

MEDALLION RESOURCES LTD.
CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2016
(Unaudited)

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statement; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed 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 the financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of financial statements by an entity's auditor.

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	September 30, 2016	March 31, 2016
ASSETS		
Current		
Cash	\$ 121,367	\$ 1,777
Other Receivables	8,846	5,088
Prepaid Expenses	18,500	24,500
Total Current Assets	148,713	31,365
Equipment (Note 6)	226	290
Total Assets	\$ 148,939	\$ 31,655
LIABILITIES		
Current		
Accounts Payable and Accrued Liabilities	\$ 44,428	\$ 60,410
Due to Related Parties (Note 7)	371,272	325,763
Promissory Note Payable (Note 7)	51,500	40,000
Total Liabilities	467,200	426,173
SHAREHOLDERS' EQUITY (DEFICIT)		
Share Capital (Note 8)	17,546,135	17,376,935
Warrants	320,524	326,787
Contributed Surplus	2,576,692	2,439,629
Deficit	(20,761,612)	(20,537,869)
Total Shareholders' Equity (Deficit)	(318,261)	(394,518)
Total Liabilities and Shareholders' Equity (Deficit)	\$ 148,939	\$ 31,655

Corporate Information and Nature of Operations (Note 1)

Basis of Preparation (Note 2)

Commitments (Note 9)

Approved on behalf of the Board:

/s/ Donald M. Lay

Donald M. Lay – Director

/s/ Andrew Morden

Andrew Morden – Director

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

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
Expenses				
Consulting Fees (Note 7)	\$ 26,280	\$ 26,688	\$ 38,892	\$ 94,555
Depreciation (Note 6)	32	59	64	118
Investor Relations	12,516	30,276	33,642	69,286
Management Fees (Note 7)	37,784	55,821	75,580	123,557
Office and General	29,247	4,653	32,937	24,011
Professional Fees (Note 7)	13,055	24,587	23,462	41,785
Project Investigation (Note 5)	-	19,112	230	24,621
Rent (Note 7)	3,465	3,465	6,930	6,930
Share-based Compensation	-	-	-	4,034
Transfer Agent and Filing Fees	11,276	7,794	12,006	16,162
	(133,655)	(172,455)	(223,743)	(405,059)
Other Items				
Write off of Mineral Properties (Note 4)	-	(1,500)	-	(3,623)
Net Loss and Comprehensive Loss for the Period	\$ (133,655)	\$ (173,955)	\$ (223,743)	\$ (408,686)
Loss per Common Share – Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted Average Number of Common Shares Outstanding	78,864,802	66,405,266	76,398,585	65,333,135

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

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
For the Year Ended March 31, 2016 and the Six Months Ended September 30, 2016
(Unaudited)

	Number of Common Shares	Amount	Warrants	Contributed Surplus	Deficit	Total Shareholders' Equity (Deficit)
Balance – March 31, 2015	59,865,266	\$ 16,995,497	\$ 168,458	\$ 2,430,836	\$ (19,810,163)	\$ (215,372)
Shares issued on:						
Private placement	6,500,000	237,226	87,774	-	-	325,000
Finders' units issued	40,000	1,460	540	-	-	2,000
Share issuance costs	-	(5,873)	-	-	-	(5,873)
Share-based compensation	-	-	-	4,034	-	4,034
Net loss for the period	-	-	-	-	(408,682)	(408,682)
Balance – September 30, 2015	66,405,266	17,228,310	256,772	2,434,870	(20,218,845)	(298,893)
Shares issued on:						
Private placement (Note 8)	7,500,000	157,123	67,877	-	-	225,000
Finders' warrants issued	-	(2,138)	2,138	-	-	-
Share issuance costs	-	(6,360)	-	-	-	(6,360)
Share-based compensation	-	-	-	4,759	-	4,759
Net loss for the period	-	-	-	-	(319,024)	(319,024)
Balance – March 31, 2016	73,905,266	\$ 17,376,935	\$ 326,787	\$ 2,439,629	\$ (20,537,869)	\$ (394,518)
Shares issued on:						
Private placement (Note 8)	10,000,000	173,200	126,800	-	-	300,000
Finders' Units (Note 8)	186,667	3,300	2,300	-	-	5,600
Finders' Warrants (Note 8)	-	-	1,700	-	-	1,700
Share Issuance Costs	-	(7,300)	-	-	-	(7,300)
Expiry of Warrants	-	-	(137,063)	137,063	-	-
Net Loss for the Period	-	-	-	-	(223,743)	(223,743)
Balance – September 30, 2016	84,091,933	\$ 17,546,135	\$ 320,524	\$ 2,576,692	\$ (20,761,612)	\$ (318,261)

