

PROVIDENCE GOLD MINES INC.
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

(Stated in Canadian Dollars)

(Unaudited)

**NOTICE TO READER OF THE UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

The unaudited condensed interim consolidated financial statements for the period ended September 30, 2018 have been prepared by and are the responsibility of the Company's management. These financial statements have not been reviewed or audited by the Company's auditors.

PROVIDENCE GOLD MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Stated in Canadian Dollars)
(Unaudited)

	September 30, 2018	December 31, 2017
<u>ASSETS</u>		
Current assets		
Cash	\$ 96,179	\$ 313,011
Accounts receivable	21,237	11,375
Prepaid expenses and advances	39,096	17,793
Total Current assets	156,512	342,179
Non-Current assets		
Equipment, net	10,105	11,523
Exploration and evaluation assets – Note 3	931,600	567,881
Total Non-Current assets	941,705	579,404
Total Assets	\$ 1,098,217	\$ 921,583
<u>LIABILITIES</u>		
Current liabilities		
Trade and other payables – Note 5	\$ 208,359	\$ 176,495
Loans payable – Note 6	148,072	-
Total Current liabilities	356,431	176,495
<u>EQUITY</u>		
Share capital – Note 4	2,771,750	2,529,950
Equity reserve	191,864	193,664
Accumulated deficit	(2,221,828)	(1,978,526)
Total Equity	741,786	745,088
Total Liabilities and Equity	\$ 1,098,217	\$ 921,583

Subsequent event – Note 11

APPROVED ON BEHALF OF THE DIRECTORS:

<u>“Ronald Coombes”</u> Ronald Coombes	Director	<u>“John Kowalchuk”</u> John Kowalchuk	Director
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The accompanying notes form an integral part of these condensed interim consolidated financial statements

PROVIDENCE GOLD MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Stated in Canadian Dollars)
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Other Income:				
Recovery of property cost	-	5,526	-	5,526
Total Other Income	-	5,526	-	5,526
Expenses:				
Accounting and audit fees – Note 5	1,500	2,215	22,774	6,497
Amortization	480	461	1,418	461
Finance Cost	31	484	219	484
Foreign exchange loss (gain)	(1,210)	6,882	(5,948)	7,190
Legal and corporate services – Note 5	10,912	16,500	38,869	36,604
Marketing activities	-	140,000	-	140,000
Management activities – Note 5	37,679	101,169	112,191	134,503
Office, rent and administration – Note 5	18,743	11,726	46,822	18,343
Pre-exploration costs	-	-	-	10,000
Shareholder communications – Note 5	1,777	36,857	14,619	45,102
Transfer agent and filing fees	1,137	3,788	12,338	29,577
Total expenses	(71,049)	(320,082)	(243,302)	(428,761)
Total loss and comprehensive loss for the period	\$ (71,049)	\$ (314,556)	\$ (243,302)	\$ (423,235)
Basic and diluted loss per common share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding – basic and diluted – Note 8	23,336,051	21,381,747	22,748,139	18,470,850

The accompanying notes form an integral part of these condensed interim consolidated financial statements

PROVIDENCE GOLD MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in Canadian Dollars)
(Unaudited)

For the period ended September 30,	2018	2017
Operating Activities:		
Loss for the period	\$ (243,302)	\$ (423,235)
Item not involving cash:		
Amortization	1,418	461
Stock based compensation	-	90,000
Changes in non-cash working capital items:		
Accounts receivable	(9,862)	(3,436)
Prepaid expenses and advances	(21,303)	(24,065)
Trade and other payables	33,679	37,359
Cash outflows from operating activities	(239,370)	(322,916)
Investing Activity:		
Investment in equipment	-	(9,805)
Investment in exploration and evaluation assets	(123,719)	(223,898)
Cash outflows from investing activities	(123,719)	(233,703)
Financing Activities:		
Shares issued for cash	-	1,105,000
Short-term loans	146,257	-
Cash outflows from financing activities	146,257	(233,703)
Total increase (decrease) in cash during the period	(216,832)	548,381
Cash, beginning of the period	313,011	20,460
Cash, end of the period	\$ 96,179	\$ 562,925

