

**ALORO MINING CORP.**  
*(FORMERLY WOLVERINE MINERALS CORP.)*

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2018**

**(Expressed in Canadian dollars)**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Aloro Mining Corp.

We have audited the consolidated financial statements of Aloro Mining Corp. ("the Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information (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 2017, and its financial performance and its cash flows for the years 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 2 to the financial statements, which indicates that the Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. As stated in Note 2, 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 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.

The engagement partner on the audit resulting in this independent auditor's report is David J. Goertz.

*DMCL*

**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, Canada  
April 30, 2019

**ALORO MINING CORP.**  
(FORMERLY WOLVERINE MINERALS CORP.)  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Expressed in Canadian dollars)

|                                                   | Notes | December 31,<br>2018 | December 31,<br>2017 |
|---------------------------------------------------|-------|----------------------|----------------------|
| <b>ASSETS</b>                                     |       |                      |                      |
| <b>CURRENT</b>                                    |       |                      |                      |
| Cash                                              |       | \$ 404,647           | \$ 369,017           |
| Other receivables                                 | 4     | 31,468               | 13,968               |
|                                                   |       | <b>436,115</b>       | <b>382,985</b>       |
| <b>NON-CURRENT</b>                                |       |                      |                      |
| Property                                          |       | 1,916                | 5,768                |
| Exploration and evaluation asset                  | 5     | 981,366              | 227,514              |
|                                                   |       | <b>983,282</b>       | <b>233,282</b>       |
| <b>TOTAL ASSETS</b>                               |       | <b>\$ 1,419,397</b>  | <b>\$ 616,267</b>    |
| <b>LIABILITIES</b>                                |       |                      |                      |
| <b>CURRENT</b>                                    |       |                      |                      |
| Accounts payable and accrued liabilities          | 8,10  | \$ 532,828           | \$ 302,111           |
| <b>TOTAL LIABILITIES</b>                          |       | <b>532,828</b>       | <b>302,111</b>       |
| <b>SHAREHOLDERS' EQUITY</b>                       |       |                      |                      |
| Share capital                                     | 6     | 16,724,077           | 15,877,013           |
| Reserves                                          | 7     | 2,103,992            | 2,014,637            |
| Accumulated deficit                               |       | (17,941,500)         | (17,577,494)         |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 |       | <b>886,569</b>       | <b>314,156</b>       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> |       | <b>\$ 1,419,397</b>  | <b>\$ 616,267</b>    |

Subsequent events (Note 5 & 13)

Approved on behalf of the Board:

*"Thomas Doyle"*

Thomas Doyle

*"Logan Anderson"*

Logan Anderson

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

**ALORO MINING CORP.**  
(FORMERLY WOLVERINE MINERALS CORP.)  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS  
(Expressed in Canadian dollars)

|                                                                 |       | Year ended<br>December 31, |              |
|-----------------------------------------------------------------|-------|----------------------------|--------------|
|                                                                 | Notes | 2018                       | 2017         |
| <b>OPERATING EXPENSES</b>                                       |       |                            |              |
| Depreciation                                                    |       | \$ 3,852                   | \$ -         |
| Investor relations                                              |       | 41,039                     | -            |
| Management and director fees                                    | 8     | 80,477                     | 198,000      |
| Office and general                                              | 8     | 88,147                     | 110,734      |
| Professional fees                                               |       | 76,341                     | 35,465       |
| Share based compensation                                        | 7,8   | 89,355                     | -            |
| <b>LOSS BEFORE OTHER ITEMS</b>                                  |       | \$ (379,210)               | \$ (344,199) |
| <b>OTHER ITEMS</b>                                              |       |                            |              |
| Foreign exchange gain or (loss)                                 |       | 15,205                     | (9,434)      |
| Loss on settlement of debt                                      | 8     | -                          | (39,500)     |
| <b>NET LOSS AND COMPREHENSIVE LOSS</b>                          |       | \$ (364,006)               | \$ (393,133) |
| <b>LOSS PER SHARE – BASIC AND DILUTED</b>                       |       | \$ (0.01)                  | \$ (0.01)    |
| <b>WEIGHTED AVERAGE NUMBER OF<br/>COMMON SHARES OUTSTANDING</b> |       | 39,486,453                 | 31,263,479   |