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

MEDALLION RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended September 30

	2016	2015
Cash Flow Provided By (Used in)		
Operating Activities		
Net loss for the period	\$ (223,743)	\$ (408,682)
Adjusted for items not involving cash:		
Depreciation	64	118
Share-based Compensation	-	4,034
Write-off of Mineral Properties	-	3,623
Net change in non-cash working capital items:		
Other Receivables	(3,758)	(1,539)
Prepaid Expenses	6,000	(8,749)
Accounts Payable and Accrued Liabilities	(15,982)	17,738
Due to Related Parties	45,509	47,260
	<u>(191,910)</u>	<u>(346,197)</u>
Investing Activities		
Mineral Properties	-	(3,623)
	<u>-</u>	<u>(3,623)</u>
Financing Activities		
Issuance of Share Capital and Warrants	300,000	325,000
Share Issuance Costs	-	(5,873)
Promissory Note Payable, net (Note 7)	11,500	30,000
	<u>311,500</u>	<u>349,127</u>
Increase (decrease) in Cash	119,590	(693)
Cash, Beginning of the period	1,777	8,185
Cash, End of the period	<u>\$ 121,367</u>	<u>\$ 7,492</u>
Supplementary Cash-flow Information:		
Interest Paid	\$ -	\$ 246
Income Taxes Paid	\$ -	\$ -
Non-Cash Investing and Financing Activities:		
Shares Issued for Mineral Property Acquisition	\$ -	\$ -
Issuance of Finders' Warrants	\$ 1,700	\$ -

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

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 1 – CORPORATE INFORMATION AND NATURE OF OPERATIONS

Medallion Resources Ltd. (the “Company”) was incorporated on December 8, 1989, under the Business Corporations Act (British Columbia).

The Company has historically been in the business of acquisition and exploration of mineral properties. The Company’s operations consisted generally of mineral exploration and evaluation of new property acquisitions. This included acquiring mineral properties, evaluating the merits of these properties using various techniques such as sampling, trenching and geophysical and geochemical methods as well as drilling.

More recently, the Company has been increasingly and primarily focused on a rare earth element business strategy involving the mineral monazite, which is available as a by-product mineral from large heavy-mineral-sands mining operations, and it is seeking monazite processing partnerships by which to process and produce rare earth elements from monazite. The Company is testing a variety of samples, which have been submitted by heavy-mineral-sands producers, to locate suitable quantities and qualities of monazite feedstock. This testing could lead to monazite purchase agreements to potentially provide feedstock for a planned rare earth element processing plant. Since no monazite purchase contracts or definitive processing plant financing and development agreements are in place at this time, all expenses associated with this strategy are being written off in the Company’s consolidated statements of loss and comprehensive loss.

The Company’s registered office is Suite 1160 – 595 Howe Street, Vancouver, British Columbia, V6C 2T5.

NOTE 2 – BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements 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”).

These consolidated financial statements were authorized for issue by the Board of Directors on November 8, 2016.

Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company’s functional currency.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant estimates and assumptions include those related to the recoverability of capitalized mineral property expenditures, assessment of rehabilitation provisions, valuation allowance on deferred income taxes and share-based compensation valuations. Actual results could differ from these estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned inactive subsidiary Medallion Resources (USA) Inc. All intercompany transactions and balances have been eliminated on consolidation.

