| Mineral Exploration | 14,004,310 | 376,798 |
| Total | \$ 15,793,269 | \$ 1,275,098 |
| As at December 31, 2015 | | |
| Corporate Office | \$ 1,087,555 | \$ 1,760,352 |
| Mineral Exploration | 11,863,642 | 249,720 |
| Total | \$ 12,951,197 | \$ 2,010,072 |
| | <u>Year ended December 31, 2016</u> | <u>Year ended December 31, 2015</u> |
| Net loss | | |
| Corporate Office | \$ (1,682,459) | \$ (2,086,449) |
| Mineral Exploration | (460,962) | (36,644) |
| Total | \$ (2,143,421) | \$ (2,123,093) |

Geographical information related to non-current assets is presented as follows:

| | <u>Canada</u> | <u>USA</u> | <u>Brazil</u> |
|---|---------------|-----------------|----------------------|
| As at December 31, 2016 | | | |
| Mineral properties and deferred expenditures (Note 8) | \$ - | \$ - | \$ 14,048,562 |
| Plant and equipment (Note 9) | - | 1,049 | - |
| Total non-current assets | \$ - | \$ 1,049 | \$ 14,048,562 |
| As at December 31, 2015 | | | |
| Mineral properties and deferred expenditures (Note 8) | \$ - | \$ - | \$ 11,847,093 |
| Plant and equipment (Note 9) | - | 1,240 | - |
| Total non-current assets | \$ - | \$ 1,240 | \$ 11,847,093 |

21. Capital Management and Liquidity

The Company considers its cash and cash equivalents, common shares, stock options and warrants as capital. The Company's objective in managing capital is to maintain adequate levels of funding to support exploration of its mineral property interests, maintain corporate and administrative functions necessary to support organizational management oversight, and obtain funding sufficient for advancing the Company's investments.

The Company manages its capital structure in a manner that intends to provide sufficient funding for operational activities. Funds are primarily secured through equity capital obtained in private placements. There can be no assurances that the Company will be able to continue raising capital in this manner.

In order to facilitate management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary with actual spending compared to budget on a monthly basis. The Company's investment policy, in general, is to invest short-term excess cash in highly liquid short-term interest bearing investments with maturities of less than one year or that may be liquidated with no reduction in principal. This is to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and preserving its invested balances.

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22. Financial Instruments and Management of Financial Risk

The Company is exposed to potential loss from various risks including currency risk, interest rate risk, liquidity risk, market risk and commodity price risk.

Market Risks

The significant market risks to which the Company is exposed include commodity price risk and interest rate risk.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, and accounts receivable. The Company invests any excess capital in short-term, highly liquid and highly-rated financial instruments such as cash and short-term guaranteed deposits, all held with Canadian and USA based financial institutions.

Liquidity Risk

The Company manages liquidity risk by maintaining sufficient cash and cash equivalents balances. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital to meet short-term obligations. The Company estimates that its contractual obligations pertaining to accounts payable and accrued liabilities should be satisfied within one year.

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market price of gold. The Company does not have any sales revenue and accordingly no hedging or other commodity-based risks impact its operations.

Market prices for gold historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In respect of financial assets, the Company's policy is to invest cash at variable rates of interest in cash equivalents, in order to maintain liquidity, while preserving capital. The Company is exposed to interest rate risk on its short-term investments which were included in cash and cash equivalents at December 31, 2016. The short-term investment interest earned is based on prevailing one day to one year market interest rates which may fluctuate. Based on amounts as at December 31, 2016, a one percent change in the interest rate would change annual interest income by approximately \$12,000 (December 31, 2015: \$40). The Company has not entered into any derivative contracts to manage this risk.

Currency Risk

The Company operates in USA, Canada, and Brazil. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars. The three main types of foreign exchange risk of the Company can be categorized as follows:

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22. Financial Instruments and Management of Financial Risk (continued)

Currency Risk (continued)

Transaction exposure

The Company operates and incurs costs in different currencies. This creates exposure at the operational level, which may affect the Company's profitability as exchange rates fluctuate. The Company has not hedged its exposure to currency fluctuations.

Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, accounts receivables, prepaid expenses, accounts payables and other liabilities, provisions and warrants liability. The currencies of the Company's financial instruments and other foreign currency denominated liabilities, based on notional amounts, were as follows:

| | December 31, 2016 | | December 31, 2015 | |
|--|-------------------|---------------------|---------------------|---------------------|
| | Canadian dollar | Brazilian Real | Canadian dollar | Brazilian Real |
| Cash and cash equivalents | \$ 969,757 | \$ 20,048 | \$ 568,754 | \$ 11,905 |
| Accounts receivable | 8,461 | 4,457 | 3,213 | 1,629 |
| Prepaid expenses | 36,430 | 2,289 | 8,022 | 3,015 |
| Accounts payable and accrued liabilities | (53,981) | (66,112) | (48,072) | (31,407) |
| Provisions | - | (310,687) | - | (218,313) |
| Warrants liability | (782,873) | - | (1,512,370) | - |
| Net balance sheet exposure | \$ 177,794 | \$ (350,005) | \$ (980,453) | \$ (233,171) |

Translation exposure

A strengthening of the U.S. dollar by 10% against the Canadian dollar and the Brazilian Real at December 31, 2016, with all other variables held constant would have decreased the Company's before tax net loss by approximately \$14,000 (at December 31, 2015: \$122,000) as a result of a change in value of the financial assets and liabilities denominated in those currencies.

23. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair values are determined directly by reference to published price quotations in an active market, when available, or by using a valuation technique that uses inputs observed from relevant markets.

The fair value hierarchy categorizes into three levels the inputs to valuation techniques used to measure fair value.

- Level 1 inputs are unadjusted quoted prices in active markets for identical, unrestricted assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (for example, interest rate and yield curves observable at commonly quoted interval and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.

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23. Fair Value Measurements (continued)

- Level 3 inputs are prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at December 31, 2016, the Company's assets and liabilities measured at fair value on a recurring basis were as follows:

| | Level 1 | Level 2 | Level 3 |
|------------------------------------|---------------------|-------------------|-------------|
| Assets | | | |
| Cash and cash equivalents (Note 7) | \$ 1,674,263 | \$ - | \$ - |
| Liabilities | | | |
| Warrants liability (Note 11) | - | 782,874 | - |
| | \$ 1,674,263 | \$ 782,874 | \$ - |

The following table provides the carrying value and the fair value of financial instruments at December 31, 2016:

| | Carrying Amount | Fair Value |
|--|---------------------|---------------------|
| Financial assets | | |
| Cash and cash equivalents (Note 7) | \$ 1,674,263 | \$ 1,674,263 |
| Accounts receivable | 13,266 | 13,266 |
| | \$ 1,687,529 | \$ 1,687,529 |
| Financial liabilities | | |
| Accounts payable and accrued liabilities | \$ 181,537 | \$ 181,537 |
| Derivative instruments | | |
| Warrants liability (Note 11) | \$ 782,874 | \$ 782,874 |

24. Subsequent Events

In January 2017, a total of 2,829,607 common shares were issued as a result of exercise of the same number of share purchase warrants with an exercise price of Can\$0.20 for gross proceeds of Can\$565,921.

On January 6, 2017, a total of 1,201,000 warrants with an exercise price of Can\$0.20 expired unexercised.

On April 21, 2017, the Company received approval from the British Columbia Securities Commission and the Ontario Securities Commission for its short form prospectus in connection with a proposed sale of units (the "Units") of the Company, originally announced on March 23, 2017. A minimum of 13,333,333 Units and a maximum of 23,333,333 Units will be issued in this financing at a price of Can\$0.30 per Unit for gross proceeds of between Can\$4,000,000 and Can\$7,000,000, subject to a 15% over-allotment option. This financing will be conducted on a best efforts basis through Echelon Wealth Partners Inc. and Paradigm Capital Inc. acting as co-lead Agents. It is anticipated that this financing will close on or about April 28, 2017.

Each Unit in this financing will consist of one common share in the capital of TriStar Gold and one-half of a common share purchase warrant, with each whole common share purchase warrant entitling the holder thereof to purchase one common share of the Company at an exercise price of \$0.45 for a period of 24 months from the closing date.