

MINERAL HILL INDUSTRIES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
December 31, 2015 AND 2014
(Expressed in Canadian Dollars)

MINERAL HILL INDUSTRIES LTD.

Contents

| | <u>Page</u> |
|--|-------------|
| Auditors' report | 3 |
| Consolidated statements of financial position | 5 |
| Consolidated statements of loss and comprehensive loss | 6 |
| Consolidated statements of cash flows | 7 |
| Consolidated statements of changes in shareholders' deficiency | 8 |
| Notes to the consolidated financial statements | 9-25 |

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mineral Hill Industries Ltd.

We have audited the accompanying consolidated financial statements of Mineral Hill Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated 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 comply with ethical requirements and 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mineral Hill Industries Ltd. as at December 31, 2015 and 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Mineral Hill Industries Ltd. to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 19, 2016

Mineral Hill Industries Ltd.
Consolidated statements of financial position
(Expressed in Canadian Dollars)

| As at | December 31 2015 | December 31 2014 |
|---|---------------------|---------------------|
| | \$ | \$ |
| ASSETS | | |
| Current assets | | |
| Cash and equivalents (Note 4) | 10,184 | 10,197 |
| Receivables | 8,345 | 1,132 |
| Marketable securities (Note 7) | - | 21,875 |
| Prepaid expenses | 472 | 472 |
| | 19,001 | 33,676 |
| Equipment (Note 5) | 8,102 | 9,480 |
| Due from related parties (Note 7) | 7,056 | 9,422 |
| Exploration and evaluation assets (Note 6) | - | 305,273 |
| | 34,159 | 357,851 |
| LIABILITIES AND SHAREHOLDERS' DEFICIENCY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 145,041 | 149,282 |
| Due to related parties (Note 7) | 870,619 | 733,019 |
| | 1,015,660 | 882,301 |
| Shareholders' deficiency | | |
| Share capital (Note 8) | 15,689,672 | 15,689,672 |
| Share subscription received in advance (Note 8) | - | 20,000 |
| Reserves (Note 8) | 1,448,015 | 1,400,184 |
| Deficit | (18,119,188) | (17,634,306) |
| | (981,501) | (524,450) |
| | 34,159 | 357,851 |

Nature and continuance of operations (Note 1)
Commitment (Note 14)
Subsequent events (Note 15)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 19, 2016 and were signed on its behalf:

"Dieter Peter"
Dieter Peter, Director

"Andrew von Kursell"
Andrew von Kursell, Director

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of loss and comprehensive loss
(Expressed in Canadian Dollars)

For the years ended December 31

| | 2015 | 2014 |
|--|---------------------|-----------------------|
| Expenses | | |
| Amortization (Note 5) | \$ 1,378 | \$ 2,370 |
| Bank charges and interest | 70,025 | 55,042 |
| Consulting | - | 12,167 |
| Directors' and employees' expenses | 3,998 | - |
| Insurance | - | 2,658 |
| Investor relations | 5,364 | 18,975 |
| Office and miscellaneous | 16,220 | 5,790 |
| Professional fees | 27,959 | 22,293 |
| Rent | 3,600 | 5,993 |
| Salaries and wages | - | 43,685 |
| Recovery of expenses (Note 7) | - | (15,162) |
| Stock-based compensation (Note 8) | 47,831 | 145,719 |
| Transfer agent and filing fees | 15,511 | 14,360 |
| Travel and promotion | - | 2,699 |
| Loss on settlement of receivable | - | 42,421 |
| Impairment of assets (Note 6) | 308,488 | 685,072 |
| Loss before other item | (500,374) | (1,044,082) |
| Other item | | |
| Write-off of marketable securities (Note 7) | (21,875) | - |
| Gain on settlement of debt | 37,367 | - |
| Loss and comprehensive loss for the year | \$ (484,882) | \$ (1,044,082) |
| Loss per common share, basic and diluted | \$ (0.04) | \$ (0.10) |
| Weighted average number of common shares outstanding: | | |
| Basic and diluted | 10,821,246 | 10,169,116 |

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of cash flows
(Expressed in Canadian Dollars)