NOTE 2 – BASIS OF PRESENTATION (continued)

Continuance of Operations

These consolidated financial statements are prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company has not generated revenue from operations. The Company incurred a net loss of \$223,743 for the period ended September 30, 2016 and as of that date the Company's accumulated deficit was \$20,761,612. The Company does not generate any cashflow from operations to fund its future activities and has relied principally upon the issuance of securities to fund its operating and administrative expenditures.

The Company requires additional capital to fund its future business development programs as well as for administrative purposes. There is material uncertainty about whether the Company will be able to obtain additional capital. If management is unable to obtain new funding, the Company may be unable to continue its operations, and amounts realized for assets may be less than amounts reflected in these consolidated financial statements.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Translation

These consolidated financial statements are presented in Canadian dollars, which is the Company and its subsidiary's functional currency. Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the period-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the period-end date and the related translation differences are recognized in net loss.

Foreign denominated monetary assets and liabilities are translated to their Canadian-dollar equivalents using foreign exchange rates that prevailed at the statement of financial position date. Non-monetary items that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net loss or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less when acquired which are readily convertible into cash. As at March 31 and September 30, 2016 the Company did not hold any cash equivalents.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is initially recorded at cost. The Company depreciates the cost of equipment over their estimated useful lives at the following annual rates using the declining balance method:

Computer equipment	45%
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Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date. Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance expenses during the period in which they are incurred. Gains and losses on disposal of equipment are determined by comparing the proceeds from disposal with the carrying amount of the asset and are recognized within other income in the statement of loss and comprehensive loss.

Impairment of Non-Financial Assets

At each reporting period the carrying amounts of the Company's non-financial assets, other than exploration and evaluation assets, are reviewed for indicators of impairment. If indicators exist, the recoverable amount of the asset is estimated. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For purposes of assessing impairment, exploration and evaluation assets and property and equipment are grouped into cash generating units ("CGU") defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used geographical proximity, geological similarities, analysis of shared infrastructure, commodity type, assessment of exposure to market risks and materiality to define its CGUs.

If the carrying amount exceeds the recoverable amount, the asset or CGU is recorded at its recoverable amount with the reduction recognized in net loss. The recoverable amount is the greater of the value in use or fair value less costs to sell. Fair value is the amount the asset could be sold for in an arm's length transaction. The value in use is the present value of the estimated future cash flows of the asset from its continued use. Fair value less costs to sell considers the continued development of a property and market transactions in a valuation model.

Impairments are reversed in subsequent periods when there has been an increase in the recoverable amount of a previously impaired asset or CGU and these reversals are recognized in net loss. The recovery is limited to the original carrying amount less depreciation, if any, that would have been recorded had the asset not been impaired.

Government Assistance

Government assistance relates to the recovery of a portion of eligible expenditures from various government authorities and is recorded in the period in which it is received.

Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

At initial recognition the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and other financial liabilities.

i) Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Fair Value Through Profit or Loss

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss. Cash is classified as fair value through profit and loss.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses.

Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale Investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized at fair value and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive loss. Available-for-sale investments are classified as current except if they are expected to be realized beyond twelve months of the statement of financial position date, where they are classified as non-current.

ii) Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred. These liabilities are initially recognized on the trade date at fair value when the Company becomes a party to the contractual provisions of the instrument and are subsequently carried at amortized cost using the effective interest rate method. The liabilities are derecognized when the Company's contractual obligations are discharged or cancelled or they expire. Accounts payable and accrued liabilities, due to related parties and promissory note payable are classified as other financial liabilities.