The accompanying notes form an integral part of these condensed interim consolidated financial statements

PROVIDENCE GOLD MINES INC.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the periods ended September 30, 2018 and 2017
(Stated in Canadian Dollars)

	Number of Shares Outstanding	Share capital	Equity reserve	Foreign currency translation reserve	Accumulated deficit	Total equity
Balance – December 31, 2016	8,372,851	\$ 1,277,317	\$ -	\$ -	\$ (1,328,784)	\$ (51,467)
Common shares issued pursuant to:						
- Private placement - at \$0.10	1,450,000	145,000	-	-	-	145,000
- Private placement - at \$0.10	9,600,000	960,000	-	-	-	960,000
- Agent cost - at \$0.10	98,000	9,800	-	-	-	9,800
- Agent cost - at \$0.10	585,200	58,520	-	-	-	58,520
- Property acquisition - at \$0.10	1,500,000	150,000	-	-	-	150,000
- Agent cost - at \$0.10	230,000	23,000	-	-	-	23,000
Share issue costs:						
- Agent cost	-	(11,760)	1,960	-	-	(9,800)
- Agent cost	-	(70,224)	11,704	-	-	(58,520)
Stock based compensation	-	-	90,000	-	-	90,000
Foreign currency translation differences	-	-	-	(5,916)	-	(5,916)
Net loss for the period	-	-	-	-	(423,235)	(423,235)
Balance – September 30, 2017	21,836,051	2,541,653	103,664	(5,916)	(1,752,019)	887,382
Balance – December 31, 2017	21,836,051	2,529,950	193,664	-	(1,978,526)	745,088
Common shares issued pursuant to:						
- Property acquisition - at \$0.16	1,500,000	240,000	-	-	-	240,000
Options cancelled	-	1,800	(1,800)	-	-	(243,302)
Net loss for the period	-	-	-	-	(243,302)	(243,302)
Balance – September 30, 2018	23,336,051	\$ 2,771,750	\$ 191,864	\$ -	\$ (2,221,828)	\$ 741,786

The accompanying notes form an integral part of these condensed interim consolidated financial statements

PROVIDENCE GOLD MINES INC.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018 and 2017
(Stated in Canadian Dollars)
(Unaudited)

Note 1 **Corporate Information**

Providence Gold Mines Inc. (the “Company”) was incorporated on February 16, 2010 under the Business Corporations Act of British Columbia as 0874036 BC Ltd. It commenced operations in April 18, 2011 and, on December 20, 2011, changed its name to Red Hut Metals Inc. and on July 12, 2017, the Company changed its name to Providence Gold Mines Inc. The Company is in the process of exploring and evaluating its mineral properties located in, California, United States and British Columbia, Canada.

The Company is a public company which trades on the TSX Venture Exchange (“TSX-V”) under the trading symbol “PHD” as a Tier 2 issuer. The address of the Company’s corporate office and principal place of business is 750 – 580 Hornby Street, Vancouver, British Columbia, Canada.

Note 2 **Basis of Preparation**

a) Statement of Compliance

These unaudited condensed interim consolidated financial statements for the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. These condensed interim consolidated financial statements, for the nine-month period ended September 30, 2018, have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting, however, they do not include all of the information required for full annual financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company’s 2017 annual financial statements.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 28, 2018.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent Company and its subsidiary.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company’s accounting policies. The Company’s accounting policies and areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 3 and 4 of the Company’s 2017 annual financial statements.

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 and 2017

(Stated in Canadian Dollars)

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Note 2 Basis of Preparation - (cont'd)

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary, which is any entity controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity; is exposed to variable returns in connection with its interest in the entity; and a linkage exists between this power and exposure to variable returns. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company has one subsidiary, Providence Gold Mines (US) Inc., which was incorporated in United States of America on June 20, 2017, to carry out United States operations.

