

PRIME MERIDIAN RESOURCES CORP.

Consolidated Financial Statements

Year Ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prime Meridian Resources Corp.

Opinion

We have audited the consolidated financial statements of Prime Meridian Resources Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that, the Company incurred a loss of \$865,862 for the year ended at December 31, 2018, and had a working capital deficiency of \$3,951,712. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matter

The financial statements for the year ended December 31, 2017 were audited by another auditor whose report dated April 30, 2018 expressed an unqualified opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Barry Hartley.

DML

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

April 30, 2019

PRIME MERIDIAN RESOURCES CORP.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

Expressed in Canadian Dollars

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current Assets			
Cash		\$ 583	\$ 1,773
Marketable securities	6	1,500	7,000
		2,083	8,773
Long-term Assets			
Advances receivable	7	-	65,359
Total Assets		\$ 2,083	\$ 74,132
LIABILITIES AND SHAREHOLDERS' DEFICIT			
Current Liabilities			
Accounts payable	10, 11	\$ 2,586,665	\$ 2,303,692
Accrued liabilities	11	156,276	-
Short-term loans	8	1,150,854	846,512
Share subscription received		60,000	-
		3,953,795	3,150,204
Shareholders' deficit			
Share capital	12	7,198,408	7,198,408
Contributed surplus	13	2,061,425	2,061,425
Accumulated other comprehensive loss		(413,896)	(404,118)
Deficit		(12,797,649)	(11,931,787)
		(3,951,712)	(3,076,072)
Total Liabilities and Shareholders' Deficit		\$ 2,083	\$ 74,132

Nature of operations and going concern (Note 1)

Subsequent event (Note 17)

Approved on behalf of the Board of Directors on April 30, 2019.

"Brian Leeners"

Director

"Gregory Pearson"

Director

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

PRIME MERIDIAN RESOURCES CORP.

Consolidated Statements of Comprehensive Loss
For the Years Ended December 31, 2018 and 2017
Expressed in Canadian Dollars

	Notes	2018	2017
Expenses			
Consulting and management fees	11	\$ 288,090	\$ 380,819
Exploration and evaluation expenditures		32,864	-
Foreign exchange loss		50,669	(41,726)
Marketing and advertising		15,000	-
Rent and administrative services	11	138,860	146,442
Professional fees	11	41,459	42,823
Transfer agent and filing fees		19,199	12,406
Interest expense	8	271,139	227,405
Total expenses		857,280	768,169
Other income (expense)			
Interest income		-	740
Gain on settlement of debt		-	25,000
Unrealized gain (loss) on marketable securities	6	(5,500)	5,250
Impairment of advances receivable	7	-	(684,373)
Abandonment of subsidiary	15	(3,082)	-
Total other expense		(8,582)	(653,383)
Net loss for the year		(865,862)	(1,421,552)
Other comprehensive income			
Translation of subsidiary to presentation currency		(9,778)	34,818
Comprehensive loss for the year		\$ (875,640)	\$ (1,386,734)
Basic and diluted loss per share		\$ (0.04)	\$ (0.07)
Weighted average number of common shares outstanding		21,475,422	21,475,422

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

PRIME MERIDIAN RESOURCES CORP.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

Expressed in Canadian Dollars

	2018	2017
Cash provided by (used in):		
Operating activities		
Net loss for the year	\$ (865,862)	\$ (1,421,552)
Items not affecting cash:		
Foreign exchange	67,945	782
Unrealized (gain)/loss on marketable securities	5,500	(5,250)
Gain on settlement of debt	-	(25,000)
Impairment of advances receivable	-	684,373
Interest accrual	271,139	-
Changes in non-cash working capital items:		
Accounts payable	238,453	746,241
Accrued liabilities	156,276	-
GST Receivable	-	18,336
Net cash used in operating activities	(126,549)	(2,070)
Investing activities		
Advances receivable	65,359	(485,832)
Net cash provided by (used in) investing activities	65,359	(485,832)
Financing activities		
Loan proceeds	-	486,844
Loan interest repayment	-	(66,816)
Share subscriptions received	60,000	-
Net cash provided by financing activities	60,000	420,028
Net decrease in cash	(1,190)	(67,874)
Cash, beginning	1,773	69,647
Cash, ending	\$ 583	\$ 1,773

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

PRIME MERIDIAN RESOURCES CORP.