Impairment of Financial Assets

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Share Capital

Unit Offerings

The Company has adopted the relative fair value method with respect to the measurement of shares and warrants issued as equity units. The relative fair value method requires an allocation of the net proceeds received based on the pro rata relative fair values of the components. If and when the warrants are ultimately exercised, the applicable amounts are transferred from warrants to share capital. If the warrants expire unexercised, the applicable amount is transferred to contributed surplus.

The Company has a choice as to whether to recognize the modification of warrants with an adjustment within equity between warrants and contributed surplus or to make no adjustment. The Company has elected to not make an adjustment within equity when the terms of warrants previously issued for proceeds are amended.

Loss Per Share

Basic income (loss) per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted income (loss) per share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

Basic and diluted loss per share are the same in these consolidated financial statements as the inclusion of common share equivalents would be anti-dilutive.

Share-based Compensation

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with no vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no adjustment for differences between expected and actual outcomes.

Where equity instruments are granted to parties other than employees, they are recorded by reference to the fair value of the services received. If the fair value of the services received cannot be reliably estimated, the Company measures the services received by reference to the fair value of the equity instruments granted, measured at the date the counterparty renders service.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

New Accounting Standards

On April 1, 2015 the Company adopted IAS 32, Financial Instruments: Presentation (“IAS 32”) which was amended to clarify requirements for offsetting of financial assets and financial liabilities. The Company has adopted the amendments to IAS 1 Presentation of Financial Statements (“IAS 1”). These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified. These changes did not result in any adjustments to the Company’s consolidated financial statements.

Future Accounting Pronouncements

IFRS 9, Financial Instruments (“IFRS 9”), addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The new standard states that an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity’s own credit risk in the other comprehensive income or loss section of the entity’s statement of comprehensive loss, rather than within profit or loss. Additionally, IFRS 9 includes revised guidance related to derecognition of financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC 31 Revenue - Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRS 16 Leases (“IFRS 16”) specifies how an issuer will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less, or the underlying asset has an insignificant value. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019.

The Company is currently evaluating the impact of all the new standards on its consolidated financial statements.

NOTE 4 – MINERAL PROPERTIES

	<u>Red Wine Property</u>
Balance at March 31, 2015	\$ -
Claims maintenance	3,623
Impairment	<u>(3,623)</u>
Balance at March 31 and September 30, 2016	<u>\$ -</u>

Red Wine Property, Labrador

On April 10, 2010, the Company signed a letter agreement with Polaris Capital Ltd. (the “vendor”), a private corporation, to acquire a 100% interest in four mineral licenses comprising the Red Wine rare earth mineral property located in the province of Newfoundland and Labrador. The letter agreement was amended to include three additional mineral licenses which were staked by the vendor and to make certain other minor changes to the letter agreement. As a result, the Company was acquiring a 100% interest in a total of seven mineral claims in Labrador, Canada. Of these seven mineral claims, five were subsequently abandoned by the Company leaving two claims covering a total of 525 hectares.

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 4 – MINERAL PROPERTIES (continued)

Prior to February 26, 2016, the date by which the Company was required to make a cash payment of \$50,000 and issue 100,000 common shares to the vendor and to incur expenditures of \$50,000 on the property, the Company decided to abandon the final two claims in which it had an interest and thereby gave up its contractual rights in respect of the Red Wine Property.

NOTE 5 – PROJECT INVESTIGATION

Details of project investigation costs in connection with the Company's efforts to finance, develop and construct monazite processing facilities are as follows. These costs support the Company's current strategy of focusing on the purchase of the mineral monazite and the search for monazite processing partnerships by which to process and produce rare-earth elements:

	For the Three Months Ended September 30		For the Six Months Ended September 30	
	2016	2015	2016	2015
Consulting	\$ -	\$ 18,992	\$ -	\$ 24,501
Other	-	120	230	120
	<u>\$ -</u>	<u>\$ 19,112</u>	<u>\$ 230</u>	<u>\$ 24,621</u>

NOTE 6 – EQUIPMENT

Net book value of computer equipment is as follows:

	Computer Equipment
Cost	
Balance – March 31, 2015	\$ 11,430
Additions	-
Balance – March 31, 2016	<u>11,430</u>
Additions	-
Balance – September 30, 2016	<u>\$ 11,430</u>
Accumulated Depreciation	
Balance – March 31, 2015	\$ 10,902
Depreciation for the year	238
Balance – March 31, 2016	<u>11,140</u>
Depreciation for the period	64
Balance – September 30, 2016	<u>\$ 11,204</u>
Carrying Amount	
Balance – March 31, 2015	\$ 528
Balance – March 31, 2016	<u>\$ 290</u>
Balance – September 30, 2016	<u>\$ 226</u>

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 7 – RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these statements are as follows:

- a) During the six months ended September 30, 2016, \$72,000 (2015 - \$75,557) was charged by a private company controlled by the Chief Executive Officer (the “CEO”) of the Company for management and consulting fees. At September 30, 2016, \$233,153 (2015 - \$108,400) was owed to this company.
- b) During the six months ended September 30, 2016, the Company incurred \$9,692 (2015 - \$31,353) of legal fees to a law firm in which a director of the Company is a principal. At September 30, 2016, \$24,162 (2015 - \$30,953) was owed to this firm.
- c) During the six months ended September 30, 2016, \$Nil (2015 - \$48,000) was charged by a private company controlled by the former Chief Technical Advisor of the Company for management fees. At September 30, 2016, \$79,380 (2015 - \$77,530) was owed to this company.
- d) During the six months ended September 30, 2016, the Company paid \$6,930 (2015 – \$6,930) in rent in connection with an office sub-lease the Company entered into with a company owned by a director (see Note 9). At September 30, 2016, \$12,677 (2015 - \$9,250) was owed to this company.
- e) During the six months ended September 30, 2016, the Company incurred \$23,940 (2015 - \$29,340) of consulting fees to the Chief Financial Officer (the “CFO”) of the Company. At September 30, 2016, \$21,900 (2015 - \$16,384) was owed to the CFO.
- f) During the six months ended September 30, 2016, the Company borrowed a total of \$11,500 in three separate amounts of \$4,500, \$4,500 and \$2,500 from a company owned by a director at an interest rate of prime plus 3.00%, in addition to \$40,000 that had previously been borrowed. As at September 30, 2016, an amount of \$51,500 plus interest of \$2,108 (included in accounts payable and accrued liabilities) was outstanding.

NOTE 8 – SHARE CAPITAL

Authorized share capital consists of an unlimited number of common shares without par value.

- a) On April 30, 2015 the Company completed a private placement financing consisting of 6,500,000 units at \$0.05 per unit for gross proceeds of \$325,000. Each unit consisted of one common share and one half of one common share purchase warrant, with each whole warrant exercisable to acquire one common share at a price of \$0.20 for a period of 3 years from the closing date. Cash proceeds from the private placement were allocated as \$237,226 and \$87,774, respectively, to the common shares and warrants issued in the private placement based on their relative fair values at the closing date of the private placement. The Company paid a total of \$1,452 in cash finders’ fees, issued a total of 40,000 finders’ units (value of \$2,000) having the same terms as the placement units and issued 69,040 finders’ warrants each exercisable to acquire a common share at a price of \$0.05 per share for a period of 2 years from closing. In accordance with the Company’s accounting policy in regards to unit bifurcation, the Company calculated the relative fair value of the unit warrants with use of the Black-Scholes option pricing model with the following assumptions: term of 3 years, dividend yield of 0%, expected volatility of 111% and a risk free interest rate of 0.69%. Furthermore, the Company calculated the fair value of the finders’ warrants with use of the Black-Scholes option pricing model with the following assumptions: term of 2 years, dividend yield of 0%, expected volatility of 179% and a risk free interest rate of 0.71%. In addition to the cash finders’ fees paid, \$4,421 of share issue costs were incurred in connection with this private placement.
- b) On October 15, 2015 the Company completed a private placement financing consisting of 7,500,000 units at \$0.03 per unit for gross proceeds of \$225,000. Each unit consisted of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share at a price of \$0.20 with an expiry date of May 1, 2018. Cash proceeds from the private placement were allocated as \$157,123 and \$67,877, respectively, to the common shares and warrants issued in the private placement based on their relative fair values at the closing date of the private placement. The Company incurred a total of \$360 in cash finders’ fees. In accordance with the Company’s accounting policy in regards to unit bifurcation, the Company calculated the relative fair value of the unit warrants with use of the Black-Scholes option pricing model with the following assumptions: term of 3 years, dividend yield of 0%, expected volatility of 131% and a risk free interest rate of 0.55%. In addition to the cash finders’ fees paid, \$4,000 of share issue costs were incurred in connection with this private placement.

