

# **GRANADA GOLD MINE INC.**

**Financial Statements**

**Years Ended June 30, 2018 and 2017**

**(Expressed in Canadian Dollars)**

# **GRANADA GOLD MINE INC.**

**Notes to the Financial Statements  
June 30, 2018**

## **Managements Responsibility for Financial Reporting**

The financial statements and other information in management's discussion and analysis were prepared by the management of Granada Gold Mine Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for preparation of the financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with Canadian Generally Accepted Accounting Principles. Management has included amounts in the Company's financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Granada Gold Mine Inc.

We have audited the accompanying financial statements of Granada Gold Mine Inc., which comprise the statements of financial position as at June 30, 2018 and 2017, and the statements of loss and comprehensive loss, statements of changes in equity and statements of cash flows 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 financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 financial statements.

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

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Granada Gold Mine Inc. as at June 30, 2018 and 2017, 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 financial statements which indicates that Granada Gold Mine Inc. had continuing losses during the year ended June 30, 2018 and a significant working capital deficiency and cumulative deficit as at June 30, 2018. These conditions along with other matters set forth in Note 1 indicate the existence of material uncertainties that cast significant doubt about the ability of Granada Gold Mine Inc. to continue as a going concern.

UHY McGovern Hurley LLP



Chartered Professional Accountants  
Licensed Public Accountants

Toronto, Canada  
October 29, 2018

**GRANADA GOLD MINE INC.****Statements of Financial Position**

(Expressed in Canadian Dollars)

As at June 30,

2018

2017

**Assets****Current assets**

Cash	\$	80,179	\$	119,610
Receivables		285,283		130,642
Prepaid expenses		1,000		37,667

**Total current assets** 366,462 287,919**Deposit - long-term (Note 5)** 171,800 171,800**Castle units receivable (Note 15)** 3,517,656 1,847,063**Property, plant and equipment (Note 7)** 175,508 60,995**Total Assets** 4,231,426 2,367,777**Liabilities****Current liabilities**

Trade and other payables and provisions (Note 9)	4,187,316	3,929,111
Secured loans payable (Note 8)	1,491,648	1,228,161

**Total Current Liabilities** 5,678,964 5,157,272**Total Liabilities** 5,678,964 5,157,272**Shareholders' Equity (Deficiency)**

Share capital (Note 10)	60,425,765	57,899,588
Reserves (Note 11)	4,667,842	3,898,800
Deficit	(66,541,145)	(64,587,883)

**Total Shareholders' Equity (Deficiency)** (1,447,538) (2,789,495)**Total Liabilities and Shareholders' Equity (Deficiency)** \$ 4,231,426 \$ 2,367,777

Nature of operations and going concern (Note 1)

Contingencies (Note 13)

Commitments (Note 14)

Subsequent events (Note 18)

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa" \_\_\_\_\_, Director

Signed "Jacque Monette" \_\_\_\_\_, Director

See accompanying notes to the consolidated financial statements.

**GRANADA GOLD MINE INC.**  
**Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian Dollars)  
For the years ended June 30,

2018

2017

**Expenses**

Exploration and evaluation (Note 6)		
Acquisition	\$ -	\$ -
Assaying and testing	5,947	122,310
Consulting fees	66,095	63,787
Core analysis	19,456	78,193
Depreciation	17,187	24,154
Drilling	420	408,383
Equipment	(8,555)	360,901
Facility expenses	84,189	125,178
Geology, geophysics and surveys	141,275	160,020
Personnel costs	75,577	258,247
Project management and engineering	692,462	801,391
Security	383	300
Taxes, permits and licensing	69,840	30,057
Mining tax (credits) / repayments	-	(234,831)
	<u>1,164,276</u>	<u>2,198,090</u>
Corporate		
Administrative and general expenses	144,937	45,249
Financing fees	78,859	62,601
Professional fees	1,069,061	897,868
Filing costs and shareholders' information	442,679	279,305
Travel	36,345	141,008
Accretion	9,884	-
	<u>1,781,765</u>	<u>1,426,031</u>
Other items		
Premium on flow through shares	(140,000)	(49,353)
Interest and other income	(5)	(4,519)
Gain on sale of properties	(500,000)	-
Stock-based compensation (Note 11)	513,625	621,800
Part XII.6 penalty and interest (Note 9)	230,763	203,384
Flow-through indemnification provision (Note 9)	705,880	102,309
Unrealized gain/loss on marketable securities	(2,500,220)	(1,712,358)
Realized gain/loss on marketable securities	(1,030,590)	(723,100)
	<u>(2,720,547)</u>	<u>(1,561,837)</u>
<b>Net loss and comprehensive loss for the year</b>	<u>\$ 225,495</u>	<u>\$ 2,062,284</u>
<b>Net loss per share - basic and diluted</b>	<u>\$ 0.00</u>	<u>\$ 0.04</u>
<b>Weighted average number of shares outstanding</b>		
basic and diluted	<u>53,130,270</u>	<u>47,353,453</u>

See accompanying notes to the consolidated financial statements.

