

Consolidated Financial Statements  
For the year ended June 30, 2018 and 2017

(Stated in Canadian Dollars)

**Mexican Gold Corp.**



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To the shareholders of  
Mexican Gold Corp.

We have audited the accompanying financial statements of Mexican Gold Corp., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mexican Gold Corp. as at June 30, 2018 and 2017, and the results of its operations 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 the Corporation has not yet achieved profitable production and has accumulated losses of \$27,364,603 at June 30, 2018. This condition, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Corporation's ability to continue as a going concern.

The signature of Grant Thornton LLP is written in a cursive, handwritten style.

Toronto, Canada  
October 23, 2018

Chartered Professional Accountants  
Licensed Public Accountants



(Incorporated under the laws of Ontario)

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Stated in Canadian Dollars)

As of	June 30 2018 \$	June 30 2017 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	185,658	834,057
Investments [note 5]	25,000	-
Sales tax receivable	166,647	35,854
Prepays and deposits	426,179	524,908
<b>Total current assets</b>	<b>803,484</b>	<b>1,394,819</b>
<b>Total assets</b>	<b>803,484</b>	<b>1,394,819</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	158,305	136,189
<b>EQUITY</b>		
Share capital [note 7]	24,590,926	22,328,103
Reserves [note 7]	3,411,766	2,758,568
Foreign currency translation	(33,100)	1,462
Deficit	(27,324,413)	(23,829,503)
<b>Total equity</b>	<b>645,179</b>	<b>1,258,630</b>
<b>Total liabilities and equity</b>	<b>803,484</b>	<b>1,394,819</b>

*Nature of Business and Going Concern [note 1]*

*Commitments [note 11]*

*Subsequent event [note 14]*

*See accompanying notes to the financial statements*

*These financial statements are authorized for issue by the Board of Directors on October 17, 2018.*

*They are signed on the Corporation's behalf by:*

"Brian Robertson"  
Director

"Ali Zamani"  
Director



(Incorporated under the laws of Ontario)

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Stated in Canadian Dollars)

For the year ended	June 30 2018 \$	June 30 2017 \$
<b>EXPENSES</b>		
Depreciation	-	9,857
Exploration and evaluation [note 6]	1,627,614	1,857,636
General and administrative	1,351,074	794,332
Professional fees	76,297	66,970
Share-based payments [note 7]	653,198	269,158
Loss on settlement of debt	-	20,029
(Recovery) write-off of Value Added Tax	(202,313)	143,172
<b>Total expenses</b>	<b>3,505,870</b>	<b>3,161,154</b>
<b>Other income</b>		
Interest income	10,960	16,151
<b>Loss</b>	<b>(3,494,910)</b>	<b>(3,145,003)</b>
Exchange differences on translation of foreign operations	(34,562)	25,058
<b>Comprehensive loss for the year</b>	<b>(3,529,472)</b>	<b>(3,119,945)</b>
<b>Basic and diluted loss per share [note 8]</b>	<b>(0.09)</b>	<b>(0.17)</b>

See accompanying notes to the financial statements





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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)

For the year ended June 30,

	2018 \$	2017 \$
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(3,494,910)	(3,145,003)
Add charges to earnings not involving a current payment of cash		
Depreciation	-	9,857
Share-based payments	653,198	269,158
Loss on settlement of debt	-	20,029
Non-cash operating expenses	20,000	-
	(2,821,712)	(2,845,959)
Changes in non-cash working capital balances related to operations		
Sales tax receivable	(130,793)	(35,854)
Prepays and deposits	98,729	(507,250)
Accounts payable and accrued liabilities	22,116	(101,006)
<b>Cash used in operating activities</b>	<b>(2,831,660)</b>	<b>(3,490,069)</b>
<b>INVESTMENT ACTIVITIES</b>		
Purchase of investments	(25,000)	-
<b>Cash used in investment activities</b>	<b>(25,000)</b>	<b>-</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from private placement	1,046,950	4,483,863
Proceeds from the exercise of share purchase warrants	1,220,816	-
Share issue costs	(24,943)	(229,172)
<b>Cash provided by financing activities</b>	<b>2,242,823</b>	<b>4,254,691</b>
<b>(Decrease) increase in cash and cash equivalents during year</b>	<b>(613,837)</b>	<b>764,622</b>
Cash and cash equivalents, beginning of year	834,057	44,377
Effect of exchange rate on cash held	(34,562)	25,058
<b>Cash and cash equivalents, end of year</b>	<b>185,658</b>	<b>834,057</b>

See accompanying notes to the financial statements



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# **CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY** (Stated in Canadian Dollars)