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

**ALORO MINING CORP.***(FORMERLY WOLVERINE MINERALS CORP.)***CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY***(Expressed in Canadian dollars)*

|                                     | <b>Share Capital</b> |                      |                     | <b>Accumulated</b>     |                   |
|-------------------------------------|----------------------|----------------------|---------------------|------------------------|-------------------|
|                                     | <b>Number</b>        | <b>Amount</b>        | <b>Reserves</b>     | <b>Deficit</b>         | <b>Total</b>      |
| <b>Balance at January 1, 2017</b>   | <b>29,380,629</b>    | <b>\$ 15,216,513</b> | <b>\$ 2,014,637</b> | <b>\$ (17,184,361)</b> | <b>\$ 46,789</b>  |
| Share issuance for cash             | 6,500,000            | 480,000              | -                   | -                      | 480,000           |
| Shares issued for property          | 250,000              | 22,500               | -                   | -                      | 22,500            |
| Share issued for debt               | 1,580,000            | 158,000              | -                   | -                      | 158,000           |
| Net loss                            | -                    | -                    | -                   | (393,133)              | (393,133)         |
| <b>Balance at December 31, 2017</b> | <b>37,710,629</b>    | <b>15,877,013</b>    | <b>2,014,637</b>    | <b>(17,577,494)</b>    | <b>314,156</b>    |
| Shares issued for property          | 250,000              | 32,500               | -                   | -                      | 32,500            |
| Shares issuance for cash            | 8,000,000            | 800,000              | -                   | -                      | 800,000           |
| Share issuance costs                | -                    | (15,435)             | -                   | -                      | (15,435)          |
| Warrants exercised                  | 300,000              | 30,000               | -                   | -                      | 30,000            |
| Share based payments                | -                    | -                    | 89,355              | -                      | 89,355            |
| Net loss                            | -                    | -                    | -                   | (364,006)              | (364,006)         |
| <b>Balance at December 31, 2018</b> | <b>46,260,629</b>    | <b>\$ 16,724,077</b> | <b>\$ 2,103,992</b> | <b>\$ (17,941,500)</b> | <b>\$ 886,569</b> |

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

**ALORO MINING CORP.**  
**(FORMERLY WOLVERINE MINERALS CORP.)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in Canadian dollars)**

|                                                     | <b>Year ended December 31,</b> |                   |
|-----------------------------------------------------|--------------------------------|-------------------|
|                                                     | <b>2018</b>                    | <b>2017</b>       |
| <b>OPERATING ACTIVITIES</b>                         |                                |                   |
| Net loss                                            | \$ (379,210)                   | \$ (393,133)      |
| Items not involving cash:                           |                                |                   |
| Depreciation                                        | 3,852                          | 5,814             |
| Share based payments                                | 89,355                         | -                 |
| Loss on settlement of debt                          | -                              | 39,500            |
| Change in non-cash working capital items:           |                                |                   |
| Other receivables                                   | (17,500)                       | (211)             |
| Accounts payable and accrued liabilities            | 230,716                        | 219,647           |
| Net cash used in operating activities               | (57,582)                       | (128,393)         |
| <b>INVESTING ACTIVITIES</b>                         |                                |                   |
| Expenditures on exploration and evaluation assets   | (721,352)                      | (150,057)         |
| Net cash used in investing activities               | (721,352)                      | (150,057)         |
| <b>FINANCING ACTIVITIES</b>                         |                                |                   |
| Proceeds from share issuances                       | 814,565                        | 480,000           |
| Net cash provided by financing activities           | 814,565                        | 480,000           |
| <b>CHANGE IN CASH</b>                               | <b>35,630</b>                  | <b>201,550</b>    |
| <b>CASH, BEGINNING OF YEAR</b>                      | <b>369,017</b>                 | <b>167,467</b>    |
| <b>CASH, END OF YEAR</b>                            | <b>\$ 404,647</b>              | <b>\$ 369,017</b> |
| <b>SUPPLEMENTAL CASH FLOW DISCLOSURE</b>            |                                |                   |
| Shares issued for exploration and evaluation assets | \$ 32,500                      | \$ 22,500         |
| Shares issued for settlement of debt                | \$ -                           | \$ 158,000        |