**GRANADA GOLD MINE INC.**  
**Statement of Changes in Equity**  
(Expressed in Canadian Dollars)

	Share Capital	Reserves	Deficit	Total Equity (Deficiency)
Balance June 30, 2016	\$ 55,476,399	\$ 3,237,782	\$ (61,828,349)	\$ (3,114,168)
Private placements	1,590,921	1,118,323	-	2,709,244
Premium on flow through shares	(49,353)	-	-	(49,353)
Exercise of options -cash	14,050	-	-	14,050
Exercise of options - book value	13,900	(13,900)	-	-
Exercise of warrants - cash	300,758	-	-	300,758
Exercise of warrants - book value	44,570	(44,570)	-	-
Share issue costs	(200,981)	(125,356)	-	(326,337)
Options granted and vested	-	621,800	-	621,800
Options expired	-	(257,750)	257,750	-
Warrants expired	637,529	(637,529)	-	-
Issued to settle 2008 FT claims	71,795	-	-	71,795
Dividend distribution	-	-	(955,000)	(955,000)
Net loss for the year ended June 30, 2017	-	-	(2,062,284)	(2,062,284)
Balance June 30, 2017	57,899,588	3,898,800	(64,587,883)	(2,789,495)
Issued for services	90,737	-	-	90,737
Private placements	2,194,337	562,214	-	2,756,551
Premium on flow through shares	(140,000)	-	-	(140,000)
Issue costs	(97,861)	(3,259)	-	(101,120)
Issued as compensation	-	23,021	-	23,021
Options granted and vested	-	513,625	-	513,625
Warrants expired	268,964	(268,964)	-	-
Options expired	-	(132,450)	132,450	-
Issued to settle debt	210,000	-	-	210,000
Dividend distribution	-	-	(1,860,217)	(1,860,217)
Conversion option on convertible loans	-	74,856	-	74,856
Net loss for the year ended June 30, 2018	-	-	(225,495)	(225,495)
Balance June 30, 2018	<u>\$ 60,425,765</u>	<u>\$ 4,667,842</u>	<u>\$ (66,541,145)</u>	<u>\$ (1,447,538)</u>

See accompanying notes to the consolidated financial statements.

# GRANADA GOLD MINE INC.

## Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended June 30,

2018

2017

	2018	2017
<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net (loss)	\$ (225,495)	\$ (2,062,284)
Items not involving cash		
Depreciation	17,187	24,154
Stock-based compensation	513,625	621,800
Premium on flow through shares	(140,000)	(49,353)
Part XII.6 penalty and interest (Note 9)	230,763	203,384
Flow-through indemnification provision (Note 9)	705,880	102,309
Common shares issued for services	90,737	-
Unrealized (gain)/loss on marketable securities	(2,500,220)	(1,712,358)
Realized (gain)/loss on marketable securities	(1,037,500)	(723,100)
Gain on sale of properties	500,000	-
Changes in non-cash working capital items		
Receivables	(154,641)	27,558
Prepaid expenses	36,667	(36,667)
Trade and other payables and provisions	(968,437)	(46,055)
Financing fees included in secured loans	95,253	62,601
<b>Net cash flows (used in) operating activities</b>	<b>(2,836,181)</b>	<b>(3,588,011)</b>
<b>Investing activities</b>		
Purchase of equipment	(131,700)	(47,724)
<b>Net cash flows (used in) investing activities</b>	<b>(131,700)</b>	<b>(47,724)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants by private placement	2,756,550	2,709,264
Share issue costs	(78,100)	(326,337)
Exercise of warrants	-	300,758
Exercise of options	-	14,050
Issuance of convertible secured loan	250,000	-
<b>Net cash flows generated from financing activities</b>	<b>2,928,450</b>	<b>2,697,735</b>
<b>Change in cash during the year</b>	<b>(39,431)</b>	<b>(938,000)</b>
<b>Cash, beginning of year</b>	<b>119,610</b>	<b>1,057,610</b>
<b>Cash, end of year</b>	<b>\$ 80,179</b>	<b>\$ 119,610</b>
<b>Supplemental cash flow information:</b>		
Marketable securities distributed as dividends	\$ (1,860,217)	\$ (955,000)
Equipment rental through secured loan	-	257,404

See accompanying notes to the consolidated financial statements.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern**

Granada Gold Mine Inc. (“Granada” or the “Company”) is domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly-traded company with its shares listed on the TSX Venture Exchange (“TSXV”), the Frankfurt Stock Exchange, and the US over-the-counter (“OTC”) market. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company’s head office is located at 3028 Quadra Court, Coquitlam, British Columbia, V3B 5X6, with its mining office located at 2875 Avenue Granada, Rouyn-Noranda, Quebec, J9Y 1J1.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on October 29, 2018.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to obtain additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, and renegotiation of contracts.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

As at June 30, 2018, the Company had not yet achieved profitable operations, has an accumulated deficit, has a working capital deficiency and expects to incur further losses in the development of its business.



**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern (cont'd)**

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses and a significant working capital deficiency, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of material uncertainties that cast significant doubt about the ability of the Company to continue as a going concern.