All intra-group transactions, balances, income and expenses are eliminated, in full, on consolidation.

d) Going Concern of Operations

The Company has not generated revenue from operations. The Company incurred a loss of \$243,302 during the period ended September 30, 2018, and as of that date, the Company's accumulated deficit was \$2,221,828. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The Company does not have sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. While the Company has been successful in obtaining the necessary financing through the issuance of common shares in the past, there is no assurance it will be able to raise funds in this manner in the future and there is significant doubt as to the Company's ability to continue as a going concern. As at September 30, 2018, the Company had \$96,179 in cash, working deficit of \$199,919 and no long-term debt.

As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures.

These consolidated condensed interim financial statements do not give effect to adjustments that would be necessary should the Company 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 operations, and at amounts different from those in the accompanying financial statements.

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 and 2017

(Stated in Canadian Dollars)

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Note 3 Exploration and Evaluation Assets

	Tuolumne Property
Acquisition Costs:	
Balance, December 31, 2016	\$ -
Cash payments	67,125
1,500,000 common shares at \$0.10	150,000
230,000 finder's fees common shares at \$0.10	23,000
Balance, December 31, 2017	240,125
Mineral Lease & Joint Venture Agreement	33,562
1,500,000 common shares at \$0.16	240,000
Balance September 30, 2018	513,687
Exploration Costs:	
Balance, December 31, 2016	
Geological costs	128,258
Claim maintenance	4,803
Mapping and reports	62,161
Field cost	87,330
Permits and taxes	2,522
Sample analysis	26,288
Staking costs	16,394
Balance, December 31, 2017	327,756
Geological costs (Note 5)	36,373
Field cost	35,214
Mapping and Reports	192
Permits and taxes	5,067
Sample analysis	13,311
Balance, September 30, 2018	417,913
Exploration and evaluation assets, December 31, 2017	\$ 567,881
Exploration and evaluation assets, September 30, 2018	\$ 931,600

Tuolumne Property

On March 28, 2017, the Company entered into an agreement (the "Agreement") with a group of owners, (collectively the "Assignors") whereby the Company can acquire by way of assignment all of the contractual interests held by the Assignors in various patented and located mineral claims in Tuolumne County, California, USA (the "Property") with a history of gold mineralization (the "Transaction").

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 and 2017

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Note 3 Exploration and Evaluation Assets - (cont'd)

Tuolumne Property – (cont'd)

The Property includes six parcels and thirteen 20-acre mining claims. The Assignors have also staked a further nine claims contiguous to the existing claims for a total of 6 patented and 22 located mining claims.

As consideration for the assignment, the Company will assume all obligations of the Assignors to the Property owner, enter into a Lease/Purchase Agreement with the Property owner, and has agreed to pay the following to the Assignors:

- a) Following regulatory approval, the Company will make a cash payment of US\$25,000 (paid) and issue 1,500,000 common shares (issued);
- b) After completing the recommended first year work program of at least \$250,000 (completed), the Company will issue an additional 1,500,000 common shares (issued);
- c) After completing the recommended second year work program of at least \$750,000, the Company will issue an additional 1,500,000 common shares;
- d) In the event the Company elects to acquire the Property for US\$5,000,000 the Company will issue an additional 1,500,000 common shares.

One of the Assignors above, accounting for 50% of the share issuances, is a company controlled by an individual who subsequently was appointed director and officer of the Company.

The Company has negotiated the general terms and provisions whereby it can earn a 50% joint venture interest in the Property, or alternatively buy a 100% interest in the Property. To earn a 50% interest in the Property, the Company is required to pay the Property owners US\$150,000, incur \$2,000,000 of expenditures on the Property over the course of three years, and issue 4,500,000 shares of the Company as follows:

- payment of US\$25,000 following regulatory approval (paid);
- payment of US\$25,000 (paid) and incurring \$250,000 (incurred) of expenditures by March 28, 2018;
- payment of US\$100,000 and incurring an additional \$750,000 of expenditures by March 28, 2019; and
- incurring an additional \$1,000,000 of expenditures by March 28, 2020.

Having earned a 50% interest, a joint venture would be formed with the Property owner. Alternatively, a 100% interest in the Property can be acquired for US\$5,000,000, at any time, of which one-half can be paid in shares of the Company.