Issued and outstanding:	Share Capital		Reserves				Total Equity
	Number of Shares	Share Capital	Warrants	Equity Settled Employee Benefits	Foreign currency translation	Deficit	
<b>Balance as at June 30, 2016</b>	8,764,369	\$17,660,298	\$81,135	\$2,322,450	\$(23,596)	\$(20,684,500)	\$(644,213)
Private placements <i>[note 7]</i>	23,516,103	4,425,956	-	-	-	-	4,425,956
Share-based payments	-	-	-	269,158	-	-	269,158
Share issue costs	-	(314,997)	85,825	-	-	-	(229,172)
Expiry of warrants	231,628	57,907	-	-	-	-	57,907
Shares issued to settle debt <i>[note 7]</i>	1,663,129	498,939	-	-	-	-	498,939
Comprehensive loss for the year	-	-	-	-	25,058	(3,145,003)	(3,119,945)
<b>Balance as at June 30, 2017</b>	34,175,229	22,328,103	166,960	2,591,608	1,462	(23,829,503)	1,258,630
Exercise of warrants	4,883,265	1,220,816	-	-	-	-	1,220,816
Share-based payments	-	-	-	653,198	-	-	653,198
Private placement <i>[note 7]</i>	3,489,833	1,046,950	-	-	-	-	1,046,950
Shares issued as compensation <i>[note 7]</i>	78,431	20,000	-	-	-	-	20,000
Share issue costs	-	(24,943)	-	-	-	-	(24,943)
Comprehensive loss for the year	-	-	-	-	(34,562)	(3,494,910)	(3,529,472)
<b>Balance as at June 30, 2018</b>	<b>42,626,758</b>	<b>\$24,590,926</b>	<b>\$166,960</b>	<b>\$3,244,806</b>	<b>\$(33,100)</b>	<b>\$(27,324,413)</b>	<b>\$645,179</b>

See accompanying notes to the financial statements



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## NOTES TO FINANCIAL STATEMENTS

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### 1. NATURE OF BUSINESS AND GOING CONCERN

Mexican Gold Corp. (formerly Source Exploration Corp.) (the "Corporation") was incorporated under the Business Corporation's Act (Alberta) on October 5, 2006, and is engaged in the acquisition, exploration, and evaluation of mineral properties. On January 17, 2011 the Corporation received all necessary approvals to continue into the jurisdiction of Ontario.

The Corporation is in the process of exploring and evaluating its mineral properties and, on the basis of the information to date, has not yet determined whether any of the properties contain economically recoverable reserves. The recovery of expenditures on the mineral properties is dependent upon the existence of economically recoverable mineralization, the Corporation securing and maintaining title and beneficial interest in the properties, and the ability of the Corporation to obtain the necessary financing to complete the exploration and development and future profitable production or, alternatively, on the sufficiency of proceeds from disposition.

#### Going concern

At June 30, 2018 the Corporation had not yet achieved profitable production, had accumulated losses of \$27,324,413, had a current working capital balance of \$645,179 and expects to incur further losses in the development of its business. These circumstances indicate the existence of material uncertainties that may create significant doubt about the Corporation's ability to continue as a going concern. The Corporation will require additional financing in order to complete its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they become due and there is no assurance that these initiatives will be successful. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

These statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The consolidated financial statements of the Corporation for the period ended June 30, 2018 were approved and authorized by the Board of Directors on October 17, 2018.

#### Basis of Consolidation

The Corporation's financial statements consolidate those of the parent Corporation and its subsidiary undertakings drawn up to June 30, 2018. Subsidiaries are all entities over which the Corporation has the power to control the financial and operating policies. The Corporation obtains and exercises control through more than half of the voting rights.

	Percentage of ownership	Jurisdiction	Principal activity
Roca Verde Exploracion Mexico, S.A. de C.V. ("Roca Verde")	100%	Mexico	Mineral exploration

All transactions and balances between the Corporation and its subsidiary are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of its subsidiary have been adjusted where necessary





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to ensure consistency with the accounting policies adopted by the Corporation.

### Foreign currency translation

The consolidated financial statements are presented in Canadian dollars (CDN), which is also the functional currency of the Corporation. The functional currency of the Corporation's subsidiary, Roca Verde, is the Mexican Peso.

Foreign currency transactions are translated into the functional currency of the respective Corporation, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

Management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events, or conditions. As part of this approach, management gives priority to indicators like the currency that mainly influences costs and the currency in which those costs will be settled and the currency in which funds from financing activities are generated. Management also assesses the degree of autonomy the foreign operation has with respect to operating activities.

In the Corporation's consolidated financial statements, all assets, liabilities and transactions of the Corporations' subsidiary are translated into Canadian upon consolidation. On consolidation, assets and liabilities have been translated into CAD at the closing rate at the reporting date. Income and expenses have been translated into the Corporation's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated into CAD at the closing rate.

### Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transaction costs, and subsequently accounted for at amortized cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

### Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables
- financial assets at fair value through profit or loss
- held-to-maturity investments
- available-for-sale financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in



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profit or loss or in other comprehensive income.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that the recoverable amount of a financial asset or a group of financial assets exceeds its carrying amount. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within 'general and administrative expenses', 'investment income' or 'other income'.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Corporation's cash and cash equivalents, and investments fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity other than loans and receivables. Investments are classified as held-to-maturity if the Corporation has the intention and ability to hold them until maturity. The Corporation currently does not hold any investments designated into this category.

Held-to-maturity investments are measured subsequently at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

### Available-for-sale financial assets ("AFS")

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.



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All other available-for-sale financial assets are measured at fair value. Gains and losses are recognized in other comprehensive income and reported within the available-for-sale reserve within equity, except for impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from the equity reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income. Interest calculated using the effective interest method and dividends are recognized in profit or loss within 'investment income'.

Reversals of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

### **Financial liabilities**

The Corporation's financial liabilities include accounts payable and accrued liabilities.

