ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our consolidated financial statements for the two years ended May 31, 2016 and 2015, and the related notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including, but not limited to, those set forth under the section heading "Item 1A. Risk Factors" above and elsewhere in this annual report on Form 10-K. See section heading "Forward-Looking Statements" above.

Current Business Activities

General

North Bullfrog Project Development

The 2015-16 drilling campaign focused on expanding YellowJacket vein system and testing the eastern side of the property for new gold systems. This program utilized a single drilling rig and has to date completed approximately 15,000 metres of RC drilling . In 2015 five targets were tested in the Eastern part of the property and four targets tested in the area around the Sierra Blanca/YellowJacket deposit and the North Jolly Jane target. In 2016 positive results from targets around the Sierra Blanca/YellowJacket deposit were further tested to assess the potential to add significant tonnage of mill grade material to the deposit. The success of this follow-up program has lead to plans for a resource development drilling program for the fall of 2016.

Baseline characterization work continued in the fiscal year ended May 31, 2016, with bi annual water quality sampling in 2015-16. The site meteorological station continued to operate with quarterly reports submitted to NDEP. Wildlife and botanical surveys required by the site operating permits were performed as required.

Financing

On September 1, 2015, Corvus Gold Inc. closed a $2,000,000 non-brokered private placement at $0.47. Under the terms of the agreement, the Company issued 4,255,320 common shares with no warrant and a 6 month hold period on the stock. With the completion of this financing, Resource Capital Fund joins the growing list of other major long-company, long-gold Corvus Gold shareholders. The proceed was used to fund ongoing exploration and development of the North Bullfrog project in Nevada.

On December 17, 2015 Corvus Nevada paid off the US$240,000 promissory note remaining from purchase of the 5 Millman patented claims adjacent to the Mayflower deposit at NBP.

On January 13, 2016, the Company announced that its wholly owned Alaskan subsidiary, Raven Gold, had signed an agreement with Gold Reserve for the sale of its LMS property in the Pogo Mining District, Alaska. The property was sold for cash and a retained NSR royalty. Cash from the transaction will be used to fund ongoing exploration and development of the North Bullfrog project in Nevada.

The LMS royalty interest will augment those established in 2015 and is expected to continue to provide our shareholders with exposure to future gold production at no cost as well as providing a funding stream for our ongoing Nevada exploration programs.

A summary of the sale transactions are listed below:

- Cash at closing: USD $350,000 (CAD $473,585);
- Corvus is granted a retained NSR royalty of 3% on precious metals and 1% on base metals with a 1% buy down of the precious metal royalty for USD $4,000,000.

On March 11, 2016, the Company announced the closing of a $3,430,000 non-brokered private placement at $0.70 per share. Under the terms of the agreement, the Company issued 4,900,000 common shares. The participants in the private placement include Tocqueville Gold Fund and AngloGold Ashanti (U.S.A.) Exploration, Inc. The proceeds will be used to fund our ongoing Nevada exploration programs.

On April 5, 2016, the Company announced that its wholly owned Alaskan subsidiary, Raven Gold, had signed an agreement with Millrock for the sale of its Chisna property in Alaska. The property was sold for cash and a retained NSR royalty. Cash from the transaction will be used to fund ongoing exploration and development of the North Bullfrog project in Nevada.

A summary of the sale transactions are listed below:

- Cash at closing: US $25,000 (CAD $25,728);
- Corvus is granted a retained NSR royalty of 1% on precious metals and 1% on base metals.

2017 Outlook

During 2016-2017, the Company will focus on exploration and resource development drilling at NBP to test and assess new structural targets around Sierra Blanca/YellowJacket deposit as well as follow-up drilling of the Cat Hill and North Jolly Jane targets. The Company also plans to continue the collection of baseline environmental data in its water quality sampling, waste geochemistry and meteorological programs.

Results of Operations

Year ended May 31, 2016 Compared to Year ended May 31, 2015

For the year ended May 31, 2016 the Company had a net loss of $7,434,215 compared to a net loss of $10,577,487 in the prior year. Included in net loss was $825,921 (2015 - $1,485,695) in stock-based compensation charges which was a result of stock options granted during the year and previously granted stock options which vested during the year. Stock-based compensation in the current year comprised of stock options granted on August 16, 2013, September 8, 2014, January 23, 2015, May 1, 2015, September 9, 2015 and November 13, 2015 which vested during the year. The prior year had stock-based compensation arising from stock options granted on September 19, 2012, August 16, 2013, September 8, 2014, October 29, 2014, January 23, 2015 and May 1, 2015 with vesting during the prior year. The decrease in loss of $3,143,272 in the current year was due to a combination of factors discussed below.