| Years ended December 31 | 2015 | 2014 |
|---|------------------|------------------|
| Cash flows from operating activities | | |
| Loss for the year | \$ (484,882) | \$ (1,044,082) |
| Items not affecting cash: | | |
| Amortization | 1,378 | 2,370 |
| Stock-based compensation | 47,831 | 145,719 |
| Accrued interest expense on due to related parties | 66,978 | 54,339 |
| Loss on settlement of receivable | - | 42,421 |
| Impairment of assets | 308,448 | 685,072 |
| Gain on settlement of debt | (37,367) | - |
| Write-off of marketable securities | 21,875 | - |
| Changes in non-cash working capital items: | | |
| Increase in receivables | (7,213) | (5,590) |
| (Increase) decrease in due from related parties | 2,366 | (33,159) |
| Decrease in prepaid expenses | - | 2,592 |
| Increase in accounts payable and accrued liabilities | 13,126 | 6,018 |
| Increase in due to related parties | 7,792 | 19,095 |
| Net cash used in operating activities | (59,668) | (125,205) |
| Cash flows from financing activities | | |
| Proceeds from share subscriptions recorded in advance | - | 20,000 |
| Proceeds of loans from related party | 60,500 | 122,500 |
| Net cash provided by financing activities | 60,500 | 142,500 |
| Cash flows from investing activities | | |
| Exploration and evaluation assets | (845) | (18,063) |
| Net cash used in investing activities | (845) | (18,063) |
| Decrease in cash and equivalents | (13) | (768) |
| Cash and equivalents, beginning of the year | 10,197 | 10,965 |
| Cash and equivalents, end of the year | \$ 10,184 | \$ 10,197 |

Supplemental disclosures with respect to cash flows (Note 10)

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.

Consolidated statements of changes in shareholders' deficiency

For the years ended December 31, 2015 and 2014

(Expressed in Canadian Dollars)

| | Share Capital | | Reserves | Share subscriptions received in advance | Deficit | Total |
|--|-------------------|-------------------|------------------|---|---------------------|------------------|
| | Number of shares | Amount | | | | |
| | | \$ | \$ | \$ | \$ | \$ |
| Balance, January 1, 2014 | 10,099,951 | 15,588,691 | 1,355,446 | - | (16,590,224) | 353,913 |
| Share based payment | - | - | 44,738 | - | - | 44,738 |
| Loss for the year | - | - | - | - | (1,044,082) | (1,044,082) |
| Share subscription recorded in advance | - | - | - | 20,000 | - | 20,000 |
| Bonus shares to Merfin Mgmt for debt | 721,295 | 100,981 | - | - | - | 100,981 |
| Balance, December 31, 2014 | 10,821,246 | 15,689,672 | 1,400,184 | 20,000 | (17,634,306) | (524,450) |
| Share based payment | - | - | 47,831 | - | - | 47,831 |
| Loss for the year | - | - | - | - | (484,882) | (484,882) |
| Reclassification to accounts payable | - | - | - | (20,000) | - | (20,000) |
| Balance, December 31, 2015 | 10,821,246 | 15,689,672 | 1,448,015 | - | (18,119,188) | (981,501) |

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.

Notes to the consolidated financial statements For the years ended December 31, 2015 and 2014

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the acquisition and exploration of mineral properties in Québec and the United States. The Company's shares are listed on the Toronto Stock Venture Exchange ("TSXV") trading under the symbol "MHI". On request of the Company the shares ceased trading on November 14, 2014. The registered office of the Company is 10th Floor, 595 Howe Street, Vancouver, V6C 2T5, British Columbia.

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), applicable for the reporting period, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

The Company has been acquiring and exploring its mineral properties in past years. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production. As at December 31, 2015 the Company was not able to obtain the necessary financing to continue with the exploration and evaluation and decided to impair all properties.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure the continuation of the Company's operations and exploration programs. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

On December 3, 2015 the Company signed a Heads of Terms ("HOT") to acquire 45% of the issued share capital of CPS Energy Resources Plc ("CPS") through the issuance of non-voting convertible preference shares. The agreement was subsequently superseded by a Share Purchase Agreement ("SPA") (Note 15).

Basis of measurement and preparation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss which have been measured at fair value.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Functional currency

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Veritas Resource Corp, (incorporated in USA) and Global Environomic Systems Corp (incorporated in Canada). All significant inter-company balances and transactions have been eliminated upon full consolidation. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

b) Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting periods. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from those reported.

Significant assumptions about the future and other sources of judgements and estimates that management has made at the statement of financial position date, that could result in material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but not limited to, the following:

- Stock based compensation are based upon expected volatility and option life estimates;
- The provision of income taxes is based on judgements in applying income tax law and estimates on timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities;
- The estimated value of exploration and evaluation costs which is included in the consolidated statement of financial position and
- The assessment of indications of impairment of each of the exploration and evaluation assets and related determination of the net realizable value and write-down of those properties where applicable.

c) Cash and equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents include short term highly liquid investments with an original maturity of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

d) Refundable tax credits and mining duties

The Company is entitled to apply for government grants in the form of refundable tax credits and mining duties in respect of qualifying mining exploration expenses incurred. These recoveries are accounted for using the cost reduction approach whereby amounts received or receivable are applied against the cost of related assets or expenditures.

e) Marketable securities

Marketable securities are traded on a recognized securities exchange and are recorded at fair values based on quoted closing bid prices at the statement of financial position dates or the closing bid prices on the last day the security traded if there was no trade at the statement of financial position dates with both realized and unrealized gains and losses recorded in the statement of loss and comprehensive loss.

f) Foreign currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items are measured in terms of historical cost in a currency other than the functional currency are not translated.

g) Equipment

These assets are recorded at cost less accumulated amortization and impairment. Amortization is calculated using the declining balance method to allocate their costs to their residual values over their estimated useful lives as follows:

| | |
|-------------------------|-----|
| Furniture and equipment | 20% |
| Computer software | 20% |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of loss.

h) Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. Exploration and evaluation expenditures comprise costs that are directly attributable to:

- researching and analysing existing data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its disposal or through farm-out arrangements.