Financial liabilities are measured initially at the transaction amount and subsequently at amortised cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at fair value through profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within 'general and administrative expenses'.

### **Fair value hierarchy**

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

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

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the 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 amount





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receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credit against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

### Exploration and Evaluation

The Corporation is in the process of exploring its mineral properties and chooses to expense acquisition costs for property rights. Mineral property acquisition costs include the cash consideration given, direct legal costs incurred for the acquisition, and issuance of shares for mineral property interests. Where the Corporation has entered into an option agreement for the acquisition of an interest in a mineral property which provides for periodic payments, such amounts unpaid are not recorded as a liability since they are payable entirely at the Corporation's discretion.

Exploration, evaluation and pre-development expenditure consist of :

- gathering exploration data through topographical and geotechnical studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

The Corporation has adopted the policy of expensing exploration costs and periodic maintenance costs incurred prior to the determination that a property has economically recoverable reserves.

### Equipment and leaseholds

Equipment and leaseholds are stated at historical cost less accumulated depreciation and any provision for impairment in value. Cost includes the purchase price, any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the present value of the estimated costs of decommissioning and restoration, if applicable. Costs relating to major upgrades are included in equipment and leaseholds if it is probable that future economic benefits associated with the expenditure will flow to the Corporation.

Depreciation on equipment is recognized on a declining balance basis to write down the cost or valuation less estimated residual value of equipment. Depreciation on leaseholds is recognized on the straight-line basis over the term of the lease, which is 5 years. The rates generally applicable are:

Leaseholds	Straight line over term
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Material residual value estimates and estimates of useful life are updated as required, but at least annually.

Gains or losses arising on the disposal of equipment are determined as the difference between the disposal proceeds and the carrying amount of the equipment and are recognized in profit or loss within 'other income' or 'other expenses'.



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### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

### Impairment of non-financial assets

At each financial position reporting date the carrying amounts of the Corporation's non-financial assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

### Share capital

Share capital represents the fair value of consideration received. Equity instruments are contracts that give a residual interest in the net assets of the Corporation. Financial instruments issued by the Corporation are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Corporation's common shares, reserves, share options and share warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, options or warrants are shown in equity as a deduction, net of tax, from the proceeds.

The Corporation periodically issues units to investors consisting of common shares and warrants in non-brokered private placements. Each whole warrant issued entitles the holder to acquire a common share of the Corporation, at a fixed Canadian dollar price over a specified term. These warrants are not transferable from the original investor to a new investor. The Corporation's investor warrants are equity instruments and not financial liabilities or financial derivatives. Accordingly, gross investor proceeds received from the issuance of units are accounted for as an increase in share capital. No separate valuation (i.e. "bifurcation") of investor warrants is made for accounting purposes at the time of issuance or at any time thereafter.

When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, no accounting entry is recorded.

### Share-based payment transactions

The Corporation operates equity-settled share-based remuneration plans for its employees, directors and consultants. None of the Corporation's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is determined at the grant date.





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All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to 'reserves'.

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are less than that estimated on vesting.

### Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the financial statements. Calculation of current tax expense is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Corporation and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilised against future taxable income. To the extent that the Corporation does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Deferred tax assets and liabilities are offset only when the Corporation has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

### Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, 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, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Contingent liabilities are not recognized in the financial statements, if not estimable and



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probable, and are disclosed in notes to the financial information unless their occurrence is remote. Contingent assets are not recognized in the financial statements, but are disclosed in the notes if their recovery is deemed probable.

### Environmental rehabilitation

Provisions for environmental rehabilitation are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pre-tax rate, and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates and operating lives. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expenses. For closed sites, changes to estimated costs are recognized immediately in the profit and loss.

### Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

### Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

### Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

### Segment reporting

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Corporation's operating segments are its separately identifiable exploration and evaluation properties.

### Significant accounting judgements and estimates

In the application of the Corporation's accounting policies, which are described above, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### Significant estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported





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amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Significant estimates include:

- ♦ the inputs used in accounting for share-based payments expense;
- ♦ the provision for income taxes; and
- ♦ the estimated useful lives of equipment and leaseholds.

### Significant judgements

The following are significant judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

### Functional currency

Management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to indicators like the currency that mainly influences costs and the currency in which those costs will be settled and the currency in which funds from financing activities are generated. Management also assesses the degree of autonomy the foreign operation has with respect to operating activities.

### Financial assets and liabilities

The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

### Deferred income tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in [note 9].



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### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### Change in accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods after June 30, 2017. The following new standards have been adopted:

#### IAS 7, Statement of Cash Flows ("IAS 7")

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017, with earlier application permitted. On July 1, 2017, the Company adopted the amendments to IAS 7 and there was no material impact on the Company's consolidated financial statements.

#### IAS 12, Income Taxes ("IAS 12")

On January 19, 2016, the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12). The amendments apply retrospectively for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. On July 1, 2017, the Company adopted the amendments to IAS 12 and there was no material impact on the Company's consolidated financial statements.

#### New standards not yet adopted and interpretations issued but not yet effective

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for future accounting periods beginning after July 1, 2018. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the below. The following have not yet been adopted and are being evaluated to determine the impact on the Company.

#### IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement and IFRIC 9 Reassessment of Embedded Derivatives. IFRS 9 introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. Based on a preliminary evaluation, this standard is not expected to have a material impact on the Company.

#### IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

The core principle of IFRS 15 is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple element arrangements. The standard will also address accounting for loyalty programs and breakage.

Application of IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018 and is to be applied using the retrospective or the modified transition approach. Early adoption is permitted. The Corporation will evaluate the impact of IFRS 15 on its consolidated financial statements if and when revenues from operations should commence.





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### IFRS 16, Leases ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, the customer ("lessee") and the supplier ("lessor"). This will replace IAS 17, Leases ("IAS 17") and related interpretations. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right of use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value, and depreciation of lease assets separately from interest on lease liabilities in the income statement. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15, Revenue from Contracts with Customers. As the Company has contractual obligations in the form of operating leases under IAS 17, there may be an increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the timing of recognition of expenses associated with the lease arrangements. The Corporation is currently evaluating the impact of this standard and amendments on its consolidated financial statements.





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### 4. SEGMENTED INFORMATION

The Corporation currently operates in one operating segment, the exploration of mineral properties in Mexico. Management of the Corporation makes decisions about allocating resources based on the one operating segment. A geographic summary of identifiable assets, liabilities, and operating activities by country is as follows:

<b>As at June 30, 2018</b>			
	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Segmented Assets</b>	<b>635,522</b>	<b>167,962</b>	<b>803,484</b>
<b>Segmented Liabilities</b>	<b>(106,410)</b>	<b>(51,895)</b>	<b>(158,305)</b>
<b>For the year ending June 30, 2018</b>			
<b>Operating activities</b>			
Exploration and evaluation	200	1,627,414	1,627,614
General and administrative	1,281,842	69,232	1,351,074
Professional fees	76,297	-	76,297
Share-based payments	653,198	-	653,198
Recovery of Value Added Tax	-	(202,313)	(202,313)
<b>Total</b>	<b>2,011,537</b>	<b>1,494,333</b>	<b>3,505,870</b>
<b>As at June 30, 2017</b>			
	<b>Canada</b>	<b>Mexico</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Segmented Assets</b>	<b>1,301,033</b>	<b>93,786</b>	<b>1,394,819</b>
<b>Segmented Liabilities</b>	<b>118,757</b>	<b>17,432</b>	<b>136,189</b>
<b>For the year ending June 30, 2017</b>			
<b>Operating activities</b>			
Depreciation	9,857	-	9,857
Exploration and evaluation	219,443	1,638,193	1,857,636
General and administrative	775,601	18,731	794,332
Professional fees	63,934	3,036	66,970
Share-based payments	269,158	-	269,158
Write-off of Value Added Tax	-	143,172	143,172
Loss on settlement of debt	20,029	-	20,029
<b>Total</b>	<b>1,358,022</b>	<b>1,803,132</b>	<b>3,161,154</b>



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### 5. INVESTMENTS

At June 30, 2018, the Corporation held guaranteed investments certificates of \$25,000, maturing May 28, 2019, yielding 0.50% [June 30, 2017 - \$nil].

### 6. EXPLORATION AND EVALUATION

Accumulated costs with respect to the Corporation's interest in mineral properties owned, leased or under option, consist of the following:

	Las Minas and La Miqueta \$	Period ended \$	Year ended ended June 30, 2017 \$	Inception to date total \$
Analytical	-	-	1,288	376,149
Geological and consulting	583,273	583,273	307,996	3,842,756
Transportation and accommodation	-	-	22,123	177,174
Drilling	719,041	719,041	434,540	6,333,021
Geophysical	22,819	22,819	-	97,498
Operational support	133,424	133,424	-	409,390
Other	1,067	1,067	96,196	402,026
<b>Subtotal</b>	<b>1,459,624</b>	<b>1,459,624</b>	<b>862,143</b>	<b>11,638,014</b>
Acquisition costs / Option payments	167,990	167,990	995,493	2,004,688
<b>Total expenditures</b>	<b>1,627,614</b>	<b>1,627,614</b>	<b>1,857,636</b>	<b>13,642,702</b>

#### Las Minas and La Miqueta

On October 13, 2010, the Corporation's 100% owned Mexican subsidiary Roca Verde Exploracion de Mexico entered into exclusive Letters of Intent to acquire the Las Minas and La Miqueta properties, collectively named the Las Minas Project. The project is comprised of five privately held mineral concessions in the core of the Las Minas district in the State of Veracruz, Mexico.

Pursuant to the terms of the original Las Minas property agreement the Corporation was granted the right to enter into an exclusive purchase and sale agreement to earn a 100% interest in three concessions by making staged cash payments totaling US\$190,000 plus VAT over the next 36 months and a final payment of US\$1,000,000 plus VAT upon exercising the option. The Vendors retained a 1.5% Net Smelter Return ("NSR") subject to an exclusive buyback provision allowing the Corporation to purchase one third or a 0.5% NSR for US\$500,000. The Corporation retained a Right of First Refusal to buy the remaining 1.0 % NSR. The Corporation also agreed to complete a work program which required \$200,000 in expenditures to maintain the concessions in good standing during the three year term of the agreement.