Consolidated Statements of Changes in Equity
 For the Years Ended December 31, 2018 and 2017
 Expressed in Canadian Dollars

	Number of common shares outstanding	Share capital	Contributed surplus	Accumulated Other Comprehensive Income	Deficit	Total Shareholders' Deficiency
Balance, December 31, 2016	21,475,422	\$ 7,198,408	\$ 2,061,425	\$ (438,936)	\$ (10,510,235)	\$ (1,689,338)
Translation of subsidiary to presentation currency	-	-	-	34,818	-	34,818
Loss for the year	-	-	-	-	(1,421,552)	(1,421,552)
Balance, December 31, 2017	21,475,422	\$ 7,198,408	\$ 2,061,425	\$ (404,118)	\$ (11,931,787)	\$ (3,076,072)
Balance, December 31, 2017	21,475,422	\$ 7,198,408	\$ 2,061,425	\$ (404,118)	\$ (11,931,787)	\$ (3,076,072)
Translation of subsidiary to presentation currency	-	-	-	(9,778)	-	(9,778)
Loss for the year	-	-	-	-	(865,862)	(865,862)
Balance, December 31, 2018	21,475,422	\$ 7,198,408	\$ 2,061,425	\$ (413,896)	\$ (12,797,649)	\$ (3,951,712)

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

1. Nature of operations and going concern

Prime Meridian Resources Corp. (“the Company” or “PMR”) was federally incorporated on February 22, 2007 and is a public company listed on the TSX Venture Exchange (“TSX-V”). The corporate head office of the Company is located at 14th Floor, 1040 West Georgia Street, Vancouver, B.C., V6E 4H8. In August 2016, the Company’s shares were halted from trading and the Company is currently in the process of resuming trading upon successful completion of a change in business and financing transaction.

In September 2016, the Company announced a change of business transaction focused on the acquisition of financing of companies in the agriculture and agriculture technology sectors in USA and South Africa. In March 2018, the Company terminated this proposed change of business (Note 7) and is currently pursuing other business opportunities.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) applicable to a going concern which contemplates that the Company will be able to realize its assets and settle its liabilities in the normal course as they come due for the foreseeable future. As at December 31, 2018, the Company had no source of operating cash flows and reported loss for the year of \$865,862 (December 31, 2017 –\$1,421,552), working capital deficit of \$3,951,712 (December 31, 2017 - \$3,141,431), and has an accumulated deficit of \$12,797,649 (December 31, 2017 - \$11,931,787). These factors indicate a material uncertainty that may cast significant doubt over the Company’s ability to continue as a going concern. Management has determined that the Company will require additional financing to meet its obligations for the next fiscal year. Continued operations are dependent on the Company’s ability to complete equity financings and secure project debt financing. It is not possible to predict whether financing efforts will be successful. These consolidated financial statements do not include adjustments or disclosures that may result should the Company not be able to continue as a going concern.

2. Basis of preparation

a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by International Accounting Standards Board (“IASB”), applicable to the preparation of financial statements. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Prime Meridian Resources Inc. The Board of Directors approved these consolidated financial statements on April 30, 2019.

b) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. The functional currency of Prime Meridian Resources Inc., the Company’s US subsidiary, is the United States dollar (“USD”).

c) Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingency liabilities as at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. 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. Actual results may differ from these estimates.

Key critical judgment in applying accounting policies:

Going concern

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company’s ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities in the normal course of operations. There are several adverse conditions that cast significant doubt upon the soundness of this assumption. Refer to Note 1 for more details.

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

2. Basis of preparation (continued)

Key sources of estimation uncertainty:

Income taxes and recoverability of potential deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

3. Significant accounting policies

The significant accounting policies of the Company are as follows:

a) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiary. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

b) Foreign currency translation

The functional currency of the parent company is the Canadian dollar, and the functional currency of the subsidiary is the United States dollar.

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the consolidated statement of comprehensive loss.