Once commercial production commences, these costs will be reclassified to Mineral properties within Property, plant and equipment and charged to operations on a unit-of-production method based on proven and probable reserves.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income, costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount.

i) Decommissioning liabilities

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of mining assets are recorded when incurred, with a corresponding increase to the carrying amount of the related production assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company's risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates and changes to the risk free rates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property and equipment. The unwinding of the discount on the decommissioning provision is charged to net earnings or loss as office and administration expense.

The Company recognizes a decommissioning liability in the period in which it is incurred when reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes and if there are any, will be applied prospectively. The fair value of the estimated provision is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved developed reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive loss.

j) Impairment of long-lived assets

At each reporting date, all capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

k) Stock-based compensation

The fair value of stock options granted is measured at grant date using the Black-Scholes option pricing model. Where options are granted to consultants for goods or services rendered, the options are measured at the fair value of the goods or services received by the Company. If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in contributed surplus are credited to share capital.

l) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

m) Loss per share

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to purchase the Company's common shares at their average

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

market price during the period, a reduction to the weighted average number of common shares outstanding. If this computation is anti-dilutive, diluted loss per share is the same as basic loss per share. For the periods presented, this calculation proved to be anti-dilutive.

n) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loan and receivables, held-to-maturity and available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

- *Financial assets at fair value through profit or loss*
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets and include cash and equivalents, which are initially recognized at fair value.
- *Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current or non-current assets based on their maturity date. Assets in this category include due from related parties and receivables and are measured at amortized cost less impairment.
- *Available-for-sale financial assets*
Available-for-sale financial assets are either designated as available for sale or not classified in any other categories. They are initially recognized at fair value plus transaction costs and are subsequently carried at fair value, with unrealized gains and losses recorded in other comprehensive income until disposition or other-than-temporary impairment at which time the gain or loss is recorded in earnings. Assets in this category include marketable securities.
- *Held to maturity*
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold to maturity. They are measured at amortized cost less any allowance for impairment. Amortization of premiums or discounts and losses due to impairment are included in current period income (loss). The Company holds no instruments in this category. Held to maturity investments are classified as current except for the portion expected to be realized beyond twelve months of the statement of financial position date, which is classified as non-current.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – this category comprises of derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss.

Other financial liabilities – this category includes accounts payable and accrued liabilities and due to related parties, are initially recognized at fair value and subsequently stated at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

Impairment of financial assets

The Company assesses at each reporting date, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortization: the loss is the difference between the amortized cost and its value of estimated future cash flows, discounted using the instrument's original effective interest rate;
- Available-for-sale financial asset: The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.
- Reversals of impairment losses on financial assets carried at amortized cost are recorded through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss had been recognized. Impairment on available-for-sale instruments is not reversed.

3. ACCOUNTING STANDARDS AND CHANGE IN ACCOUNTING POLICIES

New standards not yet adopted

IFRS 9, Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2018. The Company has not yet made an assessment of the impact of the amendments.

There are no other IFRSs or IFRIC Interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. CASH AND EQUIVALENTS

| | December 31 2015 | December 31 2014 |
|--------------------------|-----------------------------|---------------------|
| Petty cash | \$ 598 | \$ 598 |
| Bank and Brokerage house | 586 | 599 |
| GIC | 9,000 | 9,000 |
| | 10,184 | 10,197 |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

5. EQUIPMENT

| | Furniture and Equipment | Computer Software | TOTAL |
|---|----------------------------|-------------------|----------|
| | \$ | \$ | \$ |
| <i>Balance – December 31, 2013</i> | | | |
| Cost | 89,456 | 3,351 | 92,807 |
| Accumulated Amortization | (77,786) | (3,171) | (80,957) |
| | 11,670 | 180 | 11,850 |
| <i>Movements – year ended December 31, 2014</i> | | | |
| Acquisitions | - | - | - |
| Amortization | (2,334) | (36) | (2,370) |
| | (2,334) | (36) | (2,370) |
| <i>Balance – December 31, 2014</i> | | | |
| Cost | 89,456 | 3,351 | 92,807 |
| Accumulated Amortization | (80,120) | (3,207) | (83,327) |
| | 9,336 | 144 | 9,480 |
| <i>Movements – year ended December 31, 2015</i> | | | |
| Acquisitions | - | - | - |
| Amortization | (1,357) | (21) | (1,378) |
| | (1,357) | (21) | (1,378) |
| <i>Balance – December 31, 2015</i> | | | |
| Cost | 89,456 | 3,351 | 92,807 |
| Accumulated Amortization | (81,477) | (3,228) | (84,705) |
| | 7,979 | 123 | 8,102 |

