

**SEARCH MINERALS INC.**

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2016 and 2015

(Unaudited - Expressed in Canadian dollars)

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**Search Minerals Inc.**

**Condensed Interim Consolidated Financial Statements**

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**Six months ended May 31, 2016 and 2015**

**(Unaudited - Expressed in Canadian Dollars)**

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**NOTICE OF NO AUDITOR REVIEW OF**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**SEARCH MINERALS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Unaudited - Expressed in Canadian dollars)

	Notes	May 31, 2016 \$	November 30, 2015 \$
<b>ASSETS</b>			
<b>Current</b>			
Cash		415,104	406,852
Receivables	5, 10	64,837	441,071
Prepaid expenses and other assets		77,366	82,426
Marketable securities	6	116,195	105,000
		<b>673,502</b>	1,035,349
<b>Equipment</b>		<b>30,048</b>	36,138
<b>Reclamation deposits</b>		<b>50,000</b>	50,000
<b>Exploration and evaluation expenditures</b> (Schedule 1)	7	<b>9,208,002</b>	9,091,688
		<b>9,961,552</b>	10,213,175
<b>LIABILITIES AND EQUITY ATTRIBUTABLE TO SHAREHOLDERS</b>			
<b>Current</b>			
Trade payables	8	168,802	200,744
Due to related parties	8, 11	409,546	379,182
Due to former directors	8, 11	371,430	371,430
		<b>949,778</b>	951,356
<b>Equity attributable to shareholders</b>			
Share capital	9	21,386,041	21,352,684
Warrants		463,577	597,174
Contributed surplus		2,488,399	2,354,802
Accumulated other comprehensive income (loss) (%AOCLO+)		47,845	(45,000)
Deficit		(15,374,088)	(14,997,841)
		<b>9,011,774</b>	9,261,819
		<b>9,961,552</b>	10,213,175

**Nature of Operations** (Note 1)

**Going Concern** (Note 2)

**Subsequent events** (Notes 5 and 14)

**Contingent liabilities** (Note 13)

Approved by the Board of Directors on July 27, 2016

\_\_\_\_\_  
"Jim Clucas"  
Jim Clucas

Director

\_\_\_\_\_  
"Jim Patterson"  
Jim Patterson

Director

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

**SEARCH MINERALS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
For the three and six months ended May 31, 2016 and 2015  
(Unaudited - Expressed in Canadian dollars)

	Notes	For the three months ended		For the six months ended	
		2016	May 31, 2015	2016	May 31, 2015
		\$	\$	\$	\$
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>					
Accounting and audit		12,874	17,603	24,064	29,357
Administration and management fees	11	88,750	58,845	147,925	113,003
Amortization		3,044	4,761	6,090	9,523
Consulting fees	11	55,173	22,500	77,673	45,000
Legal fees		3,542	8,649	15,296	24,123
Non-executive directors fees	11	13,500	13,500	27,000	27,000
Office and miscellaneous		9,100	18,371	47,169	51,122
Regulatory and transfer agent fees		6,970	6,783	18,877	10,633
Rent		5,762	5,400	11,162	10,800
Travel and accommodation		10,008	7,328	24,009	12,410
<b>Loss for the period before other items</b>		<b>(208,723)</b>	<b>(163,740)</b>	<b>(399,265)</b>	<b>(332,971)</b>
<b>Other income (expense) items</b>					
Interest income		-	503	3	2,001
Gain on debt settlement	8	-	444,102	5,200	444,102
Gain on sale of marketable securities	6	17,815	-	17,815	-
Proceeds on sale of technology		-	100,000	-	100,000
<b>Income (loss) for the period</b>		<b>(190,908)</b>	<b>380,865</b>	<b>(376,247)</b>	<b>213,132</b>
<b>Other comprehensive loss for the period</b>					
Unrealized loss on marketable securities	6	100,345	-	92,845	-
<b>Comprehensive income (loss) for the period</b>		<b>(90,563)</b>	<b>380,865</b>	<b>(283,402)</b>	<b>213,132</b>
<b>Basic and diluted loss per share</b>	9(d)	<b>(0.00)</b>	<b>0.00</b>	<b>(0.00)</b>	<b>0.00</b>
<b>Weighted average number of common shares outstanding</b>		<b>132,491,188</b>	<b>115,670,711</b>	<b>132,429,213</b>	<b>115,659,997</b>