Assets and liabilities of the subsidiary with US dollar functional currency is translated at the year end rates of exchange, and the results of its operations are translated at average rates of exchange for the year. The resulting translation adjustments are included in accumulated other comprehensive income as a separate component shareholders' equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

c) Impairment of non-financial assets

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. 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 to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized in the statement of comprehensive loss.

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

3. Significant accounting policies (continued)

c) Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU 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 CGU in prior periods. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

d) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date using the Black-Scholes Option Pricing Model.

The fair value is estimated at grant date and each tranche is recognized on a graded-vesting basis over the period the options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in comprehensive loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to contributed surplus.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that 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 entity obtains the goods or the counterparty renders the service.

e) Earnings (loss) per share

Basic earnings (loss) per share ("EPS") is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS.

f) Income taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amount of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit or loss, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

3. Significant accounting policies (continued)

f) Income taxes (continued)

or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled, and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

g) Financial instruments

Newly adopted accounting standards

The Company adopted all of the requirements of IFRS 9 Financial Instruments on January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments in a single, forward-looking “expected loss” impairment model.

The following is the Company’s new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss (“FVTPL”), at fair value through other comprehensive income (loss) (“FVTOCI”) or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company’s business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original Classification IAS 39	New Classification IFRS 9
Cash	FVTPL	FVTPL
Marketable securities	FVTPL	FVTPL
Accounts payable	Amortized cost	Amortized cost
Short term loans	Amortized cost	Amortized cost
Share subscription received	Amortized cost	Amortized cost

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

3) Significant accounting policies (continued)

g) Financial instruments (Continued)

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income (OCI). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of loss and comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

3) Significant accounting policies (continued)

h) New accounting standards, amendments and interpretations issued but not yet effective:

The IASB issued the following standards, which are not yet effective and have not been applied in the preparation of these consolidated financial statements. The Company is in the process of determining the extent of the impact on its financial statements.

IFRS 16 applies to the recognition, classification, measurement and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease is for a term of 12 months or less or the underlying asset has a low value. IFRS 16 supersedes IAS 17, Leases, IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases – Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

There will be no financial statement impact on the adoption of IFRS 16.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Capital management

The Company's objectives when managing capital are to:

- Ensure there are adequate capital resources to manage the Company's ability to continue as a going concern;
- Maintain adequate levels of funding to sustain the required current investments and any new capital investments;
- Maintain investor, creditor and market confidence to sustain future development of the business; and
- Provide returns to shareholders and benefits for other stakeholders.

The Company classifies its share capital and contributed surplus as capital, which at December 31, 2018 totalled \$9,259,833 (December 31, 2017 - \$9,259,833). The Board of Directors does not establish qualitative 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 will continue to assess new investments and seek to acquire an interest in investments if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

5. Financial instruments and financial risk management

a) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. Where quoted market prices are not available, the Company uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics. The fair value of current financial instruments approximates their carrying values as long as they are short term in nature or bear interest at market rates.

PRIME MERIDIAN RESOURCES CORP.

Notes to the Consolidated Financial Statements For the Years Ended December 31, 2018 and 2017 Expressed in Canadian Dollars

5. Financial instruments and financial risk management (continued)

b) Fair value hierarchy

Financial instruments that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

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

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

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

There were no transfers between levels 1 and 2 during the year.

The Company's financial instruments carried at amortized cost with the exception of cash and marketable securities. These instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

c) Financial risks

(i) Interest rate risk

Interest rate risk consists of the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's cash consists of cash held in bank accounts and loans payable are based on fixed interest rates. Therefore, fluctuation in market rates do not have a significant impact on estimated fair values as at December 31, 2018 and 2017.

(ii) Foreign currency risk

The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received, and balances maintained by the Company are denominated in currencies other than the Canadian dollar including the US. The Company had net monetary liabilities totaling \$1,380,602 in US dollars at December 31, 2018. The Company's sensitivity analysis suggests that a change in the absolute rate of exchange in the US dollar by 2% would increase or decrease net income (loss) by \$37,088 for the year ended December 31, 2018.