6. MINERAL PROPERTIES

The carrying values of exploration and revaluation assets were as follows:

| | December 31 2015 | December 31 2014 |
|------------------------------------|---------------------|---------------------|
| Mineral property acquisition costs | \$ - | \$ 155,557 |
| Deferred exploration costs | \$ - | \$ 149,716 |
| | \$ - | \$ 305,273 |

(a) Mineral Property Acquisition Costs

| | Balance December 31 2013 | Additions/ (Write-offs) | Balance December 31 2014 | Additions/ (Write-offs) | Balance December 31 2015 |
|--|--------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| Chubb Property, Québec | \$ 127,166 | \$ (127,166) | \$ - | \$ - | \$ - |
| International Property, Québec | 111,192 | (111,192) | - | - | - |
| Athona Property, Québec | 82,585 | (82,585) | - | - | - |
| Canadian and McNeely Lithium Property, Québec | 99,917 | (99,917) | - | - | - |
| New Lithium Property, Quebec | 90,750 | (90,750) | - | - | - |
| Liberty Hill Mine, US | 155,557 | - | 155,557 | (155,557) | - |
| | \$ 667,167 | \$ (511,610) | \$ 155,557 | \$ (155,557) | \$ - |

Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its properties and, to the best of its knowledge, title to all of its properties are in good standing. However, this should not be construed as a guarantee of title. The mineral properties may be subject to prior claims, arguments or transfers and rights of ownership may be affected by undetected defects.

Lithium Properties, Val d'Or, Quebec

(i) Chubb Property, Québec

The Company acquired a 100% interest in the Chubb Lithium Property, which is located in the Archean Abitibi Greenstone belt in the La Corne Township by paying \$80,000 and issuing 66,664 common shares. The agreement provides for a 2% net smelter return ("NSR"). The Company has an exclusive option to buy back 50% for \$1,000,000 within one year and the remaining 50% for \$1,000,000 within two years of the date the Chubb Property is put into commercial production.

During fiscal 2014, the Company wrote off the property and charged \$127,166 to operations.

(ii) International Property, Québec

The Company acquired a 100% interest in the International property by paying \$83,108 and issuing 49,998 common shares. The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for \$500,000 within one year and the remaining 50% for \$500,000 within two years of the date the International Property is put into commercial production.

During fiscal 2014, the Company wrote off the property and charged \$111,192 to operations. During fiscal 2015, the Company allowed the claims to lapse.

(iii) Athona Property

The Company acquired a 100% interest in the Athona property by paying \$60,000 and issuing 37,500 common shares.

During fiscal 2014, the Company wrote off the property and charged \$82,585 to operations. During fiscal 2015, the Company allowed the claims to lapse.

(iv) Canadian and McNeely Lithium Property, Québec

The Company acquired a 100% interest in the Canadian and McNeely Lithium property by paying \$80,000 and issuing 49,998 common shares. The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for \$500,000 within one year and the remaining 50% for \$500,000 within two years of the date the Canadian and McNeely Property is put into commercial production.

During fiscal 2014, the Company wrote off the property and charged \$99,917 to operations. During fiscal 2015, the Company allowed the claims to lapse.

(v) New Lithium Property, Québec

The Company issued a total of 550,000 commons shares valued at \$90,750, with respect to the acquisition of a 100% interest in some mineral claims located northwest of the mining town of Val d'Or in Quebec.

During fiscal 2014, the Company wrote off the property and charged \$90,750 to operations. During fiscal 2015 and subsequent, the Company allowed the claims to lapse.

Mineral Hill Industries Ltd.

Notes to the consolidated financial statements For the years ended December 31, 2015 and 2014

Liberty Hill Mine, Nevada County, California, USA

On September 30, 2010, the Company entered into an agreement to earn in a 50% participation in a Joint Venture Agreement with Mining and Energy International Corp (MEICO) in the Liberty Hill Mine, in Nevada County, California, USA. Under the agreement, in order for the Company to earn a 50% Joint Venture interest, it was required to pay US\$1,000,000 upon the satisfaction of certain conditions and incur US\$1,500,000 in expenditures as follows:

- (i) US\$40,000 on signature of the agreement
- (ii) US\$45,000 within 21 days after signature of the agreement
- (iii) the balance of US\$1,415,000 payable in increasing tranches within 180 days from a date which is the earlier of the approval from the regulatory authorities and the receipt of the exploration permit from the US Forest Service. Any funds generated from the processing of the existing stockpile will reduce the balance payable.