Pursuant to the terms of the original La Miqueta property agreement the Corporation was granted the right to enter into an exclusive purchase and sale agreement to earn a 100% interest in three concessions by making staged cash payments totaling US\$95,000 plus VAT over 36 months beginning October 13, 2010 and a final payment of US\$500,000 plus VAT upon exercising the option. The Vendors retained a 1.5% NSR subject to an exclusive buyback provision that allowed the Corporation to purchase one third or a 0.5% NSR for US\$500,000. The Corporation retained a Right of First Refusal to buy the remaining 1.0 % NSR. The Corporation also agreed to keep the property in good standing with respect to concession taxes. During 2012, an extension agreement was executed to extend the deadline for the final payment by 12 months.





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### Option agreement extended to 2016

On June 6, 2013, the Corporation extended the option agreement to acquire the Pepe, Pepe Tres, and San Jose concessions located at the Las Minas property in Veracruz State, Mexico, and further revised on November 20, 2013. The amended agreement extended the term of the option agreement by an additional two years to December 5, 2015. Scheduled payments as per the terms of the amended agreement were US \$130,000 over a 6 month period ending May 5, 2014, US \$150,000 on December 5, 2014, with a final payment of US \$1,300,000 on December 5, 2015. All payments are subject to VAT. The Corporation also retained the right to exercise the option at the latest on December 5, 2013 upon payment of US \$1,000,000 as per the terms of the original option agreement on October 13, 2010.

On October 1, 2015, the Corporation announced the successful negotiation of a one year extension to its option agreement to acquire the Pepe, Pepe Tres and San Jose concessions located at its Las Minas property. These concessions are part of the six concessions held under option or wholly owned by Mexican Gold at Las Minas, Veracruz State, Mexico.

The new agreement extended the term of the option agreement by an additional one year to December 5, 2016. The payment for granting the extension was US\$165,000, payable in equal monthly installments over a six month period and commencing at the latest on December 7, 2015.

On November 21, 2016, the Corporation announced another successful negotiation of a one year extension to its option agreement to acquire the Pepe, Pepe Tres and San Jose concessions located at its Las Minas property.

The new agreement extends the term of the option agreement by an additional one year to December 5, 2017 for consideration equal to US\$180,000, payable in equal monthly installments over a six month period and commencing no later than December 7, 2016 (\$246,482).

All other terms of the original agreement of November 30, 2010 and prior extension agreement of May 21, 2013 remained unchanged.

### Extension of Las Minas option agreement to 2017

On April 23, 2015, the Corporation signed a two year extension to its option agreement to acquire the Pueblo Nuevo and La Luz 1 concessions located at its Las Minas property. These concessions are part of the concessions held under option or wholly owned by Roca Verde, (the wholly owned subsidiary of Mexican Gold) at Las Minas, Veracruz State, Mexico.

The new agreement extends the term of the option agreement by an additional two years to May 3, 2017. Scheduled payments per the terms of the agreement are as follows:

- US \$12,500 (paid) cash consideration and \$12,500 (issued) in common shares of Mexican Gold as soon as is practicable following acceptance of the extension of the option agreement by the TSXV;
- US \$12,500 (paid) cash consideration and US \$12,500 (issued) in common shares of Mexican Gold on April 22, 2016; and
- Final option payment due on May 3, 2015 extended to May 3, 2017 and reduced from US \$500,000 to US \$150,000 (paid) (Cdn\$195,723).

All payments are subject to VAT. All other terms of the original agreement remain unchanged.

### Acquisition of Pepe, Pepe Tres and San Jose concessions

On June 8, 2017, the Corporation through its wholly-owned subsidiary, Roca Verde, entered into a definitive purchase and sale agreement (the "Purchase Agreement") to acquire a 100% interest in the Pepe, Pepe Tres and San Jose concessions (the "Concessions") at its Las Minas property from the current owners (the "Owners"). The Concessions form the core of the Las Minas property and encompass six highly mineralized zones, including the El



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Dorado/Juan Bran and Santa Cruz zones.

Pursuant to the terms of the Purchase Agreement, Roca Verde has agreed to acquire the Concessions in consideration for the following payments to the Owners:

- an initial payment of US\$433,333 (Cdn\$553,288) plus Value Added Tax, payable upon execution of the Purchase Agreement (the "Initial Payment") 9paid);
- six equal payments of US\$22,000 plus Value Added Tax, payable monthly commencing on December 5, 2017 with the final payment due on May 7, 2018 (the "Monthly Payments") (paid); and
- a final payment of US\$866,666 plus Value Added Tax, payable on or before December 5, 2018 (the "Final Payment" and, together with the Initial Payment and the Monthly Payments, the "Consideration").

The Initial Payment has been paid in full. If the Final Payment is made prior to the date on which any of the Monthly Payments are due, any Monthly Payment that would have been due after the date upon which the Final Payment is made shall no longer be payable. Upon payment of the Consideration, ownership and full title to the Concessions shall be automatically transferred to Roca Verde.

Pursuant to the terms of the Purchase Agreement, upon the transfer of the Concessions, the Owners shall retain a 1.5% NSR (the "Royalty"), of which one third may be purchased by Roca Verde for US\$500,000 plus Value Added Tax. Roca Verde has a right of first refusal on the Royalty in the event that the Owners intend to transfer all or part of the Royalty.