The Property owner will retain a 2.5% net smelter returns royalty (“NSR”), of which 1.5% NSR can be acquired for US\$1,000,000 at any time up to 90 days following commencement of commercial production on the Property.

In consideration of their efforts to bring the parties together on the Transaction, the Company issued the finders 230,000 shares as a finder’s fee, with a further 465,620 shares to be issued after the Company meets its commitments in year 2.

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 and 2017

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Note 3 Exploration and Evaluation Assets - (cont'd)

Conuma Property

On December 15, 2011, the Company acquired a 100% interest in 11 mineral claims located in the Alberni and Nanaimo Mining Divisions of British Columbia, more commonly known as the Conuma Property (the "Property") pursuant to a Letter of Agreement dated May 16, 2011 and as amended December 15, 2011 (the "Agreement").

Under the terms of the Agreement, the Company paid \$5,000 and issued 100,000 common shares with a fair value of \$5,000 to the Vendor. The Company's 100% interest in the Property is subject to an NSR of 2% of gross revenues from the Property less certain permissible deductions, payable to the Vendor.

During the year ended December 31, 2013, the Company acquired by staking, mineral tenure covering the Norgate prospect, which is adjacent to and contiguous with its Conuma property. The addition of the Norgate claim increases total claims held by the Company to 12 and total hectares to 6,098.

Management previously wrote down the costs accumulated on the Conuma property to \$Nil as an asset impairment and continues to expense amounts related to this property net of tax refunds. While management still believes that the properties are of merit and warrant continued development, lack of activity due to market conditions warranted a write down under its accounting policy for exploration and evaluation expenditures.

Environmental Protection Practices

The Company is subject to laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company is not aware of any existing environmental matters related to any of its current or former properties that may result in a material liability to the Company.

Note 4 Share Capital and Equity Reserve

a) Common Shares

The Company is authorized to issue an unlimited number of no par value common shares, issuable in series. The holders of common shares are entitled to one vote per share at meetings of the Company and to receive dividends, which may be declared from time-to-time.

No dividends have been declared by the Company since its inception. All shares are ranked equally with regard to the Company's residual net assets.

Issuances for Cash

On June 1, 2017 and July 27, 2017, the Company completed two private placements, for proceeds of \$1,105,000 through the issuance of 11,050,000 Units at a price of \$0.10 per Unit. Each Unit is comprised of one common share and one quarter of one common share purchase warrant with each whole warrant entitling the holder to purchase one common share of the Company at a price of \$0.25 per share for a period of one year. The fair value of the shares was equal to the proceeds raised in the private placement and as a result, no amount was allocated as the fair value of the warrants. 50,000 Units were purchased by a director of the Company.

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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Note 4 Share Capital and Equity Reserve - (cont'd)a) Common Shares – cont'd

An aggregate of 683,200 common shares and 683,200 warrants containing the same terms as the Warrants attached to the Units were issued as finder's fees and \$11,703 were paid for filing fees pursuant to the private placement. Share issue costs include \$68,320 calculated as the fair value of the shares and \$13,664 calculated as the fair value of the warrants. During the period ended September 30, 2018 the warrants issued expired unexercised.

The fair value of finder's warrants above was determined to be \$0.02 per warrant using the Black-Scholes model with the following assumptions:

Stock price	\$0.10
Exercise price	\$0.25
Dividend rate	0%
Expected life	1 Year
Expected annual volatility	110.75%
Risk-free rate	1.24%

Issued Pursuant to Mineral Property Acquisition

On June 15, 2017, the Company issued 1,500,000 common shares valued at \$0.10 per share pursuant to the Tuolumne Property acquisition (Note 3). These shares are valued at market value on the date of issue of \$150,000 and have been reflected as non-cash investing and financing activities in the statement of cash flows. Exploration and evaluation assets include \$150,000 of cost for the fair value of the shares. 750,000 of these shares were issued to a company controlled by an individual who subsequently was appointed as a director and officer of the Company.

An aggregate of 230,000 common shares were issued as a finder's fee to a finder for their efforts to complete this transaction. Exploration and evaluation assets include \$23,000 of cost for the fair value of the shares based on the market value on the date of issue.