**2. Basis of Preparation**

**(a) Statement of Compliance**

The 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"). The accounting policies applied in these financial statements are presented in Note 3 and are based on IFRS applicable standards as at June 30, 2018.

**(b) Basis of Presentation**

These financial statements have been prepared on the historic cost basis, except certain financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may ultimately differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in Note 4.

**(c) Functional and Presentation Currency**

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company.

For the purpose of the financial statements, the results and financial position are expressed in Canadian dollars. Transaction in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are presented in the statement of loss. The Company does not have any foreign operations.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

**(a) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and bank balances with original maturities of three months or less from the date of acquisition, or are available upon demand. The Company did not have any cash equivalents as at June 30, 2018 and June 30, 2017.

**(b) Financial Instruments**

Financial assets and financial 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 asset have expired or have been transferred, and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial instruments at fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or financial liabilities at FVTPL unless they are designated within an effective hedging relationship.

Financial assets classified at FVTPL are carried in the statements of financial position at fair value with changes being recognized in income in the statement of loss.

The Company's financial instruments consist of the following:

Castle Silver Resources Inc. ("Castle") units receivable are classified as FVTPL. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are recognized in income as they occur and reflected in the statement of loss.

Receivables and cash are classified under "loans and receivables". Loans and receivables are non-derivatives financial assets with fixed or determinable payments that are not quoted in an active market. After their initial measurement at fair value, they are carried at amortized cost using the effective interest rate method, which generally corresponds to their cost due to their short-term maturity.

Trade and other payables, accrued liabilities, and secured loans payable are classified under "other financial liabilities". Other financial liabilities are financial liabilities that are not classified as FVTPL. After their initial measurement at fair value, they are carried at amortized cost, using the effective interest rate method. It generally corresponds to their cost due to their relative short-term maturity.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

*Fair value of financial instruments*

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Company categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of the financial assets. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of loss.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

An impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized.

*Impairment of non-financial assets*

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets, including mineral property rights, mine properties under development, mineral property assets and property, plant and equipment, to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment.

**(c) Property, Plant and Equipment**

*Recognition and measurement*

Property, plant and equipment are carried at cost, less accumulated amortization and accumulated impairment losses.

On initial recognition, property, plant, and equipment are valued at cost, being the purchase price and directly attributable cost 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. The corresponding liability is recognized within provisions.

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

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

Equipment	20%
Vehicles	30%

An asset's amortization methods, useful lives and residual values are reviewed on an annual basis and adjusted, if appropriate.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(d) Exploration and Evaluation Expenditures**

Exploration and Evaluation (“E&E”) expenditures relate to costs incurred on the exploration for and evaluation of potential mineral reserves and include costs related to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

E&E expenditures, including costs of acquiring licenses, are expensed as exploration and evaluation expenses. The Company considers a project to be an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist and, in most cases, comprises of a single mine or deposit.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in a project are demonstrable and permitted, additional E&E expenditures will be charged to mining properties. Currently, the Company does not hold any assets classified as mining properties.

**(e) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost and is based on the discount rates that reflect current market assessments and the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

**(f) Income Taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to tax payable in respect of previous years.

Deferred tax is determined using the 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. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

to investments in subsidiaries and jointly-controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date.

**(g) Share Capital**

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

The Company has financed a portion of its exploration and evaluation activities through the issue of flow-through shares. Under the terms of these share issues, the tax attributes of the related expenditures are renounced to subscribers. Common shares issued on a flow-through basis typically include a premium because of the tax benefits associated therewith ("Flow-through Premium"). Flow-through shares may also be issued with a warrant feature.

At the time of issue, the Company estimates the proportion of proceeds attributable to the Flow-through Premium, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded as a deferred liability on the statement of financial position. When the expenditures are renounced, the deferred liability is reversed and this amount is recognized in the statement of loss.

The proceeds attributable to the warrants are also treated as equity and recorded in share-based payments reserve on the statements of financial position until exercise, when the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

Share-based payment arrangements in which the Company receives properties, goods or services as consideration for its own equity instruments are measured at the fair value of the properties, goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

**GRANADA GOLD MINE INC.**  
**Notes to the Financial Statements**  
**Years Ended June 30, 2018 and 2017**  
**(Expressed in Canadian Dollars)**

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**3. Significant Accounting Policies (cont'd)**

**(h) Share Issuance Costs**

Share issuance costs are applied to reduce the proceeds of share capital issued in the year they are incurred.

**(i) Share-Based Compensation**

The Company uses the fair value method of valuing its equity settled share-based compensation plans. Under this method, compensation cost attributable to share-based plans are measured at their fair value on the grant date and expensed in the statement of loss over the vesting period with a corresponding credit to share based payment reserve. The fair value of stock-based compensation is determined using the Black-Scholes option pricing model. When options are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired options is transferred to deficit.

Equity settled share-based compensation with non-employees are measured at the fair value of the goods or services received, except where fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the Company obtains the goods or the counterparty renders the services.