During the fiscal year 2010, the Company paid a total of \$92,458 (US\$88,000), including \$19,245 (US\$18,000) for the renewing of the mineral tenures.

The Company is awaiting the issuance of the exploration permit from the US Forest Service, which is one of the obligations of MEICO under the agreement.

In May, 2012, some terms of the agreement were amended and the Company agreed to make a monthly payment of \$1,500 to MEICO as re-imbusement of costs.

On June 29, 2015 the Company sent a formal notification to MEICO to terminate the Agreement dated September 30, 2010 including the Amendment thereof dated April 20, 2012 as the Company has been unable to secure funds to continue with the development of the Liberty Hill Mine under the current economic conditions. The termination has officially been accepted by MEICO and the Company therefore recorded \$307,563 as impairment on assets.

(b) Deferred exploration costs

At December 31, 2015, the Company has capitalized the following exploration expenditures:

| | Total | Liberty Hill Mine | Lithium Property |
|------------------------------------|----------------|-------------------|------------------|
| Balance – December 31, 2013 | \$ 283,074 | \$ 111,185 | \$ 171,889 |
| Expenditure | 40,103 | 38,531 | 1,572 |
| Write-offs | (173,461) | - | (173,461) |
| Balance – December 31, 2014 | 149,716 | 149,716 | - |
| Expenditure | 3,215 | 2,330 | 885 |
| Write-offs | (152,931) | (152,046) | (885) |
| Balance – December 31, 2015 | \$ - | \$ - | \$ - |

At December 31, 2015, the carrying amounts of deferred exploration expenditures for the lithium properties were as follows:

| | December 31 2013 | Changes | Write-offs | December 31 2014 | Changes | Write-offs | December 31 2015 |
|---------------------|---------------------|-----------------|---------------------|---------------------|---------------|-----------------|---------------------|
| Fieldwork | \$ 70,508 | \$ - | \$ (70,508) | \$ - | \$ - | - | \$ - |
| Geology and mapping | 96,670 | - | (96,670) | - | - | - | - |
| Consulting | 32,750 | - | (32,750) | - | - | - | - |
| Assays | 5,537 | - | (5,537) | - | - | - | - |
| Project Management | 18,832 | - | (18,832) | - | - | - | - |
| Miscellaneous | 27,308 | 1,572 | (28,880) | - | 885 | (885) | - |
| Tax Credits | (79,716) | - | 79,716 | - | - | - | - |
| | \$ 171,889 | \$ 1,572 | \$ (173,461) | \$ - | \$ 885 | \$ (885) | \$ - |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

At December 31, 2015, the carrying amounts of deferred exploration expenditures for the Liberty Hill Mine were as follows:

| | December 31 2013 | Changes | December 31 2014 | Changes | Write-offs | December 31 2015 |
|---------------|---------------------|------------------|---------------------|-----------------|---------------------|---------------------|
| Consulting | \$ 29,000 | \$ - | \$ 29,000 | \$ - | \$ (29,000) | \$ - |
| Miscellaneous | 82,185 | 38,531 | 120,716 | 2,330 | (123,046) | - |
| | \$ 111,185 | \$ 38,531 | \$ 149,716 | \$ 2,330 | \$ (152,046) | \$ - |

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2015, the Company entered into the following transactions with related parties. These transactions were in the normal course of operations and were priced on an arm's length basis.

Key management personnel compensation

The remuneration of key management personnel during the year ended December 31, 2015 and 2014 were as follows:

| | Note | December 31 2015 | December 31 2014 |
|------------------------------|------|---------------------|---------------------|
| Consulting fees and salaries | (i) | \$ - | \$ 55,862 |
| Share based compensation | (ii) | \$ 43,305 | \$ 131,489 |

- (i) The Company paid or accrued consulting services for \$Nil (2014: \$9,167) to Merfin Management Limited ("Merfin"), a private company controlled by the Chief Executive. The Company paid or accrued consulting services for \$Nil (2014: \$3,000) to Infogen Research & Consulting Limited ("Infogen"), a private company controlled by a related party. During the year ended December 31, 2015, the Company also paid salaries of \$Nil (2013: \$43,685) to the Chief Financial Officer. See also note on recovery of expenses below.
- (ii) Stock based payments are the fair value of options granted to the Chief Executive Officer, the Chief Financial Officer and Corporate Secretary, which vest partly on grant date and partly on the first and second anniversaries of the grant date.