During the period ended September 30, 2018 the Company issued additional 1,500,000 common shares valued at \$0.16 per share pursuant to the Tuolumne Property acquisition (Note 3). These shares are valued at market value on the date of issue of \$240,000 and have been reflected as non-cash investing and financing activities in the statement of cash flows. Exploration and evaluation assets include \$240,000 of cost for the fair value of the shares. 750,000 of these shares were issued to a company controlled by an individual is a director and officer of the Company.

b) Share Purchase Warrants

A summary of the Company's outstanding share purchase warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at December 31, 2017	3,445,700	\$ 0.25
Expired	(3,445,700)	0.25
Outstanding at September 30, 2018	-	\$ -

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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Note 4 Share Capital and Equity Reserve - (cont'd)c) Stock options

The Company, in accordance with the policies of the TSX-V, is authorized to grant stock options to directors, officers, employees and service providers to acquire up to 10% of common shares outstanding (the "Plan").

Under the Plan, options may be granted at, not less than the discounted market price of the Company's common shares as defined by the TSX-V on the day preceding the grant for a maximum term of 5 years. No amounts are paid or payable by the recipient upon the grant of options and the options are not dependent on any performance-based criteria. Vesting of stock options is at the discretion of the Board but generally options will vest when granted except where granted for investor relations activities which vest and may be exercised in accordance with the Plan's vesting provisions as to 1/4 of the options each 3 months.

The following is a summary of outstanding equity-settled options as at September 30, 2018:

Grant Date mm/dd/yy	Expiry Date mm/dd/yy	Exercise Price	Opening Balance	During the period		Total & Vested
				Granted	Exercised /Expired	
08/01/17	08/01/22	\$0.16	2,000,000	-	(20,000)	1,980,000
Weighted Average Exercise Price			\$ 0.16	\$ -	\$ (0.16)	\$ 0.16

No stock options were granted or exercised during the period ended September 30, 2018.

During the period ending September 30, 2018, 20,000 options were cancelled due to an employee resigning.

Note 5 Related Party Transactions

The following is a summary of charges incurred by the Company with related parties for the periods ended September 30, 2018 and 2017:

Period ended September 30	2018	2017
Accounting fees	\$ 4,500	\$ 4,500
Legal and corporate services	14,994	9,000
Management fees	108,000	58,500
Office, rent and administration	13,500	9,000
Shareholder communications	4,500	9,500
Geological costs (Note 3)	3,000	-
Total	\$ 148,494	\$ 90,500

During the period ended September 30, 2018, the Company incurred operational expenses totalling \$37,494 (2017 - \$32,000) from companies controlled by directors and/or officers of the Company.

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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Note 5 Related Party Transactions - (cont'd)

During the period ended September 30, 2018, the Company incurred compensation costs of \$108,000 (2017 - \$58,500) included in management activities for its key management personnel. Key management personnel are comprised of the Company's directors and/or officers.

During the period ended September 30, 2018, the Company incurred geological costs of \$3,000 capitalized as exploration costs (Note 3). The amount was paid to a director of the Company.

During the period ended September 30, 2018 trade and other payables included \$186,999 (December 31, 2017 - \$121,775) owing to officers and directors and to a company controlled by a director and officer of the Company for management activities and operational expenses.

Note 6 Loans Payable

On July 23, 2018, the Company entered into loan agreements with an arms length third party under which the Company received amounts of \$30,000 and US\$90,000 (CAD\$116,257), that are unsecured, bear interest of 8% per annum and are due and payable upon demand. At September 30, 2018, the Company had recorded aggregate interest payable of \$1,815. There were no similar short-term loans entered into during the same period of the prior fiscal year.