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### 7. CAPITAL AND RESERVES

#### *i. Authorized*

The Corporation is authorized to issue an unlimited number of common shares.

#### *ii. Details of share issuances*

(i) On November 30, 2016, the Corporation closed the first tranche of a non-brokered private placement of 5,192,500 units of the Corporation (the "Units") at a price of \$0.15 per Unit for gross proceeds of \$778,875. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of \$0.25 per common share until November 30, 2018.

In connection with the private placement, the Corporation paid an aggregate of \$42,438 in finder's fees to certain arm's length parties, representing 8% of the proceeds received from subscribers that were introduced by such parties, and issued 270,920 finder's warrants ("Finder's Warrants") on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of \$44,973 using the BlackScholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 240% based on the Corporation's historical volatility; share price of \$0.185; risk free interest rate of 0.70% and an expected life of two years.

(ii) Pursuant to the terms of the Warrants and the Finder's Warrants, the Corporation has the right to accelerate the expiry date of the Warrants and the Finder's Warrants on notice to the holders of the Warrants and the Finder's Warrants, if at any time after March 31, 2017 the closing price of its common shares on a stock exchange in Canada is greater than \$0.40 per common share for a period of 10 consecutive trading days, in which case the Warrants and the Finder's Warrants will expire 30 days after the date on which such notice is given. The securities issued under this tranche of the private placement are subject to a hold period under applicable Canadian securities laws which will expire on March 31, 2017.

(iii) On February 14, 2017, the Corporation closed the second tranche of a non-brokered private placement of 12,333,333 units of the Corporation at a price of \$0.15 per Unit for gross proceeds of up to \$1,850,000. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share for a period of twenty-four months from the closing date of the private placement (subject to acceleration of the expiry date) at a price of \$0.25 per common share.

In connection with the private placement, the Corporation paid an aggregate of \$57,724 in finder's fees to certain arm's length parties, representing 8% of the proceeds received from subscribers that were introduced by such parties, and issued 72,000 Finder's Warrants on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of \$16,776 using the BlackScholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 176% based on the Corporation's historical volatility; share price of \$0.29; risk free interest rate of 0.76% and an expected life of two years.

Pursuant to the terms of the Warrants and the Finder's Warrants, the Corporation has the right to accelerate the expiry date of the Warrants and the Finder's Warrants on notice to the holders of the Warrants and the Finder's Warrants, if at any time after July 4, 2017 the closing price of its common shares on a stock exchange in Canada is greater than \$0.40 per common share for a period of 10 consecutive trading days, in which case the Warrants and the Finder's Warrants will expire 30 days after the date on which such notice is given. The securities issued under this tranche of the private placement are subject to a hold period under applicable Canadian securities laws which will expire on July 4, 2017.

(iv) On May 10, 2017, the Corporation issued an aggregate of 1,052,129 common shares at a deemed price of \$0.31 per common share and an aggregate of 611,000 common shares at a deemed price of \$0.25 per common share to certain of its officers and/or directors in settlement of outstanding debt in the aggregate amount of \$478,910.





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(v) On May 25, 2017, the Corporation closed a non-brokered private placement of 5,990,270 units of the Corporation at a price of \$0.30 per Unit for gross proceeds of up to \$1,797,081. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of \$0.45 per common share until May 25, 2019.

In connection with the private placement, the Corporation paid an aggregate of \$22,785 in finder's fees to certain arm's length parties, representing 7% of the proceeds received from subscribers that were introduced by such parties, and issued 75,950 Finder's Warrants on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of \$24,076 using the BlackScholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 174% based on the Corporation's historical volatility; share price of \$0.41; risk free interest rate of 0.71% and an expected life of two years. The securities issued under the private placement are subject to a hold period under applicable Canadian securities laws which will expire on September 26, 2017.

(vi) On August 9, 2017, the Corporation issued 78,431 shares with a deemed value of \$20,000 as compensation.

(vii) On April 10, 2018, the Corporation closed a non-brokered private placement of 3,489,833 common shares (each a "Unit") at a price of \$0.30 for gross proceeds of \$1,046,950. Each Unit consists of one common share of the Corporation and one common share purchase warrant, exercisable at a price of \$0.60 for a period of thirty-six months. Share issue costs of \$24,943 were deducted from equity.

### iii. Warrants

The following table reflects the continuity of warrants for the year ended June 30, 2018:

Expiry Date	Exercise Price \$	Opening Balance #	Warrants Issued #	Warrants Exercised #	Warrants Expired #	Closing Balance #
November 30, 2018	0.250	4,987,112	-	(789,300)	-	4,197,812
November 30, 2018*	0.250	270,920	-	-	-	270,920
March 03, 2019	0.250	12,307,033	-	(4,093,965)	-	8,213,068
March 03, 2019*	0.250	72,000	-	-	-	72,000
May 15, 2019	2.000	1,025,717	-	-	-	1,025,717
May 15, 2019*	2.000	51,738	-	-	-	51,738
May 25, 2019	0.450	5,990,270	-	-	-	5,990,270
May 25, 2019*	0.450	75,950	-	-	-	75,950
April 10, 2021	0.600	-	3,489,833	-	-	3,489,833
		24,780,740	3,489,833	(4,883,265)	-	23,387,308
Weighted average exercise price		0.390	0.600	0.25	-	0.440

\* Finder's warrants.