The primary factor for the decrease in the net loss was the exploration expenditures of $2,856,345 incurred in the current year compared to $5,640,920 in the prior year. The exploration activities of the Company decreased mainly due to less funding being available in the current year compared with the prior year and a decrease in stock-based compensation charges of $18,468 in the current year compared to $36,820 in the prior year.

Consulting fees decreased to $712,943 (2015 - $827,163) mainly due to decreased stock-based compensation charges of $415,360 during the current year compared to $570,913 in the prior year. This was offset by an increase in consulting fees of $41,333 mainly due to increase in directors' fees as monthly fees were adjusted in January of 2015 mainly due to the Company's registration of its securities in the United States.

Insurance expenses increased to $122,691 (2015 - $92,207) mainly due to increased insurance coverage incurred during the current year as a result of the increase in Company's directors and officers liability insurance premium due to the Company's registration of its securities in the United States.

Investor relations expenses decreased to $738,931 (2015- $930,260) due to decreased stock-based compensation charges of $96,309 during the current year compared to $208,336 in the prior year and a decrease of $79,302 in investor relations-related travel, and advertising and marketing during the current year. Travel expenses decreased to $123,621 (2015 - $195,016) due to less attendance at tradeshows, conferences and directors' travels in the current year compared to the prior year. These were as a result of the Company's efforts to decrease costs until the Company secures additional financing.

Professional fees decreased to $320,979 (2015 - $505,239) due to decreased stock-based compensation charges of $16,678 during the current year compared to $48,841 in the prior year and a decrease of $152,097 in legal and accounting fees in the current year compared to the prior year as a result of the Company registering its securities in the United States and termination payment of $73,830 to a former consultant in the prior year.

Regulatory expenses decreased to $92,941 (2015 - $154,996) due to more filing and listing fees incurred in the prior year. These expenses decreased as a result of the Company's registration of its securities in the United States combined with the Company's additional listing fee related to share compensation paid to the TSX in the prior year.

Rent expenses increased to $117,471 (2015 – $96,564) due to increase in rental rate charges combined with a decrease in rent recovery during the current year compared to the prior year.

Wages and benefits decreased to $1,744,818 (2015 - $1,904,767). While stock-based compensation charges of $279,106 during the current year was less than the $620,785 in the prior year, this decrease was offset by an increase of $181,730 in wages and benefits in the current year mainly as a result of adjustment in wages of certain senior executive officers and the severance pay to the former President.

Other expense categories that reflected only moderate change year over year were administration expenses of $7,988 (2015 - $13,225), depreciation expenses of $27,100 (2015 - $28,191) and office expenses of $138,882 (2015 - $148,063).

Other items amounted to a loss of $429,505 compared to a loss of $40,876 in the prior year. There was a gain on sale of the Company's interest in the West Pogo property of $25,728 in the current year compared to $nil in the prior year, a gain on sale of the Company's interest in the LMS property of $66,669 in the current year compared to $nil in the prior year, a write-off of the Company's interest in the Chisna property of $677,695 in the current year compared to $nil in the prior year, and a loss on sale of marketable securities of $nil in the current year compared to $125,166 in the prior year. There was an increase in foreign exchange to a gain of $139,394 (2015 –$62,175), which was the result of factors outside of the Company's control and a decrease in interest income of $16,399 (2015 - $22,115) as a result of less investment in cashable GIC's during the current year.

Three months ended May 31, 2016 Compared to Three months ended May 31, 2015

For the three months ended May 31, 2016, the Company had a net loss of $1,453,085 compared to a net loss of $2,376,192 in the comparative period of the prior year. Included in net loss was $186,571 (2015 - $340,222) in stock-based compensation charges which is a result of stock options granted during the period and previously granted stock options which vested during the period. Stock-based compensation in the current period comprised of stock options granted on September 8, 2014, May 1, 2015, September 9, 2015 and November 13, 2015 which vested during the period. The prior period comparative had stock-based compensation arising from stock options granted on August 16, 2013, September 8, 2014, October 29, 2014, January 23, 2015 and May 1, 2015 with vesting during the comparative period of the prior year. The decrease in loss of $923,107 in the three month period of the current year was due to a combination of factors discussed below.