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

**SEARCH MINERALS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the six months ended May 31, 2016 and 2015  
(Unaudited - Expressed in Canadian dollars)

	2016 \$	2015 \$
<b>Cash (used in) provided by</b>		
<b>OPERATING ACTIVITIES</b>		
(Loss) income for the period	(376,247)	213,132
Items not affecting cash:		
Amortization	6,090	9,523
Gain on debt settlement	(5,200)	(444,102)
Gain on sale of marketable securities	(17,815)	-
	<u>(393,172)</u>	<u>(221,447)</u>
Changes in non-cash working capital items:		
Taxes recoverable	(5,138)	44,393
Receivables	400,000	-
Prepaid expenses and other assets	5,060	12,762
Accounts payable and accrued liabilities	17,704	(42,382)
	<u>24,454</u>	<u>(206,674)</u>
<b>INVESTING ACTIVITIES</b>		
Mineral property costs, net	(115,667)	(357,569)
Staking deposits, net of recoveries	-	3,290
Proceeds from the sale of marketable securities	99,465	-
	<u>(16,202)</u>	<u>(354,279)</u>
<b>FINANCING ACTIVITIES</b>		
Government contributions	-	128,884
	<u>-</u>	<u>128,884</u>
Increase (decrease) in cash during the period	8,252	(432,069)
Cash, beginning of the period	406,852	594,121
Cash, end of the period	<u>415,104</u>	<u>162,052</u>
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Non-cash Transactions (Note 12)

**SEARCH MINERALS INC.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
For the six months ended May 31, 2016 and 2015  
(Unaudited - Expressed in Canadian dollars)

	Number of Shares #	Share Capital \$	Warrants \$	Contributed Surplus \$	AOCL \$	Deficit \$	Total \$
Balance, November 30, 2014	115,620,711	20,479,239	583,157	1,982,628	-	(15,298,809)	7,746,215
Pursuant to mineral property agreements	50,000	2,250	-	-	-	-	2,250
Transfer on expiry of warrants	-	-	(127,000)	127,000	-	-	-
Comprehensive income for the period	-	-	-	-	-	213,132	213,132
Balance, May 31, 2015	115,670,711	20,481,489	456,157	2,109,628	-	(15,085,677)	7,961,597
For cash pursuant to private placement of units	16,153,334	878,183	141,017	-	-	-	1,019,200
Less: Issue costs - cash	-	(6,988)	-	-	-	-	(6,988)
Share-based payments	-	-	-	245,174	-	-	245,174
Comprehensive income for the period	-	-	-	-	(45,000)	87,836	42,836
Balance, November 30, 2015	131,824,045	21,352,684	597,174	2,354,802	(45,000)	(14,997,841)	9,261,819
Pursuant to debt settlements	667,143	33,357	-	-	-	-	33,357
Transfer on expiry of warrants	-	-	(133,597)	133,597	-	-	-
Comprehensive loss for the period	-	-	-	-	92,845	(376,247)	(283,402)
<b>Balance, May 31, 2016</b>	<b>132,491,188</b>	<b>21,386,041</b>	<b>463,577</b>	<b>2,488,399</b>	<b>47,845</b>	<b>(15,374,088)</b>	<b>9,011,774</b>

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

## Search Minerals Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended May 31, 2016

(Unaudited - Expressed in Canadian dollars)

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#### 1. Nature of Operations

Search Minerals Inc. (the "Company") was incorporated under the provisions of the Business Corporation Act (British Columbia) on June 7, 2006. On May 3, 2007, the Company commenced trading on the TSX Venture Exchange (the "TSX-V") under the trading symbol "SMY.V". The Company is in the business of mineral exploration involving acquiring, exploring and evaluating mineral resource properties. At May 31, 2016, the Company was in the exploration and evaluation stage and had properties located in Canada. The Company's corporate head office is located at 211, 901 West 3<sup>rd</sup> Street, North Vancouver, British Columbia, Canada.