**(j) Valuation of Equity Units in Private Placements**

The Company uses the fair value method to value any warrants and broker warrants issued in private placements. The fair value assigned to share purchase warrants is recorded as a reduction to share capital and an increase to share-based payments reserves. The fair value assigned to broker warrants is recorded as share issue costs and an increase to share-based payments reserve. The fair value of each warrant is estimated on the date of the grant using the Black-Scholes warrant-pricing model. Warrant pricing models require the input of highly subjective assumptions, including the expected price volatility and changes in these assumptions can materially affect the fair value estimate. When warrants are exercised the associated proportion is transferred to share capital along with the cash proceeds received on exercise. The value attributed to expired warrants is transferred to share capital.

**(k) Loss per Share**

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year.

Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effect of all dilutive warrants and options outstanding that may add to the total number of common shares.

As at June 30, 2018 and 2017, all outstanding warrants and options are anti-dilutive. As a result, all options and warrants are excluded from the calculation of diluted loss per share.

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**3. Significant Accounting Policies (cont'd)**

**(l) Decommissioning Liabilities**

The Company recognizes a decommissioning liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its mineral properties. Decommissioning liabilities are recognized as incurred. Decommissioning liabilities are discounted using a rate reflecting risks specific to the liability, and the unwinding of the discount is included in accretion of decommissioning liability in the statement of loss. At the time of establishing the liability, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The liabilities are reviewed on a regular basis for changes in cost estimates, discount rates and operating lives.

In accordance with the Company's environmental policy and applicable legal requirements, a provision for site restoration or decommissioning in respect of land restoration, and the related expense, is recognized when there is a legal obligation to restore the site. The Company presently has no significant decommissioning liabilities or provisions as at June 30, 2018 and 2017.

**(o) New Accounting Standards and Interpretations**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after July 1, 2018 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

**IFRS 9 – Financial Instruments** ("IFRS 9") was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.



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**3. Significant Accounting Policies (cont'd)**

**IFRS 16 – Leases** (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted if IFRS 15 has also been applied.

**4. Significant Judgements, Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Estimates and judgments are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company’s accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

*Income taxes*

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company’s provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company’s income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company’s interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

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**4. Significant Judgements, Estimates and Assumptions (cont'd)**

*Decommissioning and restoration costs*

Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is one that reflects current market assessments and the risks specific to the liability.

*Share-based payments*

The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

*Premium on Flow-through shares*

At the time of issue, the Company estimates the proportion of proceeds attributed to the flow-through share, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded in trade and other payables on the statements of financial position. When the eligible expenditures are incurred, the Flow-Through Premium is reversed into the statement of loss within other income (expenses) when the eligible expenditures are incurred.

**5. Deposit – Long-term**

As at June 30, 2018 and 2017, the Company has a non-interest bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site. The Company has estimated that it has no material decommissioning obligations as at June 30, 2018 and 2017.

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**6. Exploration and Evaluation Projects**

The Company has determined that as at June 30, 2018 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified in mining properties. Accordingly, the Company has expensed all exploration and evaluation expenditures in the year. As of June 30, 2018 and 2017, the Company did not hold any assets classified as mining properties.

Granada Property, Quebec, Canada

The Company holds a 100% interest to certain mining leases and claims. The mining leases are subject to a 2% Gross Metal Royalty ("GMR"), ½ of which may be purchased for \$1,000,000 and a 1% Net smelter royalty (NSR) and 23 of the original mining claims are subject to a 1% NSR. Additionally, there is a 2% NSR on 4 properties optioned from the D2D3 Group ("D2D3") in 2010, half of which may be purchased for \$1,000,000.

Castle Property, Ontario, Canada

The Company previously owned, through its wholly owned subsidiary, Castle Silver Mines Inc., "CSM" a 100% interest to certain claims. On September 15, 2015, the Company sold its wholly-owned subsidiary to Castle Silver Resources Inc, (CSR)(formerly Takara Resources Inc).

Effective June 30, 2015, the Company, acquired a 1% NSR on the Castle Silver Mines property in return for the expenditure of \$1,000,000 in exploration expenses made on the Castle property.

On June 30, 2016, the Company entered into a Letter of Intent ("LOI") with Takara Resources Inc. to advance the "Castle Golden Corridor Zone". Under the terms of the LOI, CSR transferred a 50% interest in certain contiguous mineral claims on the property in lieu of \$60,000 in property payments owed to Granada pursuant to an assignment agreement between the two companies dated October 8, 2015, concerning the Beaver and Violet cobalt-silver properties.

On December 15, 2017, CSR purchased the Company's remaining interest in the Castle Property in exchange for the forgiveness of \$500,000 in debt.