(iii) Credit risk

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from its receivables. The Company's credit risk is primarily attributable to advances receivables. The Company made advances to a number of companies in connection with its proposed change of business plans (Note 7). The carrying amount of advances receivable, net of any allowances, represents the Company's maximum exposure to credit risk. As of December 31, 2018, the Company has advances receivables of \$nil.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining sufficient cash. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long-term obligations. At December 31, 2018, the Company did not have sufficient cash on hand to pay its short-term creditors and does not generate cash from its operations. Accordingly, liquidity risk is considered high.

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6. Marketable securities

In September 2014, the Company received 500,000 units of Bitterroot Resources Ltd., (“Bitterroot”) with a fair value of \$10,000 as partial proceeds on the sale of certain mineral property interests in Baraga Basin, Michigan. Each unit consists of one Bitterroot common share and one warrant, exercisable for two years at \$0.10 per share. During the year ended December 31, 2015, the shares of Bitterroot were consolidated to 10:1, thus the number of shares the Company owns were adjusted to 50,000. Warrants expired unexercised on September 17, 2016.

The common shares are classified as FVTPL. As at December 31, 2018, the fair value of the shares was \$1,500 (December 31, 2017 – \$7,000) and a loss on marketable securities of \$5,500 (2017 - \$5,250 gain) was recognized in the consolidated statement of comprehensive loss during the year.

7. Advances receivable

In September 2016, the Company announced a change of business focused on the acquisition and financing of companies in the agriculture and agriculture technology sectors which consisted of agreements entered with four non-related party companies (“COB”). The Company terminated the COB and as a result, recorded an allowance for doubtful accounts of \$684,373 as management determined that the likelihood of collection was low.

At December 31, 2018, the total advances made by the Company consist of the following:

Advanced to:		
Avinier (Pty) Ltd.	\$	170,029
African Guar Gum Corp.		106,027
APV Joint Venture		108,616
Growbuddy, Inc		365,060
		749,732
Allowance for doubtful accounts		(684,373)
Balances, December 31, 2017		65,359
Payment received		(65,359)
Balances, December 31, 2018	\$	-

8. Loans

As at December 31, 2018, the Company received total principal of \$705,180 (US\$525,000) (December 31, 2017 - \$658,613/US\$525,000) in loans from non-related parties. These loans accrue interest at a rate 3% every 30 days, repayable 6 months after receipt or at closing of the COB financing. Total interest accrued during the year ended December 31, 2018 is \$253,865 (US\$189,000) (December 31, 2017 - \$227,405/US\$175,400).

During the year ended December 31, 2018, the Company repaid interest on the loan of \$nil (December 31, 2017 - \$66,816).

The continuity of loans is as follows:

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8. Loans (continued)

	CAD	USD
December 31, 2016	\$ 402,810	\$ 318,000
Addition	291,545	225,000
Interest accrued	227,405	175,500
Interest payment	(66,816)	(50,700)
Foreign exchange	(8,432)	-
December 31, 2017	846,512	667,800
Interest accrued	253,865	189,000
Foreign exchange	50,477	-
December 31, 2018	\$ 1,150,854	\$ 856,800

9. Exploration and Evaluation Assets

During the year ended December 31, 2018, the Company entered into a binding term sheet for an option to purchase a 100% interest in the Tango gold project in Southern Sinaloa State, Mexico. The Tango project consists of 3,954 hectares over four contiguous concessions, which have historical workings, including tunnels and stopes as well as several smaller workings and pits.

Under the terms, the Company has an option to purchase 100% of the holding company for the Tango project concessions, subject to a royalty, by making US\$5-million in total purchase payments and holding cost payments within five years of the execution of the formal agreement between the parties and the requisite regulatory approvals. The total annual purchase and holding cost payments are:

- Year 1 – US\$185,000;
- Year 2 – US\$245,000;
- Year 3 – US\$305,000;
- Year 4 – US\$365,000;
- Year 5 – US\$425,000.

The Company has the option of making the final purchase payment (US\$5-million less total purchase payments made to date) at the end of the 1st US\$4,815,000, 2nd US\$4,570,000, 3rd US\$4,265,000, 4th US\$3,900,000 or 5th US\$3,475,000 year of the term of the purchase option and the final purchase payment will be paid in cash (50%) and common shares (50%) of the Company based on the previous 30-day weighted average share price on the date of the payment.