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

**ALORO MINING CORP.**  
**(FORMERLY WOLVERINE MINERALS CORP.)**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2018  
(Expressed in Canadian dollars)

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**NOTE 1. NATURE OF OPERATIONS**

Aloro Mining Corp. (the “Company”) was incorporated on June 7, 2004 in British Columbia, and its business is the acquisition, exploration and development of its mineral interest in Mexico. On February 8, 2018, the Company changed its name from Wolverine Minerals Corp. to Aloro Mining Corp. The Company is listed on the TSX Venture Exchange (the “TSX-V”) under the symbol AORO.V

The address of the Company’s corporate office and principal place of business is Suite 1085, Bentall Two, 555 Burrard Street, Vancouver, British Columbia, Canada V7X 1M8.

**NOTE 2. BASIS OF PREPARATION AND GOING CONCERN**

a) Statement of compliance

These consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements were authorized for issue by the Board of Directors on April 30, 2019.

b) Basis of presentation

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries. The functional currency of each entity is determined using the currency of the primary economic environment in which the entity operates.

c) Basis of consolidation

The subsidiary is consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases.

The consolidated financial statements include the accounts and results of operations of the Company and its wholly owned subsidiary:

| <b>Name of Subsidiary</b>        | <b>Principal Activity</b> | <b>Place of Incorporation</b> | <b>Ownership Interest</b> |
|----------------------------------|---------------------------|-------------------------------|---------------------------|
| Exploraciones Aloro S.A. de C.V. | Mineral exploration       | Mexico                        | 100%                      |

All intercompany balances and transactions were eliminated on consolidation.

d) Going concern

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. At December 31, 2018, the Company had not yet achieved profitable operations and expects to incur further losses in the development of its business. These conditions indicate the existence of a material uncertainty which may casts significant doubt about the Company’s ability to continue as a going concern. The continuing operations of the Company are dependent upon economic and market factors which involve uncertainties including the Company’s ability to raise adequate equity financing for continuing operations. Realization values may be substantially different from carrying values as shown and accordingly these financial statements do not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used, then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

### **NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **a) Foreign Currency Translation**

The individual financial statements of each entity of the Company are prepared in the currency of the primary economic environment in which the entity operates (its “functional currency”). The functional currency of the Company is Canadian dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency are recorded at the rates of exchange prevailing at the dates of transactions. At each reporting date, monetary items denominated in foreign currencies are reinstated at rate prevailing at the reporting date. Nonmonetary items that are measured in terms of historical cost in a foreign currency are not reinstated. Exchange difference are recognized in profit or loss in the period in which they arise.

#### **b) Property**

Property is stated at cost less accumulated depreciation and accumulated impairment losses, if any. The cost of leasehold improvements consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is recorded based on the cost of an item of leasehold improvements, less its estimated residual value, using the straight-line method over the following expected useful lives:

|                        |         |
|------------------------|---------|
| Leasehold improvements | 5 years |
|------------------------|---------|

Items of property are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized. The assets’ residual values, useful lives and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

#### **c) Exploration and Evaluation Assets**

Once the legal right to explore has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to acquisition costs. These direct expenditures include such costs as materials used, staking costs, drilling costs and payments made to contractors. Costs not directly attributable to exploration and evaluation expenditures, including general administration and overhead costs are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects for the Company, the exploration and evaluation expenditures, along with the acquisition costs, are deemed to be impaired and written off.

The Company assesses exploration and evaluation assets for impairment when the facts and circumstances suggest that the carrying amount of these assets may exceed their recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as ‘Mines under construction’.

