



**GFM RESOURCES LIMITED**

**(An exploration-stage company)**

**Condensed Consolidated Interim Financial Statements**

Three and nine months ended September 30, 2019 and 2018

(Unaudited - Expressed in Canadian Dollars)

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## NOTICE TO READER

### **THE ISSUER'S AUDITORS HAVE NOT REVIEWED OR BEEN INVOLVED IN THE PREPARATION OF THESE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# GFM RESOURCES LIMITED

(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

As at		September 30, 2019 (Unaudited) \$	December 31, 2018 (Audited) \$
	Note		
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		56,687	15,056
Accounts receivable	4	1,375	1,303
Prepaid expenses and deposits		1,350	1,503
Advance payment of mineral concessions	9	6,547	-
		65,959	17,862
Value-added tax recoverable	4	44,741	4,797
		110,700	22,659
<b>LIABILITIES</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	5	13,038	21,686
Due to related parties	8	7,448	-
Loans with related party	6, 8	751,233	509,177
		771,719	530,863
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	7	3,484,022	3,484,022
Contributed surplus		870,442	870,442
Foreign currency reserve		110,912	100,998
Deficit		(5,126,395)	(4,963,666)
		(661,019)	(508,204)
		110,700	22,659
Nature of operations and going concern uncertainty	1		

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

Approved by the board of directors and authorized for issue on October 29, 2019

*"James Robertson"*

Director

*"Horacio Alcocer"*

Director

# GFM RESOURCES LIMITED

(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

	Note	Three months ended		Nine months ended	
		September 30		September 30	
		2019	2018	2019	2018
		\$	\$	\$	\$
<b>EXPENSES</b>					
Administration and accounting	8	15,000	15,000	45,000	45,000
Audit and legal		2,999	9,820	12,852	27,577
Property examination costs	9	6,417	22,390	46,890	61,550
Filing and transfer agent fees		4,628	4,860	10,197	10,078
Directors' fees	8	6,000	6,000	18,000	15,000
Office and sundry		561	1,272	2,411	8,477
Foreign exchange (gain) loss		4,566	(2,307)	(5,298)	7,621
<b>Loss before other expenses</b>		<b>(40,171)</b>	<b>(57,035)</b>	<b>(130,052)</b>	<b>(175,303)</b>
<b>Other income (expenses)</b>					
Interest on loans	6	(12,356)	(6,645)	(32,677)	(17,034)
<b>Loss for the period</b>		<b>(52,527)</b>	<b>(63,680)</b>	<b>(162,729)</b>	<b>(192,337)</b>
<b>Other comprehensive income (loss)</b>					
Exchange differences on translating foreign operations, net of tax		4,605	(6,059)	9,914	(11,074)
<b>Total comprehensive loss for the period</b>		<b>(47,922)</b>	<b>(69,739)</b>	<b>(152,815)</b>	<b>(203,411)</b>
<b>Loss per share (basic and diluted)</b>		<b>(0.00)</b>	<b>(0.00)</b>	<b>(0.01)</b>	<b>(0.01)</b>
<b>Weighted average number of shares outstanding (basic and diluted)</b>		<b>19,085,071</b>	<b>19,085,071</b>	<b>19,085,071</b>	<b>19,085,071</b>

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

# GFM RESOURCES LIMITED

(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

		Nine months ended September 30	
	Note	2019	2018
		\$	\$
<b>Operating activities</b>			
Loss for the period		(162,729)	(192,337)
Adjustments for items not involving cash:			
- Non-cash interest on loans	6	32,677	17,034
- Non-cash impact of foreign exchange translation		(9,371)	(542)
Changes in non-cash working capital items:			
- Accounts receivable		(40,016)	593
- Change in value added tax recoverable		-	(1,964)
- Prepaid expenses and deposits		153	(1,341)
- Advance payment of mineral concessions	9	(6,547)	(6,438)
- Accounts payable and accrued liabilities		(8,728)	(12,679)
- Amounts due to related parties	5, 8	7,448	-
Cash used in operating activities		(187,113)	(197,674)
<b>Cash flows from financing activities</b>			
Loans from related party	6, 8	228,905	226,876
Cash generated from financing activities		228,905	226,876
Effect of foreign exchange translation on cash		(161)	272
<b>Net change in cash</b>		<b>41,631</b>	<b>29,474</b>
Cash, beginning of the period		15,056	21,360
<b>Cash, end of the period</b>		<b>56,687</b>	<b>50,834</b>

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

## GFM RESOURCES LIMITED

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### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS DEFICIENCY

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

	Share capital		Contributed surplus	Foreign currency reserve	Deficit	Total
	Amount	Value				
	#	\$				
Balance, December 31, 2017	19,085,071	3,484,022	870,442	53,635	(4,630,474)	(222,375)
Comprehensive loss for the period	-	-	-	(11,074)	(192,337)	(203,411)
Balance, September 30, 2018	19,085,071	3,484,022	870,442	42,561	(4,822,811)	(425,786)
Comprehensive loss for the period	-	-	-	58,437	(140,855)	(82,418)
Balance, December 31, 2018	19,085,071	3,484,022	870,442	100,998	(4,963,666)	(508,204)
Comprehensive loss for the period	-	-	-	9,914	(162,729)	(152,815)
<b>Balance, September 30, 2019</b>	<b>19,085,071</b>	<b>3,484,022</b>	<b>870,442</b>	<b>110,912</b>	<b>(5,126,395)</b>	<b>(661,019)</b>