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The following table reflects the continuity of warrants for the year ended June 30, 2017:

Expiry Date	Exercise Price \$	Opening Balance #	Warrants Issued #	Warrants Exercised #	Warrants Expired #	Closing Balance #
February 24, 2017	0.800	636,250	-	-	(636,250)	-
February 24, 2017	0.800	39,300	-	-	(39,300)	-
November 30, 2018	0.250	5,192,500	-	(205,328)	-	4,987,172
November 30, 2018*	0.250	270,920	-	-	-	270,920
March 03, 2019	0.250	12,333,333	-	(26,300)	-	12,307,033
March 03, 2019*	0.250	72,000	-	-	-	72,000
May 15, 2019	2.000	1,025,717	-	-	-	1,025,717
May 15, 2019*	2.000	51,738	-	-	-	51,738
May 25, 2019	0.450	5,990,270	-	-	-	5,990,270
May 25, 2019*	0.450	75,950	-	-	-	75,950
		25,687,978	-	(231,628)	(675,550)	24,780,800
Weighted average exercise price		0.390	-	0.25	0.80	0.390

\*\* Finder's warrants.

The fair value of the finder's warrants were estimated using the Black-Scholes option pricing model, with the following assumptions:

	2018	2017
Risk-free interest rate	-	1.5979 %
Annualized volatility****	-	170.32%
Expected dividend	NIL	NIL
Expected warrant life in years	-	5

\*\*\*\* Volatility was estimated based on the historical share price of the Corporation.



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### iv. Share purchase option compensation plan

The Corporation has a share incentive plan (the "Plan") which is restricted to directors, officers, key employees and consultants of the Corporation. The number of common shares subject to options granted under the Plan (and under all other management options and employee stock purchase plans) is limited to 10% in the aggregate and 5% with respect to any one optionee of the number of issued and outstanding common shares of the Corporation at the date of the grant of the option. Options issued under the Plan may be exercised during a period determined by the Board of Directors which cannot exceed ten years.

The following table reflects the stock options outstanding as at June 30, 2018:

Expiry Date	Exercise Price \$	Opening Balance #	Granted #	Exercised #	Expired/ Cancelled #	Closing Balance #
August 29, 2017	2.000	51,500	-	-	(51,500)	-
June 20, 2019	1.350	374,000	-	-	(84,000)	290,000
March 20, 2020	0.800	199,000	-	-	(15,000)	184,000
September 01, 2020	0.800	14,000	-	-	(14,000)	-
May 24, 2022	0.350	400,000	-	-	-	400,000
May 29, 2022	0.360	100,000	-	-	-	100,000
March 07, 2027	0.300	1,250,000	-	-	-	1,250,000
May 29, 2027	0.360	950,000	-	-	-	950,000
May 29, 2027	0.550	250,000	-	-	-	250,000
November 20, 2027	0.360	-	200,000	-	-	200,000
December 12, 2027	0.350	-	167,466	-	-	167,466
April 20, 2028	0.390	-	174,000	-	-	174,000
May 16, 2028	0.370	-	100,000	-	-	100,000
		3,588,500	641,466	-	(164,500)	4,065,466
Weighted average exercise price		0.500	0.370	-	1.460	0.440

The Corporation applies the fair value method of accounting for all stock based compensation awards and accordingly, \$653,198 was recorded as compensation for the options vested during the period (2017 - \$269,158). As of June 30, 2018 there are 2,308,134 unvested stock options (2017- Nil unvested). Weighted average remaining life of options is 8.7 years.

For purposes of the options granted, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

	2018	2017
Risk-free interest rate	2.0%	1.6743%
Annualized volatility*	174.17% - 174.35%	169.34%
Expected dividend	NIL	NIL
Expected option life in years	10	5
Expected forfeiture rate	NIL	NIL

\*Volatility was estimated based on the historical share price of the Corporation.





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### 8. LOSS PER SHARE

The basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Fully diluted loss per share is the same as basic loss per share. The effect of common share purchase options and warrants on the net loss is not reflected as to do so would be anti-dilutive.

The following table sets forth the computation of basic and diluted loss per share:

	2018	2017
<b>Numerator:</b>		
Net loss	\$ (3,494,910)	\$ (3,145,003)
<b>Denominator:</b>		
Weighted average number of common shares	37,626,013	18,811,404
<b>Weighted average loss per share</b>	<b>(0.09)</b>	<b>(0.17)</b>

### 9. INCOME TAXES

The income tax recovery attributable to Loss before income taxes differs from the amount computed by applying the combined statutory tax rates of 26.50% (2017- 26.50%) to pre-tax loss as a result of the following:

	2018 \$	2017 \$
Loss	(3,494,910)	(3,145,003)
Expected income tax recovery from applying tax rate	(926,151)	(833,426)
Increase (decrease) from:		
Stock compensation	173,097	71,327
Non deductible and non taxable items	2,057	6,408
Tax differential on foreign operations	25,450	-
Other timing differences	(49,954)	5,047
Effect of change in statutory income tax rate	-	(85,161)
Deferred tax assets not recognized	775,501	835,805
<b>Income tax expense reflected in the statement of loss</b>	<b>-</b>	<b>-</b>