The Company is currently exploring its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The amounts shown as mineral properties represent costs incurred to date, less amounts recovered from third parties and/or written-down, and do not necessarily represent current or future fair values.

#### 2. Going Concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration programs, will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

At May 31, 2016, the Company had not yet achieved profitable operations, had a working capital deficiency of \$294,904, had an accumulated deficit of \$15,374,088 since inception and expects to incur further losses in the development of its business. Management is in the process of obtaining additional financial resources and believes sufficient resources will be available as required. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. The above factors may cast significant doubt upon the Company's ability to continue as a going concern and, therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business.

#### 3. Basis of Presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended November 30, 2015 which have been prepared in accordance with IFRS as issued by the IASB.

In the preparation of these condensed interim consolidated financial statements, the Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended November 30, 2015 except as outlined in Note 4.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Unless otherwise stated, all dollar amounts are in Canadian dollars.

#### 4. Accounting Standards Issued But Not Yet Effective

The following new standard has been issued by the IASB but not yet applied:

IFRS 9, Financial Instruments, was issued in July 2014 and replaces IAS 39 Financial Instruments:

Recognition and Measurement. IFRS 9 was developed in phases by the IASB. As a result there are a number of transition options and requirements in relation to earlier versions of IFRS 9 prior to the mandatory effective date of IFRS 9 in its entirety. IFRS 9 is mandatory for annual periods beginning on or after January 1, 2018. IFRS 9 includes requirements for classification and



## Search Minerals Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended May 31, 2016

(Unaudited - Expressed in Canadian dollars)

measurement of financial assets and financial liabilities; impairment methodology for financial instruments; and general hedge accounting. IFRS 9 has specific requirements for whether debt instruments are accounted for at amortized cost, fair value through other comprehensive income or fair value through profit or loss. IFRS 9 requires equity instruments to be measured at fair value through profit or loss unless an irrevocable election for use of fair value through other comprehensive income which results in changes in fair value not being recycled to the income statement. The Company has not adopted IFRS 9 and has not completed its assessment of the impact of this standard.

#### 5. Receivables

	May 31, 2016 \$	November 30, 2015 \$
GST receivable	46,209	41,071
Government assistance receivable <sup>(1)</sup>	18,628	-
Sale of SALT proceeds receivable (Note 10)	-	400,000
<b>Total receivables</b>	<b>64,837</b>	<b>441,071</b>

<sup>(1)</sup> The Government of Newfoundland, the Research Development Corporation of Newfoundland and Labrador and the Atlantic Canada Opportunity Agency have certain programs available to assist junior resource companies. Subsequent to May 31, 2016, the Company received \$18,628 of government assistance for pilot plant expenditures incurred prior to May 31, 2016.

#### 6. Marketable Securities

The Company received 1,500,000 common shares of Quest Rare Minerals Ltd. (Quest+) pursuant to the sale of a mineral property. The shares have been classified as available-for-sale financial instruments and, as a result, are measured at fair market value each reporting period with any change in fair value recognized through other comprehensive loss.

During the six months ended May 31, 2016, the Company sold 816,500 common shares of Quest for gross proceeds of \$99,465 and accordingly, the Company recorded a gain on sale of marketable securities of \$17,815.

At May 31, 2016, the Company had 683,500 common shares of Quest with a fair value of \$116,195 (November 30, 2015 - 1,500,000 common shares of Quest with a fair value of \$105,000). During the six months ended May 31, 2016, the Company recorded the change in fair value of marketable securities of \$92,845 in other comprehensive income.

#### 7. Mineral Properties – Schedule 1

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claims of title.

The Company acquired the mineral properties primarily by staking the claims. In order to maintain title to the claims, the Company must incur minimum exploration expenditures per claim as specified by the Mineral Act of the Province of Newfoundland and Labrador. In lieu of incurring the minimum expenditures, the Company may make security deposits with the Government of Newfoundland and Labrador. Other commitments relating to mineral properties are as follows:

##### **Port Hope Simpson REE District, Labrador**

The Company acquired the Port Hope Simpson REE District primarily by staking the claims. In addition, the Company acquired the B and A Claims and the Quinlan Property.