Other related party transactions

During the year ended December 31, 2015, the Company charged, as a recovery of office expenses from Nass Valley Gateway Ltd. in the amount of \$14,163, and Kirkland Precious Metals Corp. in the amount of 15,371, companies related by common directors and officers, for a total amount of \$29,534 with respect to shared costs relating to office expenses and paid \$11,875 to Nass Valley Gateway for office administration (December 2014: \$15,162).

The following were receivable from companies which are related by common directors:

| | December 31 2015 | December 31 2014 |
|--------------------------------|---------------------|---------------------|
| Island Gateway Ltd. | \$ 405 | \$ 405 |
| Gitxat'in MHind World Link | 44 | - |
| Nass Valley Gateway Ltd. | 4,368 | 4,638 |
| Nass Energy | 90 | - |
| Kirkland Precious Metals Corp. | 9,913 | 4,379 |
| | \$ 14,820 | \$ 9,422 |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

In September 2014 Mineral Hill Industries' Board of Directors approved a settlement which saw the Company receive 2,189,080 common shares of Kirkland Precious Metals Corp. as payment of \$109,454 owed. \$70,158 of the \$109,454 had previously been recorded as bad debt resulting in a net amount of \$39,296. Kirkland Precious Metals Corp is a reporting company but its shares are not being traded yet. The fair value of the shares is deemed to be \$Nil and therefore the ACB of the shares is \$Nil with the result that \$39,296 was recorded as loss on settlement of receivables. On December 29, 2014 the Board of Directors also approved a settlement which saw the Company receive 312,500 shares of Nass Valley Gateway Ltd. as payment of \$25,000 owed. The closing price of the shares at the issuance date was \$0.07 and therefore the ACB of the shares is \$21,875 with the result that \$3,125 was recorded as loss on settlement of receivables.

During the year ended December 31, 2015 the Company recognized a write-off of these shares of \$21,875.

Advances received from related party

During the year ended December 31, 2015, the Company received advances of \$60,500 (2014: \$122,500) from Merfin and converted accounts payable of \$ Nil (2014: \$28,494) into loans. The promissory notes bear interest at 8.5% per annum. As at December 31, 2015, an amount of \$130,082 (2014: \$69,589) was accrued as interest. The loan is due on the date of completion of a financing of a minimum of \$800,000. Subject to regulatory approval, the loan may be converted into common shares at the option of Merfin.

During the year ended December 31, 2015, the Company recorded an advance of \$Nil (2014: \$Nil) from Knight Castle Mercantile Inc., a private company controlled by a former director. The promissory note bears interest at 8.5% per annum. As at December 31, 2015, an amount of \$2,483 (2014: \$1,469) was accrued as interest. The loan is due at the date of completion of financing of a minimum of \$400,000. The loans are convertible into common shares of the Company at the option of the lender, subject to regulatory approval. The Company calculated the fair value of the convertible feature at \$Nil.

During the year ended December, 2015, the Company converted accounts payable of \$Nil due to Infogen (2014: \$3,173) into loans due to Infogen. The promissory notes bear interest at 8.5% per annum. As at December 31, 2015, an amount of \$13,749 (2014: \$7,905) was accrued as interest. There is no specific maturity date. Subject to regulatory approval, the loan may be converted into common shares at the option of the Company.

The Company agrees to pay the lenders the bonus permitted by TSXV policies on the date the loans are repaid. The bonus shall be paid in cash, shares, warrants or a combination at the election of the lenders.

Included in accounts payable and accrued liabilities is \$19,539 (2014 - \$2,625) due to related parties.

Related party loans are summarized as follows:

| Balance owing as at | | |
|--------------------------------------|----------------------|----------------------|
| | December 31, 2015 | December 31, 2014 |
| Merfin Management Ltd. | \$ 786,186 | \$ 655,443 |
| Knight Castle Mercantile Inc. | 12,483 | 11,470 |
| Infogen Research and Consulting Ltd. | 71,949 | 66,106 |
| Total | \$ 870,619 | \$ 733,019 |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

8. SHARE CAPITAL AND RESERVES

a) Authorized share capital

At December 31, 2015, the authorized share capital comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

The Company received \$20,000 in advance for a subscription of shares as outlined in the proposed private placement in November 2014 which had not been completed prior to the end of year 2015. Accordingly, this amount has been reclassified as accounts payable and accrued liabilities until completion of a private placement.

b) Stock-based compensation

The Company, in accordance with its modified stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 2,019,990 of currently issued and outstanding common stock. The exercise price of each option equals the closing market price of the Company's stock on the last trading day preceding the date of grant, less any discount permitted by the TSXV. The options can be granted for a maximum term of three years and are subject to vesting provisions as determined by the board of directors of the Company.

The weighted average grant fair value of 610,500 options granted on December 17, 2015 was \$0.11 per option. The fair value of these options determined on the day of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.33%, expected life of 3 years; expected volatility of 146% and expected dividends of 0%.