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

c) Exploration and Evaluation Assets (continued)

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

d) Impairment of Non-Financial Assets

Non-financial assets, including exploration and evaluation assets, are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly. Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to the profit or loss, except to the extent it reverses gains previously recognized in other comprehensive loss/income.

e) Financial Instruments

Financial instruments are accounted for in accordance with IFRS 9, "Financial Instruments: Classification and Measurement".

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is measured at FVTPL. Other receivables are measured at amortized cost.

*Impairment of financial assets*

IFRS 9 uses the expected credit loss ("ECL") model. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The ECL model applies to the Company's receivables.

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment

An ECL impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, 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.

Financial liabilities

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments and are categorized and measured at either (i) FVTPL; or (ii) amortized cost. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities are measured at amortized cost.

f) Provisions

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

As of December 31, 2018, and 2017, the Company did not have any rehabilitation obligations.

h) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using the tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

i) Basic and diluted loss per share

Basic loss per share is computed by dividing the net loss applicable to common shares of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to calculate diluted loss per share. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised to common shares. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the “if-converted” method. Diluted amounts are not presented when the effects of the computation are anti-dilutive.

j) Share-based Payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to deficit.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Upon exercise, equity-settled share-based payments are reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where options are cancelled or settled during the period when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

k) Accounting standards adopted effective January 1, 2018

Effective January 1, 2018, the following standards were adopted without any material impact on the consolidated financial statements.

*IFRS 9 – Financial Instruments (“IFRS 9”)*

The Company adopted IFRS 9 effective January 1, 2018 on a retrospective basis and applied the transitional provisions, so that any adjustments would be recorded in opening retained earnings at January 1, 2018. IFRS 9, addresses the classification, measurement and recognition of financial assets and financial liabilities. The adoption of

**NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

k) Accounting standards adopted effective January 1, 2018 (continued)

IFRS 9 supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit and loss, (ii) those measured at fair value through other comprehensive income and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the IFRS 9 requirements are similar to those of IAS 39. The main distinction is that, in cases where the fair value option is chosen for financial liabilities, the part of a fair value change relating to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

IFRS 9 introduces a single expected credit loss model for calculating impairment for financial assets, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements and did not result in a transitional adjustment.

The Company has no hedges on its consolidated financial statements for the reporting period.

The Company has concluded that the adoption of IFRS 9 did not require any transitional adjustments to the classification or measurement of the Company's financial assets and financial liabilities.

*IFRS 15 - Revenue from Contracts with Customers ("IFRS 15")*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

The adoption of IFRS 15, effective January 1, 2018, did not have any impact on the Company's financial statements as the Company does not currently have revenue.

l) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any new standard and is currently evaluating the impact, if any, that the following new standard might have on its consolidated financial statements.

l) Accounting standards issued but not yet effective

*IFRS 16 'Leases' ("IFRS 16")*

IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. Adoption by the Company will be effective January 1, 2019 and is not expected to have a material impact on the consolidated financial statements.

**NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

Significant judgements

The most significant judgments in applying the Company's accounting policies in these consolidated financial statements are:

a) Determination of functional currency

The Company determines the functional currency through its analysis of several indicators such as expenses and cash flow, financing activities, and frequency of transactions with the reporting entity.

b) Going concern

Other significant judgments in applying the Company's accounting policies relate to the assessment of the Company's ability to continue as a going concern (Note 2) and the classification of its financial instruments.

Significant estimates

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include:

a) Carrying value and the recoverability of exploration and evaluation assets

Management has determined that exploration, evaluation and related costs incurred which have been capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information and existing permits.

b) Recoverability and measurement of deferred tax assets

In assessing the probability of realizing deferred tax assets, management makes estimates related to the expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that the tax position taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

**NOTE 4. OTHER RECEIVABLES**

|                         | <b>December 31, 2018</b> |               | <b>December 31, 2017</b> |               |
|-------------------------|--------------------------|---------------|--------------------------|---------------|
| Sales tax receivable    | \$                       | 21,468        | \$                       | 13,968        |
| Subscription receivable |                          | 10,000        |                          | -             |
| <b>Total</b>            | <b>\$</b>                | <b>31,468</b> | <b>\$</b>                | <b>13,968</b> |

As at December 31, 2018, the Company had sales tax receivable of \$21,468 (2017 - \$13,968). The balance is comprised of goods and services tax recorded by the parent company.