Exploration expenditures of $556,186 incurred in the current period compared to $1,200,648 in the comparative period of the prior year. The exploration activities of the Company decreased mainly due to less funding being available in the current period compared with the comparative period of the prior year and a decrease in stock-based compensation charges of $4,659 in the current period compared to $6,055 in the prior period.

Consulting fees decreased to $176,832 (2015 - $217,597) mainly due to decreased stock-based compensation charges of $97,832 during the current period compared to $156,847 in the prior period. This was offset by an increase in consulting fees of $18,250 mainly due to increase in directors' fees as payment for meeting fees were paid in 2016 Q4 whereas it was paid in 2015 Q2.

Investor relations expenses decreased to $170,742 (2015 - $196,998) mainly due to decreased stock-based compensation charges of $20,688 during the current period compared to $43,725 in the prior period. Travel expenses decreased to $44,076 (2015 - $87,779) due to less attendance at tradeshows, conferences and director travels in the current period compared to the comparative period of the prior year. These were all part of the Company's efforts to decrease costs until the Company secures additional financing.

Professional fees decreased to $66,423 (2015 - $93,623) mainly due to decreased stock-based compensation charges of $2,876 during the current period compared to $9,383 in the prior period and a decrease of $20,693 in legal and accounting fees in the current period compared to comparative period of the prior year as a result of the Company registering its securities in the United States in the prior year.

Wages and benefits decreased to $323,124 (2015 - $410,734) mainly due to a decrease in stock-based compensation charges of $60,516 in the current period compared to $124,212 in the prior period and a decrease of $23,914 in wages and benefits in the current period as there is no longer wages paid to the former President in the current period.

Other expense categories that reflected only moderate change period over period were administration expenses of $1,531 (2015 - $3,684), depreciation expenses of $7,471 (2015 - $7,494), insurance expenses of $29,584 (2015 - $32,388), office expenses of $35,035 (2015 - $38,502), regulatory expenses of $11,055 (2015 - $6,512), and rent expenses of $30,911 (2015 – $24,693).

Other items amounted to a loss of $115 compared to a loss of $55,540 in the prior period. This was mainly due to an unrealized loss on marketable securities of $nil in the current period compared to $60,305 in the comparative period of the prior year and a loss on sale of marketable securities of $nil in the current period compared to $125,166 in the comparative period of the prior year. There was an increase in foreign exchange to a loss of $4,829 (2015 – gain of $3,336), which was the result of factors outside of the Company's control and a decrease in interest income of $4,714 (2015 - $5,985) as a result of less investment in cashable GIC's during the current period.

Liquidity and Capital Resources

The Company has no revenue generating operations from which it can internally generate funds. To date, the Company's ongoing operations have been financed by the sale of its equity securities by way of public offerings, private placements and the exercise of incentive stock options and share purchase warrants. The Company believes that it will be able to secure additional private placements and public financings in the future, although it cannot predict the size or pricing of any such financings. In addition, the Company can raise funds through the sale of interests in its mineral properties, although current market conditions have substantially reduced the number of potential buyers/acquirers of any such interest(s). This situation is unlikely to change until such time as the Company can develop a bankable feasibility study on one of its projects. When acquiring an interest in mineral properties through purchase or option, the Company will sometimes issue common shares to the vendor or optionee of the property as partial or full consideration for the property interest in order to conserve its cash.

The consolidated financial statements have been prepared on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and/or obtaining additional financing.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future within one year from the date the consolidated financial statements are issued. There is substantial doubt upon the Company's ability to continue as going concern, as explained below and in the financial statements.

The Company has sustained significant losses from operations. has negative cash flows, and has an ongoing requirement for capital investment to explore its mineral properties. Based on its current plans, budgeted expenditures, and cash requirements, the Company does not have sufficient cash to finance its current plans for the 12 months from the date the consolidated financial statement are issued and will be required to raise additional funds through public or private equity financings, significantly reduce exploration expenditures and administrative expenses, or consider other options such as sales of its mineral properties, in order to continue in business.

The Company reported cash and cash equivalents of $4,783,519 as at May 31, 2016 compared to $5,159,962 as at May 31, 2015. The change in cash position was the net result of $6,238,626 used for operating activities, $32,594 used for capitalized acquisition costs, $7,153 used on property and equipment, $499,313 received from sale of exploration and evaluation costs and $5,526,783 received from the private placements of common shares in September of 2015 and March of 2016 (net of share issue costs) and exercise of stock options, and $298,488 repayment of promissory note during the year ended May 31, 2016.