##### *B and A Claims*

On December 10, 2009, the Company entered into a binding letter of intent (the LOI) with B and A Minerals Inc. (B and A+), further defined in a Mining Option Agreement, for an option to acquire an undivided 100% interest in and to certain claims in southeast Labrador owned by B and A (Port Hope Simpson, B and A Claims+).

## Search Minerals Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended May 31, 2016

(Unaudited - Expressed in Canadian dollars)

Under the terms of the Mining Option Agreement, to earn the undivided 100% interest in Port Hope Simpson, B and A Claims, the Company paid B and A an aggregate of \$140,000 and issuing an aggregate 1,100,000 common shares of the Company. The final payment and share issuance was made in January 2013. The Company now owns a 100% interest in the property.

The Mining Option Agreement is subject to a 3% net smelter return in favor of B and A, of which the Company can purchase 2% at any time for \$2,000,000.

#### Quinlan Property

On January 13, 2011, the Company entered into a binding letter of intent (the %LOI+) with Andrew Quinlan, Roland Quinlan and Tony Quinlan (the %Vendors+). Pursuant to the LOI, the Company has the option to earn an undivided 100% interest in and to certain claims owned by the Vendors known as the Fox Harbour Claims (the %Quinlan Property+). The Quinlan Property is comprised of three licenses totaling 48 claims located east of St. Lewis, Labrador.

Under the terms of the LOI, the Company earned an undivided 100% interest in Quinlan Property by making aggregate cash payments of \$90,000 and issuing an aggregate of 300,000 common shares of the Company.

The Vendors were granted a 1.5% net smelter return royalty (%NSR+). The Company may, at any time, purchase 1% of the net smelter return royalty for \$1,000,000. The Company must make annual cash advance payments of \$10,000 for the Quinlan Property to the Vendors commencing February 23, 2016 and continuing each year thereafter until commencement of commercial production, deductible against the NSR. During the six months ended May 31, 2016, the Company paid the \$10,000 annual cash payment.

#### Red Wine Property, Labrador

On June 28, 2015, the Company purchased from Great Western Minerals Group Ltd. (%GWMG+) its interest in the Red Wine Property for \$20,000. GWMG had acquired its approximate 50% interest in the Red Wine Property pursuant to an option agreement between the Company and GWMG dated July 23, 2010. Following the acquisition, the Company now owns 100% of the Red Wine Property.

## 8. Payables

	May 31, 2016 \$	November 30, 2015 \$
Trade payables	168,802	200,744
Due to current related parties (Note 11)	409,546	379,182
Due to former related parties (Notes 11 and 13)	371,430	371,430
Total payables	949,778	951,356

During the six months ended May 31, 2016, the Company settled \$58,023 of payables by paying cash of \$19,466 and by issuing 667,143 common shares at the fair value of \$0.05 per share resulting in a gain on settlement of accounts payable and accrued liabilities of \$5,200. The number of shares issued to settle the debt was determined using a share price of \$0.06 per share.

## 9. Share Capital

### a. Common shares authorized

Unlimited number of common shares

132,491,188 outstanding at May 31, 2016 (November 30, 2015: 131,824,045)

### b. Stock option plan

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is

**Search Minerals Inc.**

## Notes to the Condensed Interim Consolidated Financial Statements

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(Unaudited - Expressed in Canadian dollars)

defined in the policies of the TSX-V). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as a director or officer of the Company.