As at December 31, 2018, there is a \$10,000 subscription receivable from the private placement closed on October 26, 2018.

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**NOTE 5. EXPLORATION AND EVALUATION ASSET**

|                                          |           | <b>Los Venados</b> |
|------------------------------------------|-----------|--------------------|
| <b>Acquisition cost:</b>                 |           |                    |
| Balance, December 31, 2016               | \$        | 30,000             |
| Land purchase option                     |           | 22,500             |
| <b>Balance, December 31, 2017</b>        |           | <b>52,500</b>      |
| Land purchase option                     |           | 52,641             |
| Access to property                       |           | 6,238              |
| <b>Balance, December 31, 2018</b>        | <b>\$</b> | <b>111,379</b>     |
| <b>Exploration and evaluation costs:</b> |           |                    |
| Balance, December 31, 2016               | \$        | 24,957             |
| Exploration costs                        |           | 150,057            |
| <b>Balance, December 31, 2017</b>        |           | <b>175,014</b>     |
| Consulting fees                          |           | 328,178            |
| Drilling                                 |           | 203,459            |
| Environmental permits and mining rights  |           | 34,066             |
| Exploration costs                        |           | 104,764            |
| Sampling                                 |           | 24,506             |
| <b>Balance, December 31, 2018</b>        | <b>\$</b> | <b>869,987</b>     |
| <b>Balance, December 31, 2017</b>        | <b>\$</b> | <b>227,514</b>     |
| <b>Balance, December 31 2018</b>         | <b>\$</b> | <b>981,366</b>     |

**Los Venados, Sonora Mexico**

The Company entered into an option agreement dated November 28, 2016 (the “Option Agreement”) with Minera Gavilan, S.A. de C.V. (the “Optionor”) and Almadex Minerals Limited (“Almadex”), pursuant to which the Optionor has agreed to grant the Company an option (the “Option”) to acquire up to 100% of the Optionor’s 100% right and title interest in and to an option agreement between the Optionor, Almadex and Compania Minera La Pitahaya, S.A. de C.V. (the “Underlying Optionor”) dated October 6, 2015, whereby the Optionor has the option to acquire a 100% interest in the Los Venados 1 mineral concession (the “Property”) located in Sonora State, Mexico (the “Transaction”);

To exercise its Option, the Company shall:

- i) assume all obligations of Almadex to the underlying optionor of the Los Venados property (the “Underlying Optionor”) with the exception of the issuance of Almadex shares which remains an obligation of Almadex;
- ii) pay \$30,000 on execution of the Option Agreement for expenditures on the property (paid);
- iii) issue 250,000 common shares within 10 days of receipt of approval of the TSX-V (the “Approval Date”); (Issued February 8th, 2017);
- iv) issue 250,000 common shares on or before the first anniversary of the Approval Date (Issued February 8th, 2018);
- v) issue 500,000 common shares on or before the second anniversary of the Approval Date (Issued February 9th, 2019); and
- vi) issue 1,000,000 common shares on or before the third anniversary of the Approval Date; and

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**NOTE 5. EXPLORATION AND EVALUATION ASSET (continued)**

- vii) drill a minimum of 1,000 meters by the second anniversary of the Approval Date, as part of the total required project expenditures of a minimum of US\$500,000 (the “Expenditures”), which must be incurred on or before the third anniversary of the Approval Date. As at December 31, 2018 the Company spent USD\$156,330 in the drilling program and completed the 1,000 meters required.

Upon exercise of the Option, the Company will grant to Almadex a 2% net smelter returns royalty (the “NSR Royalty”) with respect to production of all precious metals from the property. The NSR Royalty will be payable following commencement of commercial production on the property. The property is also subject to an underlying 2% NSR royalty to the Underlying Optionor which may be purchased for \$1,000,000.