As at May 31, 2016, the Company had working capital of $4,742,321 compared to working capital of $4,716,940 as at May 31, 2015. On December 17, 2015 the Company paid the balance of the promissory note payable. On March 11, 2016, the Company closed a non-brokered private placement equity financing and issued 4,900,000 common shares at a price of $0.70 per share for gross proceeds of $3,430,000. On July 15, 2016, the Company closed a non-brokered private placement equity financing and issued 2,550,000 common shares at a price of $1.02 per Share for gross proceeds of $2,601,000. The Company expects that it will operate at a loss for the foreseeable future and believes the current cash and cash equivalents will be sufficient for it to maintain its currently held properties, and fund its currently anticipated general and administrative costs until May 31, 2016. Following May 31, 2016, the Company will need to scale back anticipated activities and costs or raise additional financing to fund operations through the calendar year ending December 31, 2016. The Company's current anticipated operating expenses are $3,926,000 until December 31, 2016 and $5,518,000 until May 31, 2017. The Company's anticipated monthly burn rate averages approximately $561,000 for June 1, 2016 to December 31, 2016 where approximately $266,000 is for administrative purposes and approximately $295,000 is for planned exploration expenditures related to the completion of the ongoing Phase II exploration program at the NBP. From June 2016 to May 2017, the Company's anticipated monthly burn rate averages approximately $460,000, of which $233,000 is for administrative purposes and approximately $227,000 is for planned exploration expenditures related to the ongoing Phase II exploration program at the NBP. In Jun 2016, 200,000 shares were issued on exercise of stock options for gross proceeds of $100,000. In addition, on July 15, 2016, the Company had closed a non-brokered private placement equity financing for gross proceeds of $2,601,000. The Company anticipates that stock options will be exercised throughout the remainder of the 2016-2017 fiscal year to help fund additional exploration at the NBP. In the event that the Company is unable to raise additional funds through the exercise of stock options, the Company will pursue additional public or private equity financings at the end of the 2017 calendar year to raise additional funds for additional exploration at the NBP for the 2016 and 2017 calendar year. Should such financing not be available in that time-frame, the Company will be required to reduce its activities and will not be able to carry out all of its presently planned exploration and development activities at the NBP on its currently anticipated scheduling.

Despite the Company's success to date in raising significant equity financing to fund its operations, there is significant uncertainty that the Company will be able to secure any additional financing in the current or future equity markets. See "Risk Factors – We will require additional financing to fund exploration and, if warranted, development and production". Failure to obtain additional financing could have a material adverse effect on our financial condition and results of operation and could cast uncertainty on our ability to continue as a going concern. The quantity of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes. Due to this uncertainty, if the Company is unable to secure additional financing, it may be required to reduce all discretionary activities at the NBP property to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2016 fiscal year.

The Company has no exposure to any asset-backed commercial paper. Other than cash held by its subsidiaries for their immediate operating needs in Alaska and Nevada, all of the Company's cash reserves are on deposit with a major Canadian chartered bank. The Company does not believe that the credit, liquidity or market risks with respect thereto have increased as a result of the current market conditions. However, in order to achieve greater security for the preservation of its capital, the Company has, of necessity, been required to accept lower rates of interest, which has also lowered its potential interest income.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Environmental Regulations

The operations of the Company may in the future be affected from time to time in varying degrees by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by application of technically proven and economically feasible measures

Critical Accounting Policies

Basis of presentation

These consolidated financial statements are presented in Canadian dollars and have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP").

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries (collectively, the "Group"), Corvus USA (a Nevada corporation), Corvus Nevada (a Nevada corporation), Raven Gold (an Alaska corporation) and SoN (a Nevada limited liability company). All intercompany transactions and balances were eliminated upon consolidation.

Significant judgments, estimates and assumptions

The preparation of these financial statements in accordance with US GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting year. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future periods if the revision affects both current and future years. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting year, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the carrying value and the recoverability of the capitalized acquisition costs included in the Balance Sheet, the assumptions used to determine the fair value of stock-based compensation in the Statement of Operations and Comprehensive Loss, and the estimated amounts of reclamation and environmental obligations.

Significant judgments

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The Company made the following critical accounting judgments:

- The determination of deferred tax assets and liabilities recorded in the Balance Sheet.
- The analysis of resource calculations, drill results, laboratory work, etc., which can impact the Company's assessment of impairments, and provisions, if any, for environmental rehabilitation and restorations.
- The determination of functional currency. In accordance with FAS 52 "Foreign Currency Translation", management determined that the functional currency of Corvus USA, Corvus Nevada, Raven Gold and SoN is US dollars and for all other entities within the Group, the functional currency is Canadian dollars, as these are the currencies of the primary economic environment in which the companies operate.
- The assessment of the Company's ability to continue as a going concern.