The Company will have a minimum work commitment of US\$250,000 annually. Subsequent to December 31, 2018, the Company finalized the purchase option agreement (Note 17).

10. Payable to Domus Management Ltd.

Included in accounts payable is payable to Domus Management Ltd (“Domus”). During the year ended December 31, 2018, the Company was notified by Domus and Primrose Drilling Ltd. (“Primrose”), that the debt owed to Primrose was assigned to Domus. Domus and the Company agreed to the following terms for repayment of the debt:

- The Company shall pay US\$200,000 on or before September 30, 2018 with the balance (US\$310,880) being paid without interest by way of installments of US\$50,000 on October 31 of each year starting on October 31, 2018 until the full debt is retired. As long as the installments are paid in full and on time, no interest will be charged on the debt.

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10. Payable to Domus Management Ltd. (continued)

- In the event that the debt is not brought current by September 30, 2018, the interest will commence September 30, 2018 at a rate of 10% per year compounded annually.
- In the event the debt is not repaid in terms of the above at October 31, 2018, the debt becomes due on demand and bears interest at 10%.

As at December 31, 2018, the Company owed \$685,419 (US\$510,288) in principal and \$17,276 (US\$12,862) in interest payable to Domus. The debt repayments were not made and consequently the debt is due on demand and bears interest at 10%.

11. Related party transactions

The Company entered into transactions, including compensation of key management, with the following related parties:

Name	Relationship	Nature of Transaction	Fees incurred period ended December 31, 2018	Fees incurred period ended December 31, 2017	Balance payable at December 31, 2018	Balance payable at December 31, 2017
Nexvu Services Inc.	Owned by Nexvu Capital, of which Brian Leeners is a shareholder	Rent and corporate services	\$ 120,000	\$ 120,000	\$ 420,450	\$ 352,375
Brian Leeners	Chief executive officer and director	Management services	120,000	120,000	448,400	351,800
ISG Professional Services Inc.	Annie Storey, former chief financial officer, who is a shareholder	Accounting services	nil	10,500	95,288	95,288
Global Link Capital	Greg Pearson, director of the Company, is a shareholder	Management services	120,000	120,000	423,725	321,125
Gordorn J. Fretwell, Law Corporation	Gordon Fretwell is a shareholder of Nexvu Capital Corporation		18,000	15,193	105,692	87,692
Avanti Management & Consulting Ltd.	Michael Dehn is a shareholder	Rent and management services	-	-	31,540	31,540
AE Financial Management Ltd.	Edward Low, chief financial officer, is a shareholder	Accounting services	42,000	42,000	119,525	77,525
			\$ 420,000	\$ 427,693	\$ 1,644,620	\$ 1,317,345

Balances owing are included in accounts payable and accrued liabilities. They are due on demand, unsecured, non-interest bearing and have no specified terms of repayment.

12. Share capital

Authorized: unlimited common voting shares, without par value.

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12. Share capital (continued)

No common shares were issued during the year ended December 31, 2018 and 2017.

13. Options and warrants

a) Stock options

The Company has adopted an incentive stock option plan (the "SOP"), as amended, under the rules of the TSX-V pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 20% of the issued and outstanding common shares of the Company. Under the SOP, the option exercise price of any option granted shall be equal to the greater of either the amount designated by the administrator at the time of grant, or the discounted market price of the Company's common shares for the 10 trading days immediately preceding the day on which the TSX-V received notice that options have been granted under this SOP. For the purpose of the SOP, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of grant of the options. The administrator may also determine that the option exercise price per common share may escalate at a specified rate or rates. The options can be granted for a maximum term of 5 years and vest immediately. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding from time to time. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4 month period subsequent to the exercise of the options. For stock options granted to employees, officers, directors and consultants, the Company recognizes stock based compensation expense based on the estimated fair value of the stock options granted as calculated using the Black-Scholes Option-Pricing Model on the date of the grant.