If the Option is exercised, the Company will also be responsible for making a \$500,000 bonus payment to the Underlying Optionor when a National Instrument 43-101 compliant resource greater than 500,000 ounces of gold has been identified.

**NOTE 6. SHARE CAPITAL**

During the year ended December 31, 2018:

On February 8, 2018, the Company issued 250,000 shares pursuant to the Los Venados option agreement at a market price of \$0.13 per share for a total of \$32,500 (Note 5).

On February 20, 2018 the Company issued 100,000 common shares through the exercise of warrants for proceeds of \$10,000.

On October 26, 2018, the Company issued 8,000,000 shares for gross proceeds of \$800,000. The Company incurred \$15,435 in cash share issuance costs. As part of this transaction, \$10,000 has been included in other receivables as these proceeds are expected to be received after year end.

On December 3, 2018, the company issued 200,000 common shares through the exercise of warrants for proceeds of \$20,000.

During the year ended December 31, 2017:

On January 31, 2017, the Company completed a non-brokered private placement financing for 1,500,000 units at a price of \$0.07 per unit for gross proceeds of \$105,000. Each unit consists of one common share in the capital of the company and one share purchase warrant, with each warrant entitling the holder to purchase one additional share at a price of \$0.085 per share for a period of three years after the date of closing.

On February 8, 2017, the Company issued 250,000 shares pursuant to the Los Venados option agreement at a price of \$0.09 per share for a total of \$22,500 (Note 5).

On December 11, 2017, the Company completed a non-brokered private placement financing for 5,000,000 units at a price of \$0.075 per unit for gross proceeds of \$375,000. Each unit consists of one common share in the capital of the company and one share purchase warrant, with each warrant entitling the holder to purchase one additional share at a price of \$0.10 per share during the first year from the date of issuance and \$0.125 per share during the second year from the date of issuance.

On December 28, 2017, the Company settled \$118,500 of director and consulting fees payable to directors by issuing 1,580,000 common shares, with the fair value of \$158,000, and recorded a loss on settlement of debt of \$39,500.

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**NOTE 7. RESERVES**

Share purchase warrants

The following table summarizes the changes in warrants outstanding during the periods presented:

|                                | <b>Number of warrants</b> | <b>Weighted average exercise price</b> |
|--------------------------------|---------------------------|----------------------------------------|
| Outstanding, January 1, 2017   | 12,400,000                | \$ 0.08                                |
| Issued                         | 6,500,000                 | 0.10                                   |
| Expired                        | (1,400,000)               | -                                      |
| Outstanding, December 31, 2017 | 17,500,000                | 0.08                                   |
| Expired                        | (10,900,000)              | -                                      |
| Exercised                      | (300,000)                 | 0.10                                   |
| Outstanding, December 31, 2018 | 6,300,000                 | \$ 0.11                                |
| Exercisable, December 31, 2018 | 6,300,000                 | \$ 0.11                                |

As at December 31, 2018, the following share purchase warrants were outstanding:

| <b>Numbers of warrants</b> | <b>Exercise price</b> | <b>Expiry Date</b> |
|----------------------------|-----------------------|--------------------|
| 1,500,000                  | \$ 0.085              | January 31, 2020   |
| 4,800,000                  | \$ 0.125              | December 11, 2019  |
| 6,300,000                  |                       |                    |

As at December 31, 2018, the weighted average remaining contractual life of warrants outstanding is 0.98 years.

Share purchase options

On November 20, 2006, the Company's Board of Directors approved the adoption of a "rolling" stock incentive plan (the "Plan") in accordance with the policies of the TSX-V. The Board of Directors is authorized to grant options under the Plan to directors, officers, consultants or employees to acquire up to a maximum of 10% of the issued and outstanding common shares at the time an option is granted. The exercise prices of options granted shall not be less than the Discounted Market Price, as defined in Exchange Policy 2.4, and the exercise period shall not exceed 5 years from the date the option is granted. The maximum number of options that may be granted to any one person must not exceed 5% of the common shares outstanding at the time of the grant or 2% if the recipient is a consultant or employed in an investor relations capacity.