Cash and cash equivalents

Cash equivalents include highly liquid investments in term deposits that are readily convertible to known amounts of cash with original maturities of three months or less, and term deposits with original term of maturities greater than three months but are cashable after 30 days with no penalties, and are subject to an insignificant risk of change in value.

Marketable securities

Marketable securities held in companies with an active market are classified as held-for-trading securities. Held-for-trading securities are recorded at fair value in the financial statements with unrealized gains and losses recorded in profit or loss in the Statement of Operations and Comprehensive Income (Loss).

Foreign currency translation

The presentation currency of the Company is the Canadian dollar.

The functional currency of each of the parent company and its subsidiaries is measured using the currency of the primary economic environment in which that entity operates. The functional currency of Corvus USA, Corvus Nevada, Raven Gold and SoN is US dollars, and for the Company the functional currency is Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the Statement of Operations and Comprehensive Income (Loss) in the year in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the Statement of Operations and Comprehensive Income (Loss) to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Parent and Subsidiary Companies

The financial results and position of foreign operations whose functional currency is different from the presentation currency are translated as follows:

- Assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- Income and expenses are translated at monthly average exchange rates during the year.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's exchange difference on translating foreign operations in the Statement of Operations and Comprehensive Income (Loss) and are reported as a separate component of shareholders' equity titled "Cumulative Translation Differences". These differences are recognized in profit or loss in the year in which the operation is disposed of.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment are valued at cost, being the purchase price and directly attributable costs of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items.

Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Major maintenance and repairs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

Gains and losses

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other items in profit or loss.

Depreciation

Depreciation is recognized in profit or loss on a declining-balance basis at the following annual rates:

Computer equipment	-	30% declining balance
Vehicles	-	30% declining balance
Tent	-	20% declining balance

Additions during the year are depreciated at one-half the annual rates.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Mineral exploration and evaluation expenditures

The Company's mineral projects are currently in the exploration and evaluation phase. All direct costs related to the acquisition of mineral property interests are capitalized. Mineral property exploration costs are expensed as incurred. At such time that the Company determines that a mineral property can be economically developed, subsequent mineral property expenses will be capitalized during the development of such property.

The Company assesses interests in exploration properties for impairment or when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. Impairment analysis includes assessment of the following circumstances: a significant decrease in the market price of a long-lived asset or asset group; a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50%.

Asset retirement obligations

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the Company is legally or contractually required to remediate and recorded at the time environmental disturbance occurs. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports and accreted to full value over time through periodic charges to profit or loss. As at May 31, 2016, the Company recorded a provision of $293,578 (USD 224,000) (2015 - $132,579 (USD 107,000)) for environmental rehabilitation.

Income taxes

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

Share capital

The proceeds from the exercise of stock options, warrants and escrow shares are recorded as share capital in the amount for which the option, warrant or escrow share enabled the holder to purchase a share in the Company.

Commissions paid to agents, and other related share issuance costs, such as legal, auditing, and printing, on the issue of the Company's shares are charged directly to share capital.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

Earnings (loss) per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings (loss) per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. For the year ended May 31, 2016, 7,981,000 outstanding stock options (2015 – 7,396,334) were not included in the calculation of diluted earnings (loss) per share as their inclusion was anti-dilutive.

Stock-based compensation

The Company follows the provisions of Financial Accounting Standards Board Accounting Standards Codification Section 718 “Compensation - Stock Compensation”, which establishes accounting for equity based compensation awards to be accounted for using the fair value method. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of the awards. Compensation expense is measured at the grant date and recognized over the requisite service period, which is generally the vesting period.

Non-monetary transactions

All non-monetary transactions are measured at the fair value of the asset surrendered or the asset received, whichever is more reliable, unless the transaction lacks commercial substance or the fair value cannot be reliably established. The commercial substance requirement is met when the future cash flows are expected to change significantly as a result of the transaction. When the fair value of a non-monetary transaction cannot be reliably measured, it is recorded at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up adjusted by the fair value of any monetary consideration received or given. When the asset received or the consideration given up is shares in an actively traded market, the value of those shares will be considered fair value.

Joint venture accounting

Where the Company’s exploration and development activities are conducted with others, the accounts reflect only the Company’s proportionate interest in such activities. The Company currently does not have any joint venture accounting.