The weighted average grant fair value of 578,675 options granted on November 27, 2014 was \$0.07 per option. The fair value of these options was determined on the day of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 1.2%, expected life of 2 years; expected volatility of 253% and expected dividends of 0%.

For the year ended December 31, 2015, the total stock-based compensation for options granted and vested is \$47,831 (2014: \$44,738).

Stock option transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise price |
|---|----------------------|------------------------------------|
| Stock options outstanding at December 31, 2013 | 1,575,250 | \$ 0.15 |
| Expired/cancelled | (135,000) | \$ 0.14 |
| Granted | 578,675 | \$ 1.00 |
| Stock options outstanding at December 31, 2014 | 2,018,925 | \$ 0.39 |
| Expired/cancelled | (690,750) | \$ 0.15 |
| Granted | 610,500 | \$ 0.14 |
| Stock options outstanding at December 31, 2015 | 1,938,675 | \$ 0.40 |

Information regarding options outstanding and exercisable as at December 31, 2015:

| Expiry Date | Exercise Price | Number of Options Outstanding | Number of Exercisable Options | Average Remaining Life (Years) |
|-------------------|----------------|-------------------------------------|-------------------------------------|-----------------------------------|
| September 4, 2016 | \$ 0.15 | 749,500 | 749,500 | 0.68 |
| November 27, 2016 | 1.00 | 578,675 | 474,000 | 0.91 |
| December 17, 2018 | 0.14 | 610,500 | 182,750 | 2.96 |
| | \$ 0.40 | 1,938,675 | 1,406,250 | 1.43 |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

c) Warrants

As at December 31, 2015, the Company had the following outstanding warrants to purchase common shares of the Company:

| Number of warrants | Exercise price | Expiry date |
|---------------------------|-----------------------|--------------------|
| 3,048,750 | \$ 0.30 | December 14, 2016 |

Warrant transactions are summarized as follows:

| | Warrants outstanding | |
|-----------------------------------|-----------------------------|--|
| | Number of warrants | Weighted average exercise price |
| Balance, December 31, 2013 | 7,633,713 | \$ 0.52 |
| Expired | (4,459,963) | \$ 0.64 |
| Balance, December 31, 2014 | 3,173,750 | \$ 0.34 |
| Expired | (125,000) | \$ 1.20 |
| Balance, December 31, 2015 | 3,048,750 | \$ 0.30 |

Due to the halt on trading by the TSXV on December 14, 2015, the TSXV granted a one year extension of the warrants to December 2016.

9. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

| | 2015 | 2014 |
|--|--------------|----------------|
| Loss for the year | \$ (484,882) | \$ (1,044,082) |
| Expected income tax recovery | \$ (126,000) | \$ (271,000) |
| Non-deductible items | 12,000 | 49,000 |
| Difference in tax rates and other | (9,000) | 38,000 |
| Change in unrecognized temporary differences | 123,000 | 184,000 |
| Total income tax expense (recovery) | \$ - | \$ - |

Deductible temporary differences, unused tax losses and unused tax credits that are not included in deferred tax assets on the statement of financial position are as follows:

| | Expiry date range | 2015 | 2014 |
|--------------------------|--------------------------|-------------|-------------|
| | | \$ | \$ |
| Marketable Securities | Not applicable | 61,000 | 39,000 |
| Allowable capital losses | Not applicable | 2,870,000 | 2,870,000 |
| Non-capital losses | 2016 to 2035 | 4,177,000 | 3,969,000 |
| Capital assets | Not applicable | 241,000 | 239,000 |
| Mineral properties | Not applicable | 3,396,000 | 3,146,000 |
| Income tax credits | 2020 to 2034 | 31,000 | 31,000 |

Mineral Hill Industries Ltd.

Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | December 31 2015 | December 31 2014 |
|--|---------------------|---------------------|
| Cash paid for income taxes during the year ended | \$ - | \$ - |
| Cash paid for interest during the year ended | \$ - | \$ - |

During the year ended December 31, 2015, the Company accrued mineral property expenditures of \$Nil (2014: \$11,130) through accounts payable and accrued liabilities and reclassified \$20,000 from subscriptions received in advance to accounts payable and accrued liabilities.

11. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition and exploration. The Company's non-current assets by geographical area are as follows:

| | December 31 2015 | December 31 2014 |
|---------------------|---------------------|---------------------|
| Non-current assets: | | |
| Canada | \$ - | \$ 18,902 |
| U.S.A. | \$ - | \$ 305,273 |
| | \$ - | \$ 324,175 |

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, marketable securities, receivables, due from related parties, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents with high-credit quality financial institutions. The Company does not believe there is significant credit risk associated with receivables as they consist primarily of GST due from the Canadian Government. For the due from related parties, these transactions are in the normal course of operations and, in management's opinion, are undertaken with the same terms and conditions as transactions with unrelated parties. The Company does not believe there is significant credit risk associated with the due from related parties.