The following table summarizes the changes in stock options outstanding during the periods presented:

|                                                | <b>Number of options</b> | <b>Weighted average exercise price</b> |
|------------------------------------------------|--------------------------|----------------------------------------|
| Outstanding, January 1, 2017                   | 75,000                   | \$ 0.500                               |
| Expired                                        | (75,000)                 | 0.500                                  |
| Outstanding, December 31, 2017                 | -                        | -                                      |
| Granted                                        | 1,400,000                | 0.109                                  |
| Forfeited                                      | (500,000)                | 0.125                                  |
| Outstanding and exercisable, December 31, 2018 | 900,000                  | \$ 0.109                               |

On March 21, 2018, the Company granted 500,000 stock options to a consultant that were later forfeited.

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**NOTE 7. RESERVES (continued)**

On April 2, 2018, the Company granted 200,000 options to a director. The estimated fair value associated with the stock options granted is \$17,138 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at grant \$0.10; an annualized volatility of 251.91%; an expected life of 2.5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 1.76%. The options, which vested immediately, may be exercised at a price of \$0.10 per common share for a period of 5 years from the date of the agreement.

On June 13, 2018, the Company granted 200,000 options to an officer. The estimated fair value associated with the stock options granted is \$17,121 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at grant \$0.10; an annualized volatility of 250.73%; an expected life of 2.5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 1.93%. The options, which vested immediately, may be exercised at a price of \$0.10 per common share for a period of 5 years from the date of the agreement.

On October 1, 2018, the Company granted 100,000 stock options to a consultant. The estimated fair value associated with the stock options granted is \$9,448 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at grant \$0.10; an annualized volatility of 240.98%; an expected life of 2.5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 2.25%. The options, which vested immediately, may be exercised at a price of \$0.10 per common share for a period of five years from the date of the agreement.

On October 10, 2018, the Company granted 400,000 stock options to a consultant. The estimated fair value associated with the stock options granted is \$45,648 and it was determined using the Black-Scholes Option Pricing Model with the following assumptions: stock price at grant \$0.10; an annualized volatility of 242.42%; an expected life of 2.5 years; a dividend yield of 0%; a forfeiture rate of 0%; and a risk-free rate of 2.27%. The options, which vested immediately, may be exercised at a price of \$0.10 per common share for a period of five years from the date of the agreement.

As at December 31, 2018, the following stock options were outstanding:

| <b>Numbers of options</b> | <b>Exercise price</b> | <b>Expiry Date</b> |
|---------------------------|-----------------------|--------------------|
| 200,000                   | \$ 0.10               | April 2, 2023      |
| 200,000                   | \$ 0.10               | June 13, 2023      |
| 100,000                   | \$ 0.10               | October 2, 2023    |
| 400,000                   | \$ 0.10               | October 10, 2023   |
| 900,000                   |                       |                    |

As at December 31, 2018, the weighted average remaining contractual life of the options outstanding is 4.59 years.

**NOTE 8. RELATED PARTY TRANSACTIONS**

*Key management compensation*

Key management compensation is summarized as follows:

| <b>For the year ended December 31,</b> | <b>2018</b>       | <b>2017</b>       |
|----------------------------------------|-------------------|-------------------|
| Management fees                        | \$ 225,000        | \$ 192,000        |
| Directors' fees                        | 19,500            | 6,000             |
| Share-based payments                   | 17,138            | -                 |
| <b>Total</b>                           | <b>\$ 261,638</b> | <b>\$ 198,000</b> |

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**NOTE 8. RELATED PARTY TRANSACTIONS (continued)**

During the year ended December 31, 2018, remuneration of the Company's key management consisted of management fees in the amount of \$225,000 (2017 - \$192,000). \$45,000 of these fees are included in office and general; \$165,000 (2017 - \$Nil) was allocated to exploration and evaluation assets and \$15,000 (2017 - \$Nil) allocated to management fees.

*Related party balances*

At December 31, 2018, \$438,300 (2017 - \$216,300) was due to related parties and is included in accounts payable and accrued liabilities. The amounts were non-interest bearing unsecured and due on demand.