No stock options were issued by the Company during the years ended December 31, 2018 or 2017, and no stock options are outstanding as at December 31, 2018 or 2017.

b) Warrants

No warrants were issued by the Company during the years ended December 31, 2018 and 2017, no warrants are outstanding as at December 31, 2018 or 2017.

c) Contributed Surplus

The contributed surplus records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

14. Segmented information

The Company has one reportable operating segment. All assets and liabilities are located in Canada.

15. Abandonment of Subsidiary

During the year ended December 31, 2018, the Company abandoned its subsidiary in South Africa for nominal value. The abandonment resulted in a gain of \$3,082.

16. Income taxes

The following table reconciles the expected income tax payable at the Canadian federal and provincial statutory income tax rates to the amounts recognized in the statements of comprehensive loss for the years ended December 31, 2018 and 2017. The presentation of the prior year income tax note has been updated to conform with the current year presentation.

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16. Income taxes (continued)

	December 31, 2018		December 31, 2017	
Net loss before tax	\$	(865,862)	\$	(1,421,552)
Statutory tax rate		27%		26%
Expected income recovery		(233,783)		(369,604)
Non-deductible items		73,208		127,734
Effect of foreign exchange rates		(75,949)		653,748
Change in rates		512,904		-
Foreign tax rate difference		6,134		-
Others		14,300		-
Change in deferred tax asset not recognized		(296,814)		(411,879)
Total income tax recovery	\$	-	\$	-

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax values. The unrecognized deductible temporary differences are as follows:

Canada	December 31, 2018		December 31, 2017	
Non capital loss carryforwards (Canada)	\$	3,609,538	\$	3,047,678
Exploration and evaluation assets		50,364		17,500
Financing costs		-		11,986
Capital loss carryforwards		8,219		8,219
Other		28,469		28,469
Unrecognized deductible temporary differences	\$	3,696,590	\$	3,113,852

USA	December 31, 2018		December 31, 2017	
Net operating loss	\$	1,586,980	\$	1,485,502
Exploration and evaluation assets		2,883,512		2,699,128
Unrecognized deductible temporary differences	\$	4,470,493	\$	4,184,631

South Africa	December 31, 2018		December 31, 2017	
Net operating loss	\$	76,133	\$	80,704
Unrecognized deductible temporary differences	\$	76,133	\$	80,704

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16. Income taxes (continued)

The Company has non-capital loss carryforwards of \$3,609,538 (2017 - \$3,047,675) which may be carried forward to apply against future income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Year of Expiry		Taxable Loss
2028	\$	143,145
2029		126,975
2030		160,385
2031		112,379
2032		166,416
2033		162,746
2034		421,514
2035		497,971
2036		536,780
2037		719,368
2038		561,859
Total	\$	3,609,538

In addition, the Company has capital losses of \$8,219, which may be carried forward indefinitely to reduce future income tax gains.

The Company has net operating loss carryforwards of \$1,586,980 (2017 - \$1,485,502) which may be carried forward to apply against future income tax for US tax purposes, as follows:

Year of Expiry		Taxable Loss
2024	\$	150,323
2025		135,104
2026		396,676
2027		350,430
2028		139,792
2029		117,095
2030		217,765
2031		66,389
2034		12,958
2035		483
Total	\$	1,586,980

The Company has net operating loss carryforwards of \$76,133 (2017 - \$80,704) which may be carried forward to apply against future income tax for South African tax purposes, as follows:

Year of Expiry		Taxable Loss
2037	\$	76,133
Total	\$	76,133

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17. Subsequent event

On January 10, 2019, the Company entered into a Purchase Option Agreement with Minera Camargo S.A. de C.V. to purchase 100% of the Tango Gold Project (Note 9). Total considerations as follows:

- A cash payment of \$40,000 before January 31, 2019 (paid);
- Total purchase payments of \$250,000 and consulting fee payments of \$250,000 over 5 years;
- Annual holding cost payment of \$65,000 for 5 years;
- Incur annual work expenditures of \$250,000; and
- A total final purchase option payments of \$21,025,000 at each anniversary over 5 years. The payments will be paid in cash (50%) and common shares (50%).