Amounts due to and from related parties are discussed in Note 7.

Currency risk

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Interest rate risk

The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

Fair value measurements of financial assets and liabilities

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The fair value of cash and equivalents is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. Fair value of marketable securities is determined based on “Level 2” inputs.

The Company believes that the recorded values of receivables, due to and from related parties and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company’s statement of financial position as of December 31, 2015 as follows:

| | Fair Value Measurements Using | | | December 31 2014 |
|-----------------------|-------------------------------|---------|---------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Cash and equivalents | \$ 10,184 | – | – | \$ 10,184 |
| Marketable securities | \$ – | – | – | \$ – |
| | \$ 10,184 | \$ – | – | \$ 10,184 |

| | Fair Value Measurements Using | | | December 31 2014 |
|-----------------------|-------------------------------|-----------|---------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Cash and equivalents | \$ 10,197 | – | – | \$ 10,965 |
| Marketable securities | \$ – | 21,875 | – | \$ 21,875 |
| | \$ 10,197 | \$ 21,875 | – | \$ 32,072 |

13. CAPITAL MANAGEMENT

The Company’s capital structure consists of shareholders’ deficiency. The Company’s objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year ended December 31, 2015. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

14. COMMITMENT

The Company rented office space commencing December 1, 2013 for approximately \$520 per month until October 15, 2014. The Company moved its offices and entered into a new 2 year office lease agreement commencing Oct 15, 2014 and ending on October 15, 2016 at \$300 per month.

15. SUBSEQUENT EVENTS

On March 1, 2016 the Company, subsequent to the HOT, finalized and signed a Share Purchase Agreement ("SPA") with twelve shareholders of CPS ("Shareholders-SPA") representing 45% of the outstanding shareholdings. The parties agreed that the Company shall purchase the 45% of the outstanding share capital of CPS on a joint venture basis under the terms and conditions outlined in the SPA.

The basic terms of the SPA are as follows:

1. 10 business days after the SPA has been approved by the TSXV (the "Approval-Date-SPA"), the Company as resulting issuer will issue 2,250,000 convertible preference A shares ("Pref-A shares") of the Company to the Shareholders-SPA, at a deemed value of \$1.00 per Pref-A share, whereby the Pref-A Shares will have no voting rights but will be convertible into common shares of the Company at a conversion ratio of one to one (one Pref-A Share convertible into one common share) with full voting rights.
2. the Shareholders-SPA will nominate one director to the Company's Board of Directors ("BoD") and the BoD will commission a full NI51-101 report as an update of the existing NI51-101-equivalent report of the CPS project;
3. subsequent to obtaining the full NI51-101 report, the Company will issue to the Shareholders-SPA convertible preference shares ("Pref-B Shares") at a deemed value of \$1.05 per Pref-B Share, whereby the Pref-B Shares will also have no voting rights but will be convertible into common shares of the Company at a conversion ratio of one to one (one Pref-B Share convertible into for one common share). The number of Pref-B Shares to be issue shall be based on the outcome of the NI51-101 report pursuant to the terms of the SPA.
4. the Shareholders-SPA specifically agree that the Pref-B Shares will be only convertible into common shares of the Company at \$1.05 per Pref-B share, if the Shareholders-SPA's collective conversion of the Pref-B Shares does not trigger a reverse takeover under the Rules of the TSXV and upon prior approval of the TSXV;
5. the parties agreed that the common shares of the Company being issued as a result of the conversion of Pref-A Shares and Pref- B-Shares may be escrowed and subject to an escrow agreement imposed by the TSXV; and
6. the Shareholders-SPA agreed as a condition precedent of the transaction to procure a private placement consisting of common shares of the Company.

On March 9, 2016 the Company received an advance of \$22,176 for a share subscription in a private placement that is part of the conditions of the SPA.

On April 5, 2016 the TSX granted Merfin Management Limited 127,557 bonus shares in recognition of providing loan amounts in fiscal 2014 and 2015 totaling \$89,290.

On April 12, 2016 the Board of Directors approved the transfer of 100% legal and beneficial interest in 22 lithium claims that had been impaired in fiscal 2014 to a mining exploration company in return for a 1%

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the years ended December 31, 2015 and 2014

NSR royalty. The mining exploration company has the exclusive right to purchase the Company's 1% NSR on the properties for \$200,000 at any time and at their sole discretion.

On April 19, 2016 the Board of Directors approved the transfer of 100% legal and beneficial interest in 7 additional lithium claims that had been impaired in fiscal 2014 to a mining exploration company under the same conditions as the previous 22 claims. The mining exploration company has the exclusive right to purchase the Company's 1% NSR on the properties for \$200,000 at any time and at their sole discretion.