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 8 – SHARE CAPITAL (continued)

- c) On August 15 and September 15, 2016 the Company completed a private placement financing consisting of 10,000,000 units at \$0.03 per unit for gross proceeds of \$300,000. Each unit consisted of one common share and one common share purchase warrant, with each warrant exercisable to acquire one common share for five years at an initial exercise price of \$0.05 for 30 months and an exercise price of \$0.10 thereafter. Cash proceeds from the private placement were allocated as \$173,200 and \$126,800, respectively, to the common shares and warrants issued in the private placement based on their relative fair values at the closing date of the private placement. The Company issued a total of 186,667 finders' units (value of \$5,600) having the same terms as the placement units and issued 80,000 finders' warrants each exercisable to acquire a common share at a price of \$0.05 per share for a period of 2 years from closing. In accordance with the Company's accounting policy in regards to unit bifurcation, the Company calculated the relative fair value of the unit warrants with use of the Black-Scholes option pricing model with the following assumptions: term of 2-1/2 years, dividend yield of 0%, expected volatility of 158% and a risk free interest rate of 0.54%.

Warrants

A summary of the changes in the Company's warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance – March 31, 2015	5,294,205	\$ 0.24
Issued	10,839,040	0.20
Balance – March 31, 2016	16,133,245	0.21
Issued	10,266,667	0.05
Expired	(2,714,205)	0.20
Balance – September 30, 2016	23,685,707	\$ 0.11

As of September 30, 2016, the following warrants were outstanding:

Expiry Date	Number of Warrants Outstanding	Exercise Price
January 12, 2017	80,000	0.05
May 1, 2017	69,040	0.05
December 9, 2017	1,500,000	0.20
January 12, 2018	1,000,000	0.20
May 1, 2018	10,770,000	0.20
August 15, 2018	80,000	0.05
August 15, 2021	8,552,000	0.05
September 15, 2021	1,634,667	0.05
	23,685,707	\$ 0.11

MEDALLION RESOURCES LTD.
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2016

NOTE 8 – SHARE CAPITAL (continued)

Stock Options

The Board of Directors is authorized, pursuant to the Company's Stock Option Plan, to grant options to directors, officers, consultants or employees to acquire up to 10% of the issued and outstanding common shares at the time of grant. The exercise price for a stock option must not be less than the market price of the Company's common shares at the time the option is granted, less applicable discounts permitted by the TSX Venture Exchange. Stock options granted under this plan are exercisable over a period not exceeding five years.

- a) On August 31, 2015, a total of 550,000 stock options with an exercise price of \$0.05 were granted to three consultants to the Company with an expiry date of August 31, 2020. These options vested and were exercisable immediately.
- b) During the year ended March 31, 2016, a total of 2,635,000 stock options with exercise prices ranging from \$0.15 to \$0.50 expired.
- c) During the six months ended September 30, 2016, 500,000 stock options with exercise prices ranging from \$0.06 to \$0.23 expired.