Changes in share purchase options during the six months ended May 31, 2016 and the year ended November 30, 2015 are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Life (Years)
Outstanding, November 30, 2014	5,378,500	\$0.33	2.04
Granted	6,850,000	\$0.10	
Expired	(1,023,500)	\$0.43	
Forfeited	(210,000)	\$0.14	
Outstanding, November 30, 2015	10,995,000	\$0.18	3.38
Expired	(1,785,000)	\$0.54	
Outstanding and exercisable, May 31, 2016	9,210,000	\$0.11	3.47

At May 31, 2016, the following share purchase options were outstanding entitling the holder thereof the right to purchase one common share for each option held:

Number	Exercise Price	Expiry Date
145,000	\$0.26	January 19, 2017
690,000	\$0.20	October 17, 2017
1,425,000	\$0.10	April 26, 2018
100,000	\$0.07	October 29, 2018
6,850,000	\$0.10	June 30, 2020
<u>9,210,000</u>		

**c. Warrants**

Changes in share purchase warrants during the six months ended May 31, 2016 and the year ended November 30, 2015 are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life (Years)
Balance, November 30, 2014	60,345,232	\$0.11	1.11
Issued	16,153,328	\$0.10	
Expired	(25,400,000)	\$0.11	
Balance, November 30, 2015	51,098,560	\$0.11	1.03
Expired	(4,453,232)	\$0.10	
Balance, May 31, 2016	46,645,328	\$0.11	0.87

At May 31, 2016, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

Number	Exercise Price	Expiry Date
4,000,000	\$0.20	August 8, 2016
532,000	\$0.20	August 22, 2016
8,300,000	\$0.10	August 27, 2016
5,960,000	\$0.10	September 8, 2016
11,700,000	\$0.10	October 9, 2016
7,950,000	\$0.10	July 28, 2017
3,203,328	\$0.10	August 17, 2017
5,000,000	\$0.10	October 19, 2017
<u>46,645,328</u>		

## Search Minerals Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended May 31, 2016

(Unaudited - Expressed in Canadian dollars)

#### d. Basic and diluted loss per share

During the six months ended May 31, 2016, potentially dilutive common shares totaling 55,855,328 (2015: 39,842,732) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

#### 10. Technology Research

On November 13, 2013, the Company entered into a Purchase Agreement with InCoR Holdings Plc., a wholly-owned subsidiary, InCoR Technologies Limited (InCoR), whereby InCoR agreed to purchase the intellectual property rights to the starved acid leaching technology (SALT).

Pursuant to the Purchase Agreement, InCoR will purchase SALT for a total purchase price of \$2.2 million, comprised of the following:

- \$50,000 at closing (received);
- \$50,000 upon delivery of a positive economic scoping study (received);
- \$100,000 upon the earlier of the completion of a positive bankable feasibility study and 18 months from the date of the Purchase Agreement (received); and,
- \$2,000,000 repayable from 25 percent of the net cash flow from a commercial application of SALT.

On September 30, 2015, the Company and InCoR amended the Purchase Agreement whereby InCoR agreed to provide the Company with \$650,000 in order to fully satisfy and discharge InCoR from any further obligation under the Purchase Agreement. The payment schedule consisted of \$250,000 at closing (received), \$200,000 on December 31, 2015 (received) and \$200,000 on February 28, 2016 (received). With the final \$200,000 payment made in March 2016, InCoR has now satisfied all terms of the amended Purchase Agreement and InCoR now owns the intellectual property rights to SALT.

The Company no longer has any interest in the SALT technology.

The Company records the proceeds received from the sale of SALT as other income in the period received or when receipt has been received as a subsequent event.

#### 11. Related Party Transactions

During the three and six months ended May 31, 2016 and 2015, the Company incurred the following expenditures charged by directors and officers of the Company, or former directors and officers of the Company, and/or companies they owned or were significant shareholders of:

	Three months ended May 31,		Six months ended May 31,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Administration and management fees	88,750	56,250	147,500	109,167
Consulting fees	22,500	22,500	45,000	45,000
Non-executive directors fees	13,500	13,500	27,000	27,000
Mineral property expenditures				
Geological consulting, salaries, wages and benefits	32,499	32,499	64,998	64,998
Rent	15,000	-	30,000	-
	172,249	124,749	314,498	246,165

At May 31, 2016, accounts payable and accrued liabilities included \$409,546 (November 30, 2015: \$379,182) of amounts owing to current directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand. The amounts have been recorded at their exchange amount, being the amount agreed to by the parties.