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**7. Property, Plant and Equipment**

	June 30, 2018				
	Balance	Additions	Balance	Accumulated	
	June 30,	(Disposals)	June 30,	Amortization	Net
	2017	(Write-down)	2018		
Equipment	\$11,114	\$131,700	\$142,814	\$2,223	\$140,591
Vehicles	49,881	-	49,881	14,964	34,917
	<u>\$60,995</u>	<u>\$131,700</u>	<u>\$192,695</u>	<u>\$17,187</u>	<u>\$175,508</u>
	June 30, 2017				
	Balance	Additions	Balance	Accumulated	
	June 30,	(Disposals)	June 30,	Amortization	Net
	2016	(Write-down)	2017		
Equipment	\$13,891	\$ -	\$13,891	\$2,777	\$11,114
Vehicles	23,555	47,704	71,259	21,378	49,881
	<u>\$37,446</u>	<u>\$47,704</u>	<u>\$85,150</u>	<u>\$24,155</u>	<u>\$60,995</u>

**8. Secured Loans Payable**

On August 4, 2015, the Company entered into two loan agreements and a Supply and Services agreement for proceeds totaling \$800,000.

The first loan agreement is with an existing shareholder and is a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The second loan is from a company owned by a director of the Company and comprises a \$100,000 demand loan also with a three-year term at an interest rate of 8% calculated monthly and payable annually. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

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**8. Secured Loans Payable (cont'd)**

The third agreement is a Supply and Services non-interest bearing loan for \$500,000 over the 12 months following the execution of the loan agreement from a company owned by a director of the Company. The lender has the option to obtain loan principal repayments including interest as applicable, in gold valued at US \$800 per ounce if the Company reaches commercial production. The Supply and Services loan is to be used for specific projects on the property. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 11, 2015 and January 8, 2016, the Company entered into a second and third loan agreement with an existing shareholder for a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 22, 2018, the Company entered into a convertible loan agreement with an existing shareholder for a demand loan for proceeds of \$250,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender. The outstanding principal amount of the loan is convertible into common shares of the Company at the option of the lender at any time at a conversion price of \$0.05 per share for the first year and then \$0.10 per share starting in the second year and until maturity. The conversion feature has been classified as an equity instrument with an estimated value of \$74,856 and has been included in equity reserves on the statement of financial position. The liability portion of the convertible debentures was estimated to be \$175,144 and will be accreted to its face value over the 3 year term of the loan using an effecting interest rate of 20%. Accretion and interest expense relating to this loan totalled \$22,135 for the year ended June 30, 2018 (2017 - \$Nil).

The Granada Gold property is registered as security against these loans. As a triggering event has not taken place, no value has been attributed to the derivative relating to the right of the lenders to demand repayment in gold valued at US \$800 per ounce.

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**9. Trade and Other Payables and Provisions**

	June 30, 2018	June 30, 2017
Trade payable	\$ 290,870	\$ 738,621
Due to related parties (Note 12)	265,129	263,952
Part XII.6 taxes and interest (i)	776,939	778,037
Flow-through indemnification provision (ii)	2,854,378	2,148,499
	<u>\$ 4,187,316</u>	<u>\$ 3,929,109</u>

- (i) The Company has estimated potential Part XII.6 taxes in relation to unspent flow-through expenditures for fiscal years 2006 to 2017. During the year ended June 30, 2018, the Company had accrued an additional \$230,763 (2017 - \$203,384) for Part XII.6 taxes, interest and penalties on the shortfall.
- (ii) The Company has estimated potential indemnity in relation to unspent flow-through expenditures for fiscal years 2006 - 2017. During the year ended June 30, 2018, the Company accrued an additional \$705,880 (2017 - \$102,309) for indemnification and interest on the shortfall. During the year ended June 30, 2017, the Company settled \$71,795 in indemnified shareholder losses relating to this renunciation shortfall by the issuance of 717,952 common shares (refer also to Note 10).

**10. Share Capital**

**Authorized**

Unlimited number of common shares without par value

**Issued**

	2018		2017	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	48,503,221	\$57,899,588	44,525,149	\$55,476,399
Issued for services	226,844	90,737	-	-
Private placements	10,226,200	2,194,337	3,477,256	1,590,921
Premium on FT shares	-	(140,000)	-	(49,353)
Exercise of Options -cash	-	-	35,125	14,050
Exercise of Options - BV	-	-	-	13,900
Exercise of warrants - cash	-	-	375,947	300,758
Exercise of warrants - BV	-	-	-	44,570
Share issue costs	-	(97,861)	-	(200,981)
Warrants expired	-	268,964	-	637,529
Issued to settle debt	700,000	210,000	-	-
Issued to settle 2008 FT claims	-	-	89,744	71,795
Balance, end of year	<u>59,656,265</u>	<u>\$ 60,425,765</u>	48,503,221	\$57,899,588

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**10. Share Capital (cont'd)**

During the year ended June 30, 2018, the Company completed an eight-for-one consolidation of its common shares. All current and comparative common shares and per share amounts have been retroactively adjusted to reflect the stock consolidation.

On July 6, 2016, the Company closed a private placement offering raising gross proceeds of \$230,181 by way of combined flow-through ("FT") and non-flow-through ("NFT") units.

The Company issued 187,500 FT units at a price of \$0.80 per unit. Each FT unit is comprised of one common share and one half of one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$1.20 per share, for a period of two years from closing. Finder's fees were paid in connection with the private placement in the amount of \$10,000 in cash and the issuance of 13,125 broker warrants, on the same terms as the purchaser warrants.