The Company used the following assumptions to determine the fair value of stock options granted with use of the Black-Scholes option pricing model:

	2016	2015
Risk-free interest rate	0.48%	0.64%
Expected share price volatility	284%	81%
Expected option life in years	2.50	2.41
Dividend yield	Nil%	Nil%

A summary of the changes in the Company's stock options is presented below:

	Number of Stock Options	Weighted Average Exercise Price
Balance – March 31, 2015	5,545,000	\$ 0.24
Granted	550,000	0.08
Expired	(2,635,000)	0.20
Balance – March 31, 2016	3,460,000	0.10
Expired	(500,000)	0.16
Balance – September 30, 2016 – Outstanding	2,960,000	\$ 0.10
Balance – September 30, 2016 – Exercisable	2,960,000	\$ 0.10

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NOTE 8 – SHARE CAPITAL (continued)

As of September 30, 2016, the following options were outstanding:

Expiry Date	Number of Options Outstanding	Exercise Price
June 3, 2018	200,000	0.205
September 25, 2018	60,000	0.41
January 8, 2019	220,000	0.20
June 6, 2019	100,000	0.15
July 8, 2019	215,000	0.15
March 2, 2020	1,615,000	0.06
August 31, 2020	550,000	0.05
	2,960,000	\$ 0.10

NOTE 9 – COMMITMENTS

The Company has entered into a sub-lease with a company owned by a director for office premises which has been renewed for an additional nine months to March 31, 2017 with monthly rent of \$1,155. The following is a summary of the future lease commitments:

Fiscal 2017	\$ 13,860
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The Company had entered into a consulting agreement whereby should the consultant assist with sourcing, negotiating, and entering into an agreement for financing the construction and operation of a monazite-based rare-earth processing facility in the Middle East, a fee of 2.0% of any financing of \$10,000,000 or more will be payable. The agreement also provides for the payment of a standby success fee of 0.5% should the consultant arrange financing that the Company does not proceed with as a result of entering into an alternative financing arrangement.

The Company had entered into a consulting agreement whereby should the Company enter into an agreement with any party to invest in the construction and operation of a monazite-based rare-earth processing facility in Oman a fee of 2.0% of any equity funds contributed by the party and 1% of any debt financing provided by a specified bank will be payable.

Both of the above noted consulting agreements have been terminated, however, the provisions with respect to financing fees that will become payable should certain financing arrangements take place remain in effect for a period of two years from the date of the termination of the respective agreements, running until January, 2017.

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NOTE 10 – FINANCIAL INSTRUMENTS

The following table sets forth the levels in the fair value hierarchy in which the Company's financial assets and liabilities are measured and recognized in the statement of financial position. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance, September 30, 2016
Cash	\$ 121,367	-	-	\$121,367

The fair value of the Company's accounts payables and accrued liabilities, due to related parties and promissory note payable approximates their carrying values due to the short-term nature of these instruments. The Company's financial instruments are exposed to certain financial risks including credit risk, liquidity risk, and commodity-price risk.

a) Credit risk

The Company's cash is held in a major Canadian financial institution. The Company does not have any significant exposure to credit risk.

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

c) Commodity price risk

The ability of the Company to develop its business and the future profitability of the Company are directly related to the market price of several commodities. The Company has not hedged any potential future commodity sales. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

d) Sensitivity analysis

The Company has, for accounting purposes, designated its cash as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities which are measured at amortized cost. As at September 30, 2016, the carrying and fair value amounts of the Company's financial instruments are the same.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected significantly by interest rate risk, foreign currency risk and price risk. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Commodity price risk could, however, affect the Company. In particular, the Company's future profitability and viability of development depends upon world markets for natural resources. As of September 30, 2016, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken.

NOTE 11 – MANAGEMENT OF CAPITAL RISK

The Company manages its cash, common shares, stock options and warrants as capital (Note 8). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral business and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may look to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In order to maximize ongoing business development efforts, the Company does not currently pay out dividends. The Company's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments issued by a major Canadian chartered bank.

There has been no change in the Company's management of capital risk during the three months ended September 30, 2016.