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Significant components of the Corporation's future income tax assets, after applying Canadian Federally enacted corporate income tax rates, 2018 - 25.00% (2017 - 26.50%) and Mexican income tax rate, 2018 - 30.00% (2017 - 30.00%), is as follows:

	2018 \$	2017 \$
Equipment	19,052	19,052
Mineral property interests	4,709,965	4,254,236
Non-capital losses	2,787,485	2,451,235
Share issue costs	41,943	58,421
	<b>7,558,445</b>	<b>6,782,944</b>
Deferred tax assets not recognized	<b>(7,558,445)</b>	<b>(6,782,944)</b>
	-	-

Subject to confirmation by income tax authorities, the Corporation has the following undeducted tax pools

	2018 \$	2017 \$
Non-capital losses	10,472,978	9,208,029
Undepreciated capital cost	71,893	71,893
Share issues costs	158,277	220,458
Mineral property interests	17,076,580	15,448,966
<b>Net deferred income tax assets</b>	<b>27,779,728</b>	<b>24,949,346</b>

Tax losses expire in 2038.





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### 10. RELATED PARTY TRANSACTIONS

The Corporation's related parties include directors and key management personnel and entities over which they have control or significant influence as described below.

	Nature of transactions
DRAX Services Limited	Corporate secretarial and filing services

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

The following are the related party transactions, recorded at the exchange amount as agreed to by the parties:

- (a) Included in general and administrative expenses are amounts totaling \$19,083 (2017 - \$14,261) for corporate secretarial and filing services provided by DRAX Services Limited, a company related to the Corporation through Shaun Drake, Corporate Secretary of the Corporation.

#### Transactions with key management personnel

Key management personnel remuneration includes the following expenses:

	\$	\$
Salary and wages	180,597	154,777
Share-based payments	554,217	164,253
Other compensation	3,732	20,417
	<b>738,546</b>	<b>339,447</b>

(i) As at June 30, 2018, the directors and key management were owed \$49,169 (June 30, 2017 \$79,824) and this amount was included in accounts payable and accrued liabilities.

(ii) On May 10, 2017, the Corporation issued an aggregate of 1,052,129 common shares at a deemed price of \$0.31 per common share and an aggregate of 611,000 common shares at a deemed price of \$0.25 per common share to certain of its officers and/or directors in settlement of outstanding debt in the aggregate amount of \$478,910.



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### 11. COMMITMENTS

The Corporation has commitments relating to property payments related to the Concessions held by the Corporation's subsidiary. The annual payment for the next fiscal year is as follow:

	\$
2019	1,141,226

### 12. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Corporation's operations include the acquisition and exploration of mineral properties in Mexico. The Corporation examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.

#### [a] Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Corporation by those counterparties, less any amounts owed to the counterparty by the Corporation where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

#### i) Cash and cash equivalents

In order to manage credit and liquidity risk the Corporation invests only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

#### [b] Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure. At June 30, 2018 the Corporation had a working capital balance of \$645,179. The Corporation will require additional financing in order to complete its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they become due.

Accounts payable and accrued liabilities are due within the current operating period.



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[c] Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Corporation will realize a significant loss as a result of a decline in the fair market value of investments and other items held within cash and cash equivalents is limited given that the majority of investments have a relatively short maturity. The Corporation manages its interest rate risk with investments by investing the majority of funds in short-term investments and therefore is not exposed to significant fluctuations in interest rates.

[d] Currency risk

The Corporation is exposed to the financial risk related to the fluctuation of foreign exchange rates. The functional and reporting currency of the Corporation is the Canadian dollar. The functional currency of the subsidiary is the Mexican Peso. As at June 30, 2018, there are no significant financial instruments denominated in Mexican Pesos. Changes in the currency exchange rates between the Canadian dollar relative to Mexican Pesos could have an effect on the Corporation's results of operations, financial position or cash flows. The Corporation has not hedged its exposure to currency fluctuations. At June 30, 2018 a 100 basis point decrease/increase in the Mexican Peso would result in a foreign exchange gain/loss of \$8,724.

The Corporation does not invest in derivatives to mitigate these risks.

### 13. MANAGEMENT OF CAPITAL RISK

The Corporation manages its common shares, stock options and warrants as capital, that as at June 30, 2018 totaled \$28,002,692 (2017 - \$25,086,671). The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going-concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares and, acquire or dispose of mineral properties.

In order to maximize ongoing exploration efforts, the Corporation does not pay out dividends. The Corporation's investment policy is to invest its short-term excess cash in highly liquid short-term interest-bearing investments with short-term maturities, selected with regard to the expected timing of expenditures from continuing operations.

### 14. SUBSEQUENT EVENT

#### Private placement

On October 22, 2018, the Corporation announced that it intends to complete a non-brokered private placement (the "Private Placement") of up to \$3,000,000 at a price of \$0.20 per unit ("Unit") with a small group of investors. The Company may, in its sole discretion increase the size of the Private Placement by up to 25% for aggregate gross proceeds of up to \$3,750,000 at the price of \$0.20 per Unit at any time prior to the closing of the Private Placement. Each Unit will consist of one common share of the Company and one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder to purchase one transferable common share of the Company for a period of thirty-six months from the closing date of the Private Placement at a price of \$0.30 per common share.