The Company also issued 125,283 NFT units at a price of \$0.80 per unit. Each NFT unit is comprised of one common share and one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$1.04 per share, for a period of two years from closing.

On July 28, 2016, the Company issued 89,744 common shares to settle a portion of the flow through indemnification provision for \$71,795.

On October 28, 2016, the Company closed a private placement offering raising gross proceeds of \$2,405,000. The Company issued 3,164,474 FT units at a price of \$0.76 per unit. Each FT unit is comprised of one common share and one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$1.12 per share, for a period of two years from closing.

Finder's fees were paid in connection with the private placement in the amount of \$226,585 in cash and the issuance of 213,158 broker warrants. Each broker warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.76 per share, for a period two years from closing.

On December 1, 2017, the Company closed a non-brokered private placement offering, raising gross proceeds of \$700,000. The Company issued 2,000,000 FT shares at a price of \$0.35 per FT share. In connection with this private placement a flow through share premium of \$140,000 was recorded.

Finder's fees totalling \$63,000 payable in cash and 180,000 broker warrants were paid in connection with the financing. The broker warrants are exercisable at \$0.35 per share for a period of two years from closing.

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**10. Share Capital (cont'd)**

On January 24, 2018, the Company closed the 1<sup>st</sup> tranche of a private placement raising gross proceeds of \$830,500. The Company issued 3,322,000 units at a price of \$0.25 per unit. Each unit comprises one common share and one share purchase warrant. Each warrant will entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.35 per share for a period of two years from closing. Finder's fees were paid in connection with the private placement in the amount of \$5,950 cash and 5,950 broker warrants on the same terms as the purchaser warrants.

On February 9, 2018, the Company closed the 2nd tranche of its private placement raising additional gross proceeds of \$1,226,050. The Company issued 4,904,200 units at a price of \$0.25 per unit. Each unit comprises one common share and one share purchase warrant. Each warrant will entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.35 per share for a period of two years from closing. Finder's fees were paid in connection with the private placement in the amount of \$9,150 cash and 26,600 broker warrants on the same terms as the purchaser warrants.

**11. Reserves - Warrants**

The Company records the estimated fair value of warrants issued on the grant date. The fair value is determined using the Black-Scholes option pricing model. The following weighted average assumptions were used for the Black-Scholes option pricing model:

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	1.8%	0.75%
Expected volatility	100%	180%-184%
Expected dividend yield	0.00	0.00
Expected life (years)	2.0	2.0
Estimated fair value at grant date	\$0.07	\$0.48 to \$0.59



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**11. Reserves – Warrants (cont'd)**

**Warrant Transactions**

	2018			2017		
	Number of Warrants	Weighted- average exercise price per share \$	Value \$	Number of Warrants	Weighted- average exercise price per share \$	Value \$
Balance, beginning of year	8,717,382	0.96	1,933,300	9,828,181	0.83	1,622,432
Issued as compensation	212,550	0.35	23,021	226,283	0.80	74,082
Exercised	-	-	-	(375,947)	0.80	(44,570)
Expired	(726,000)	1.20	(268,964)	(4,344,641)	0.80	(637,529)
Issued by private placements	8,226,200	0.35	562,214	3,383,506	1.12	1,044,241
Issue costs related to warrants	-	-	(5,214)	-	-	(125,356)
Balance, end of year	<b>16,430,132</b>	<b>0.50</b>	<b>2,244,357</b>	<b>8,717,382</b>	<b>0.96</b>	<b>1,933,300</b>

**Warrants outstanding as at June 30, 2018 are as follows:**

Number of Warrants	Exercise Price	Expiry Date
6,250	\$0.80	August 19, 2018
2,075,000	\$0.30	March 8, 2020
2,300,342	\$0.30	March 23, 2020
93,750	\$1.20	July 6, 2018
125,283	\$1.04	July 6, 2018
13,125	\$1.20	July 6, 2018
3,164,474	\$1.12	October 28, 2018
213,158	\$0.76	October 28, 2018
180,000	\$0.35	December 1, 2019
5,950	\$0.35	January 24, 2020
3,322,000	\$0.35	January 24, 2020
4,904,200	\$0.35	February 9, 2020
26,600	\$0.35	February 9, 2020
<b>16,430,132</b>		

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**11. Reserves - Options**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model.

	2018	2017
Risk-free interest rate	1.45%-2.10%	0.50%-0.75%
Expected volatility	140% to 148%	148% to 152%
Expected dividend yield	0.00	0.00
Expected life (years)	5 years	5 years
Estimated fair value at grant date	\$0.06 to \$0.28	\$0.46 to \$0.69

**Option Activity**

	Number of Options	Weighted Average Exercise price \$	Value	Number of Options	Weighted Average Exercise Price \$	Value
Balance, beginning of year	3,646,125	0.56	\$1,965,500	2,450,000	0.64	\$1,615,350
Exercised	-	-	-	(35,125)	0.40	(13,900)
Expired	(318,750)	0.80	(112,163)	(231,250)	1.20	(257,750)
Granted	1,846,250	0.30	513,625	1,462,500	0.40	621,800
Balance, end of year	5,173,625	0.36	\$2,366,962	3,646,125	0.56	\$1,965,500