At May 31, 2016, accounts payable and accrued liabilities included \$371,430 (November 30, 2015: \$371,430) due to former directors (Note 13). On July 24, 2015, the Company announced that it has been named as a defendant in a lawsuit commenced in the Ontario Superior Court of Justice by two former officers of the Company, Stephen Keith and Alexandre Penha, in relation to an alleged defamatory news release issued by the Company in 2014 and the payment of compensation and expenses. The Company believes

## Search Minerals Inc.

### Notes to the Condensed Interim Consolidated Financial Statements

For the six months ended May 31, 2016

(Unaudited - Expressed in Canadian dollars)

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that it has meritorious defences and set-offs to the claims and intends to vigorously defend the action. On March 1, 2016, the Company filed a counterclaim.

Key management includes the CEO, the VP of Exploration and the directors of the Company. The compensation paid or payable to key management for services during the six months ended May 31, 2016 and 2015 is identical to the table above. The compensation paid or payable was for short-term benefits.

## 12. Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the six months ended May 31, 2016 the following transactions were excluded from the statement of cash flows:

- a) deferred exploration expenditures of \$202,115 included in accounts payable and accrued liabilities at May 31, 2016, less expenditures included in accounts payable at November 30, 2015 of \$203,197 (net inclusion of \$1,082);
- a) government assistance of \$18,628 included in receivables at May 31, 2016;
- b) the issuance by the Company of 407,143 shares at the fair value of \$20,357 pursuant to a mineral property agreement; and,
- c) the issuance by the Company of 260,000 shares at the fair value of \$13,000 pursuant to a debt settlement.

During the six months ended May 31, 2015 the following transactions were excluded from the statement of cash flows:

- a) deferred exploration expenditures of \$217,288 included in accounts payable and accrued liabilities at May 31, 2015, less expenditures included in accounts payable at November 30, 2014 of \$350,781 (net inclusion of \$133,493); and,
- b) the issuance by the Company of 50,000 shares at the fair value of \$2,250 pursuant to mineral property agreements.

## 13. Contingent Liabilities

### *Lawsuit*

On July 24, 2015, the Company announced that it has been named as a defendant in a lawsuit commenced in the Ontario Superior Court of Justice by two former officers of the Company, Stephen Keith and Alexandre Penha, in relation to an alleged defamatory news release issued by the Company in 2014 and the payment of compensation and expenses. The Company believes that it has meritorious defences and set-offs to the claims and intends to vigorously defend the action. On March 1, 2016, the Company filed a counterclaim.

## 14. Subsequent Events

Additional subsequent events are disclosed in Note 5.

### *Sale of marketable securities*

The Company sold an aggregate of 183,500 common shares of Quest for gross proceeds of \$28,569.

### *Building Lease*

Effective June 1, 2016, the Company entered into a lease agreement for a building to be used for storing samples, core shack, processing core and accommodations. The building is located in St. Lewis, in the Province of Newfoundland and Labrador. The monthly rent is \$7,000 per month with the lease expiring on December 31, 2022. At the end of the lease term, the Company has the option to extend the lease by five years and to purchase the property at the appraised value. The lease is with a company controlled by a director of the Company.

**Search Minerals Inc.**  
**CONDENSED INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES**  
**For the six months ended May 31, 2016**  
(Unaudited - Expressed in Canadian Dollars)

	<b>Port Hope Simpson REE District, Labrador \$</b>	<b>Red Wine, Labrador \$</b>	<b>Total \$</b>
Balance, November 30, 2015	<b>9,091,688</b>	-	<b>9,091,688</b>
Acquisition costs			
Cash	10,000	-	10,000
	10,000	-	10,000
Deferred exploration costs			
Assay	44,397	-	44,397
Camp	32,287	-	32,287
Engineering and metallurgy	60,524	-	60,524
Geological consulting, salaries, wages and benefits (Note 11)	75,434	-	75,434
Geotechnical reports	113,535	-	113,535
Government contributions	(259,370)	-	(259,370)
Other	39,507	-	39,507
	106,314	-	106,314
<b>Balance, May 31, 2016</b>	<b>9,208,002</b>	-	<b>9,208,002</b>