Note 7 Segmented Reporting

The Company is organized into business units based on exploration and evaluation assets and has two reportable operating segments, being that of acquisition and E&E activities in Canada and in the United States. A summary of the segmented assets as at September 30, 2018 and December 31, 2017, and the Company's loss and comprehensive loss for the periods ended September 30, 2018 and 2017 is as follows:

			September 30, 2018	
	United States	Canada	Total	
Loss for the period	\$ (22,163)	\$ (221,139)	\$ (243,302)	
Exploration and evaluation assets	931,600	-	931,600	
Segment assets	\$ 998,415	\$ 99,802	\$ 1,098,217	
			September 30, 2017	
	United States	Canada	Total	
Loss for the period	\$ (945)	\$ (422,290)	\$ (423,235)	
Exploration and evaluation assets	396,898	-	396,898	
Segment assets	430,307	567,559	997,866	
			December 31, 2017	
	United States	Canada	Total	
Loss for the year	\$ (3,258)	\$ (646,484)	\$ (649,742)	
Exploration and evaluation assets	567,881	-	567,881	
Segment assets	\$ 714,257	\$ 207,326	\$ 921,583	

PROVIDENCE GOLD MINES INC.

Notes to the Condensed Interim Consolidated Financial Statements

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Note 8 Loss per share

The denominator for the calculation of loss per share, being the weighted average number of common shares for the period ended September 30, 2018 and 2017, is calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Issued and outstanding at the beginning of the period	23,336,051	20,288,051	21,836,051	8,372,851
Weighted average share issued during the period	-	1,093,696	912,088	10,097,999
Weighted average number of common shares (basic and diluted)	23,336,051	21,381,747	22,748,139	18,470,850

The Company's share purchase warrants and stock options have not been included in the calculation of diluted loss per share for the periods presented because their effect would have been anti-dilutive.

Note 9 Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

There have been no changes in the Company's approach to capital management during the period ended September 30, 2018.

Note 10 Financial Instruments

As at September 30, 2018, the Company's financial instruments consist of cash, receivables, trade and other payables and short-term demand loans payable.

The fair value of the Company's cash, receivables, trade and other payables, and the short-term demand loans approximate their carrying value, which is the amount on the statements of financial position, due to their short-term maturities or ability of prompt liquidation.

a) **Interest Rate Risk**

The Company's cash earns interest at a variable interest rate. Because of the nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of September 30, 2018. Future cash flows from interest income on cash will be affected by interest rate fluctuations. Interest rate risk consists of two components:

- (i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

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Note 10 Financial Instruments - (cont'd)

a) Interest Rate Risk – (cont'd)

To the extent that changes in prevailing market interest rates differ from the interest rates in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's exposure to interest rate fluctuations is minimal.

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to credit risk with respect to its cash, the balance of which at September 30, 2018 is \$96,179 (December 31, 2017 - \$313,011). As at that date, cash was held at a chartered Canadian financial institution and the Company does not consider the risks to be significant. Receivables are primarily due from a government agency. The Company's exposure to credit risk has not changed significantly from the prior year.

c) Liquidity Risk

Liquidity risk arises from the excess of financial obligations over available financial assets due at any point in time. Additional cash requirements could be met with the issuance of additional share capital, however there is no assurance the Company will be able to raise funds in this manner in the future. As at September 30, 2018, the Company was holding cash of \$96,179 (December 31, 2017 - \$313,011) and had trade and other payables of \$208,359 (December 31, 2017 - \$176,495) and loans payable of \$148,072 (December 31, 2017 - \$Nil). The Company's trade and other payables and loans payable are due in the short term.

Note 11 Subsequent event

Subsequent to September 30, 2018, the Company announced that it has arranged a non-brokered private placement of up to \$1,000,000 (the "Financing") through the issuance of up to 8,333,333 units (the "Units") at a price of \$0.12 per Unit. Each Unit will be comprised of one common share and one common share purchase warrant ("Warrant"), each Warrant entitle the holder to purchase one common share of the Company at a price of \$0.15 per share for the first year, \$0.20 per share for the second year, and \$0.25 for the third year from the closing date. The Warrants will expire 36 months from the closing date. The Company may pay finders' fees equal to 8% in cash or shares and 8% in finder's warrants for subscriptions as may be attributable to such finders. Finders' warrants issued to registered dealers or exempt market dealers will be valid for a period of two year, each warrant exercisable into one common share of the Company at a price of \$0.15 per share.