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**11. Reserves – Options (continued)**

**Options outstanding as at June 30, 2018 are as follows:**

Number of Options	Options Vested	Exercise Price	Expiry Date
418,750	418,750	\$0.30	January 4, 2022
500,000	500,000	\$0.40	July 23, 2019
37,500	37,500	\$0.40	August 5, 2019
50,000	50,000	\$0.40	May 14, 2020
562,500	562,500	\$0.40	February 12, 2021
75,000	75,000	\$0.30	May 9, 2021
175,000	175,000	\$0.30	May 21, 2021
62,500	62,500	\$0.80	June 23, 2021
50,000	50,000	\$0.30	July 7, 2021
50,000	50,000	\$0.80	September 8, 2021
31,250	31,250	\$0.30	September 9, 2021
31,250	31,250	\$0.30	December 12, 2021
1,283,625	1,283,625	\$0.40	March 24, 2022
31,250	31,250	\$0.30	July 11, 2022
1,815,000	1,815,000	\$0.30	February 14, 2023
<hr/>			
<u>5,173,625</u>	<u>5,173,625</u>		

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**12. Related Party Transactions**

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors (executive and non-executive), President and Chief Executive Officer and Chief Financial officer are key management personnel.

The remuneration to key management personnel during the years ended June 30, 2018 and 2017 is as follows:

	June 30, 2018	June 30, 2017
Key management compensation	\$709,509	\$ 806,406
Stock-based compensation	242,556	240,000
	<u>\$952,065</u>	<u>\$1,046,406</u>

- a) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the year ended June 30, 2018, the total amount for such services provided was \$440,001 (2017 – \$440,001) of which \$440,000 (2017 – \$440,000) was recorded in exploration expenses and \$1 (2017 - \$1) in professional fees.
- b) The Company retains the services of two officers to carry out administrative services. During the year ended June 30, 2018, the total amount for such services provided was \$185,509 (2017 – \$190,906) which was recorded professional fees.
- c) As of June 30, 2018, the Company owed \$290,870 (2017 - \$263,952) to companies of which a senior officer of the Company is also a senior officer. This amount is unsecured, non-interest bearing and due on demand.
- d) During the year ended June 30, 2018 the Company settled \$210,000 in accounts payable with two shareholders of the Company by issuing 700,000 common shares.
- e) See Note 8.

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**13. Contingencies**

The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. As at June 30, 2018 and to the best knowledge of its management, the Company is, in conformity with the laws and regulations.

**Flow-through Shares**

a) The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- i) Two years following the flow-through investment;
- ii) One year after the Company has renounced the tax deductions relating to the exploration work.

a) During the year ended June 30, 2018, the Company received \$700,000 (2017 – \$2,555,000) from flow-through share issuances. According to the tax rules, the Company has until December 31, 2018 to spend these amounts on qualified exploration expenditures. As at June 30, 2018, the Company had spent this amount.

b) The Company has indemnified the subscribers of current and previous flow-through offerings against any tax related amounts that become payable by shareholders in the event the Company does not meet its expenditure commitment. See Note 9.

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#### **14. Commitments**

The Company has consulting service agreements with related parties (certain officers and directors).

- i) Effective January 1, 2007, and amended December 1, 2010, May 16, 2013 and March 1, 2015, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company to provide management services of Frank Basa in consideration for a nominal annual fee of \$1.

This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 480 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

- ii) Effective January 1, 2014, the Company entered into a management agreement with Mineral Recovery Management Systems Corp. ("MRMSC"), a company controlled by Frank Basa and Elaine Basa, to provide project management, engineering and geological services to the Company in consideration of \$25,000 per month for the services of Frank Basa and \$11,666.67 per month for the services of Elaine Basa. Either party may terminate this agreement by giving a four months' notice to the other, subject to certain provisions of the agreement.
- iii) Effective March 1, 2011 and amended February 1, 2012 and March 1, 2015, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$192,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

#### **15. Financial Risk Management**

##### **Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, including commodity price risk;
- foreign currency exchange risk;
- interest rate risk; and
- operational risk.

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**15. Financial Risk Management (cont'd)**

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfills its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team. There have been no changes in the risks, objectives, policies and procedures during the years ended June 30, 2018 and 2017.

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

**a) Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. Management believes the risk of loss to be minimal.

**b) Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations. Management believes that the credit risk with respect to financial instruments included in receivables is minimal.

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**15. Financial Risk Management (cont'd)**

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation. The Company generates cash flow primarily from its financing activities.

As at June 30, 2018, the Company had cash of \$80,179 (2017 - \$119,610) to settle current liabilities of \$5,678,964 (2017 - \$5,157,272).

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

**Classification of Financial Instruments**

As at June 30, 2018 and 2017, the Company's financial assets measured at fair value, consisting of Castle Silver Resources units receivable are classified as level 2 in the fair value hierarchy.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate risk, and commodity prices will affect the Company's income, the value of its evaluation and exploration properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**a) Commodity price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world. As the Company is still in the exploration and evaluation stage, the fluctuation of gold and silver prices does not have a significant impact on the Company.