**NOTE 9. INCOME TAXES**

A reconciliation of income recovery at statutory rates with the reported recovery is as follows:

|                                                                             | 2018         | 2017         |
|-----------------------------------------------------------------------------|--------------|--------------|
| Loss before income taxes                                                    | \$ (364,006) | \$ (393,133) |
| Tax recovery based on statutory rate of 26%                                 | (100,507)    | (103,621)    |
| Impact of different foreign statutory tax rates on earnings of subsidiaries | 9,736        | 5,468        |
| Adjustment to prior years provision versus statutory tax returns            | (23,011)     | 23,807       |
| Change in unrecognized deferred income tax assets                           | 113,782      | 74,346       |
| Income tax recovery                                                         | \$ -         | \$ -         |
|                                                                             | 2018         | 2017         |
| Non-capital losses                                                          | \$ 1,168,572 | \$ 1,057,916 |
| Share issuance costs                                                        | 4,401        | 1,542        |
| Property                                                                    | 7,216        | 6,949        |
| Unrecognized deferred tax assets                                            | (1,180,189)  | (1,066,407)  |
| Net deferred income tax assets                                              | \$ -         | \$ -         |

As at December 31, 201, the Company has estimated non-capital losses for Canadian tax purposes of \$4,328,043 that may be carried forward to reduce taxable income derived in future years. These losses expire in the years 2026 – 2038.

**NOTE 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company is exposed to various financial instrument risk and assessed the impact and likelihood of this exposure. These risks include market risk, credit risk and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

*Market risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of interest rate risk, foreign currency risk and commodity price risk.

a) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. As at December 31, 2018, the Company is not exposed to any significant interest rate risk.

**NOTE 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

b) Foreign currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk as it has operations in Mexico and it incurs certain expenditures that are denominated in Mexican pesos while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

The Company has net financial assets of approximately \$ 197,091(2017 - \$84,000) that are denominated in Mexican pesos.

If the Mexican peso had changed against the Canadian dollar by 10% at year end, the Company's net loss and comprehensive loss after taxes would change by approximately \$19,709 (2017 - \$8,000), resulting from the translation of the Mexican peso denominated financial instruments.

c) Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors commodity prices to determine appropriate actions to be undertaken.

d) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at December 31, 2018, the Company is not exposed to any significant credit risk.

e) 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 ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts and is available on demand. As at December 31, 2018, the Company has not yet generated revenue to cover operating expenditures. The Company also has a significant amount of current liabilities. The Company will require additional financing to fund its on-going operations and currently has no resources from which to repay its outstanding obligations. There can be no certainty of the Company's ability to raise additional financing in a timely manner. Consequently, the Company is significantly exposed to liquidity risk.

As at December 31, 2018, the Company had cash of \$404,647 to settle current liabilities of \$532,828, thus will require additional financing to meet its short-term financial obligations.

The table below summarizes the maturity profile of the Company's liabilities:

| As at December 31, 2018 | On demand  | Less than 1<br>year | 1 -2 years | Later than<br>2 years | Total   |
|-------------------------|------------|---------------------|------------|-----------------------|---------|
| Trade payables          | \$ 94,528  | \$ -                | \$ -       | \$ -                  | 94,528  |
| Related party payables  | 438,300    |                     | -          | -                     | 438,300 |
| Total liabilities       | \$ 532,828 | \$ -                | \$ -       | \$ -                  | 532,828 |

**NOTE 12. CAPITAL DISCLOSURE**

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' deficiency as capital, cash, receivables and financial liabilities.

The Company manages its 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 its 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.

**NOTE 13. SUBSEQUENT EVENTS**

On January 24, 2019, the Company issued 200,000 common shares for advisory services.

On February 4, 2019, 1,000,000 warrants were exercised for proceeds of \$125,000.

On February 11, 2019, the Company issued 500,000 shares pursuant to the option agreement (Note 5) with Almadex Minerals Limited.

On March 29, 2019, the Company issued 1,027,500 common shares in settlement of \$102,750 in management and director fees.

Subsequent to December 31, 2018, the Company received the \$10,000 share subscription receivable.