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**15. Financial Risk Management (cont'd)**

**b) Foreign currency exchange risk**

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's functional and reporting currency is the Canadian dollar. The movement on US rates related to the Canadian dollar may impact the future economic feasibility of the Company's mining interests. As the Company is still in the exploration and evaluation stage, the fluctuation of the US dollar does not have a significant impact on the Company.

**c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- i) The Company receives low interest rates on its cash balances and carries debt with fixed interest rates. As such, the Company does not have significant interest rate risk.
- ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign currency risk.
- iii) The Company's receivables are composed primarily of refundable sales taxes owing from the government of Canada. As such, the Company does not have significant credit risk relating to its receivables.

**d) Castle units receivable**

In September 2015, the Company completed a share purchase agreement with Castle Silver Resources Inc. (CSR) (formerly Takara Resources Inc. ("Takara")), an arms'-length, publicly traded company, whereby CSR agreed to acquire all of the issued and outstanding common shares of CSM, the Company's wholly-owned subsidiary.

In consideration, CSR will issue an aggregate of 10,000,000 units, in four equal instalments of 2,500,000 units per year over a three-year period. Each unit consists of one common share and one common share purchase warrant, each exercisable at \$0.10 for a one-year period. The fair value of the 5,000,000 units receivable by the Company as at June 30, 2017 was estimated to be \$1,847,063 based on the trading price of the common shares and a Black Scholes valuation performed on the warrants as of that date.

The fair value of the 2,500,000 units receivable by the Company as at June 30, 2018 was estimated to be \$3,517,656 based on the trading price of the common shares and a Black Scholes valuation performed on the warrants as of that date.

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**16. Capital Management Disclosures**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation projects. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company considers its capital to be equity, which is comprised of common shares, reserves and deficit, which as at June 30, 2018 totalled a shareholders' deficiency of \$1,447,538 (June 30, 2017 – \$2,789,495).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company currently has no significant source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the years ended June 30, 2018 and 2017.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of June 30, 2018, the Company may not be compliant with all of the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.

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**17. Income Taxes**

a) Provision for income taxes

Major items causing the Company's income tax rate to differ from the combined federal and provincial statutory income tax rate of 26.9% (2017 – 26.9%) were as follows:

	Year Ended June 30, 2018 \$	Year Ended June 30, 2017 \$
(Loss) before income taxes	(225,495)	(2,062,284)
Combined statutory income tax rate	26.9%	26.9%
Expected income tax recovery based on statutory rate	(60,000)	(555,000)
Adjustment to expected income tax benefit:		
Stock-based compensation	138,000	167,000
Flow-through renunciation	188,000	640,000
Non-deductible expenses and other	(205,000)	(207,000)
Changes in benefit of tax assets not recognized	(61,000)	(45,000)
Deferred income tax provision (recovery)	-	-

b) Deferred income tax

Deferred tax assets have not been recognized in respect of the following temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize these benefits.

	Year Ended June 30, 2018 \$	Year Ended June 30, 2017 \$
Non-capital loss carry-forwards	20,493,000	19,493,000
Exploration and evaluation	19,293,000	18,893,000
Share issuance costs	395,000	395,000
Investment tax credits	917,000	917,000
Property, plant and equipment	943,000	943,000
Tax benefits not recognized	42,041,000	40,641,000

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**17. Income Taxes (cont'd)**

c) Tax loss carry-forwards

As at June 30, 2018, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$20,493,000 (2017 - \$19,493,000 ) available to use against future taxable income. The non-capital losses expire between 2027 and 2038.

<u>Expiry</u>	<u>Total \$</u>
2027	569,000
2028	658,000
2029	584,000
2030	1,329,000
2031	4,561,000
2032	2,450,000
2033	2,970,000
2034	2,257,000
2035	2,019,000
2036	1,606,000
2037	460,000
2038	1,000,000
	<u>20,493,000</u>

As at June 30, 2018, the Company had approximately \$5,511,000 (2017 – \$5,511,000), \$13,341,000 (2017 – \$12,941,000), \$264,000 (2017 – \$264,000) and \$177,000 (2017 – \$177,000) of Canadian development expenditures, Canadian exploration expenditures, foreign resource expenditures and depletion credit, respectively, which, under certain circumstances, may be utilized to reduce taxable income of future years.

In addition, the Company also had approximately \$987,000 (2017 – \$987,000) of pre-production mining expenditures, which under certain circumstances, may be used to reduce tax payable in future years.

**18. Subsequent Events**

Subsequent to June 30, 2018, 3,616,040 warrants with exercise prices ranging from \$0.76 to \$1.20 per share expired unexercised.

On October 18, 2018 the Company closed a private placement in which it issued 2,942,140 units at \$0.15 per unit for gross proceeds of \$441,321. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$0.18 per share for a period of three years. Certain directors and officers of the Company participated in this private placement by acquiring 2,192,140 units for \$328,821.