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

# GFM RESOURCES LIMITED

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2019 and 2018  
(Unaudited - Expressed in Canadian dollars except where indicated)

### 1. Nature of Operations and Going Concern Uncertainty

GFM Resources Limited (the "Company") was incorporated under the laws of British Columbia, Canada, on September 3, 1987. During the year ended December 31, 2000, the Company continued its operation in the Yukon Territory under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia. The addresses of the Company are:

- Administration office: Suite 2000 – 1066 West Hastings Street, Vancouver, BC V6E 3X2, Canada.
- Registered records office: Suite 1500 – 1055 West Georgia Street, Vancouver, BC, V6E 4N7, Canada

The Company is in the business of acquisition, exploration and development of mineral properties, and is in one operating segment, namely mineral exploration in Mexico.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant losses since inception, and has a working capital deficiency, as follows:

	<b>September 30, 2019</b>	December 31, 2018
	<b>\$</b>	\$
Deficit	<b>(5,126,395)</b>	(4,963,666)
Working capital deficiency:	<b>(705,760)</b>	(513,001)

During the year ended December 31, 2017, majority ownership of the Company was transferred from Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), of Mexico, to Metallorum Holding, S.A.P.I. de C.V. ("Metallorum"), also from Mexico and also controlled by a director of the Company. However, on September 15, 2018, Autlan acquired all of the shares of Metallorum, which ceased to exist as an independent entity, and thus the majority shareholder of the Company is once again Autlan. Continued operations of the Company are dependent on the Company's ability to obtain public equity financing or to receive continued financial support from its controlling shareholder, Autlan. There can be no assurance the Company will be successful in achieving these goals and, accordingly, there is a material uncertainty casting significant doubt about the Company's ability to continue as a going concern.

These condensed consolidated interim financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern, and these adjustments could be material.

## **GFM RESOURCES LIMITED**

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### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

Three and nine months ended September 30, 2019 and 2018  
(Unaudited - Expressed in Canadian dollars except where indicated)

#### **2. Basis of preparation**

(a) Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2018.

These condensed consolidated interim financial statements were approved by the Board of Directors for issue on October 29, 2019.

(b) Critical accounting estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2018, except as noted below.

(c) Adoption of new accounting standards

New IFRS pronouncements have been issued that become effective for and adopted by the Company as of January 1, 2019:

IFRS 16, *Leases*

This standard specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019.

The Company had no leases as at September 30, 2019 or December 31, 2018 and, therefore, IFRS 16 has no material effect on the Company's consolidated financial statements.

#### **3. Significant Accounting Policies**

Except for the adoption on January 1, 2019, of IFRS 16 (Note 2(c)), the accounting policies followed for the preparation of these condensed consolidated interim financial statements are consistent with those described in the December 31, 2018, annual consolidated financial statements.

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#### 4. Accounts Receivable

	September 30, 2019	December 31, 2018
	\$	\$
Canadian GST receivable	1,375	1,303
Mexican value added tax (IVA)	44,741	4,797
Total	46,116	6,100

#### 5. Accounts Payable and Accrued Liabilities

The Company's accounts payable and accrued liabilities are as follows:

	September 30, 2019	December 31, 2018
	\$	\$
Trade payables	-	964
Accrued liabilities	13,038	20,722
Total	13,038	21,686

#### 6. Loans with related party

On November 17, 2017, the Company entered into a loan agreement (the "Loan Agreement") with Metallorum, with effect from August 1, 2017. Under the terms of the Loan Agreement, Metallorum would make available to the Company a line of credit in up to USD \$2,000,000 per year. Advances made under the Loan Agreement bear annual simple interest calculated on the London Interbank Offered Rate ("LIBOR") plus 2%, calculated daily on the outstanding balance. The principal outstanding, together with any accrued but unpaid interest will become due and payable on demand, but such demand shall not to be made unless the Company has sufficient funds to repay the loan. There are no convertibility features on this Loan Agreement. During the nine months ended September 30, 2019, the weighted-average interest rate was 4.39% (2018 – 3.92%).

Also on November 17, 2017, Metallorum entered into a separate loan agreement with the Subsidiary (the "Subsidiary Agreement"), with effect from August 1, 2017. Under the terms of the Subsidiary Agreement, Metallorum would make available to the Subsidiary a line of credit in up to MXN \$40,000,000 (approximately USD \$2,000,000) per year. Advances made under the Subsidiary Agreement bear annual simple interest calculated on the Bank of Mexico's inter-bank loan rate (TIE for its acronym in Spanish – *Tasa de Interés Interbancaria de Equilibrio*) plus 2%, calculated daily on the outstanding balance. The Subsidiary Agreement has a term of two years, which can be extended upon agreement of the parties. There are no convertibility features on this Subsidiary Agreement. During the nine months ended September 30, 2019, the weighted-average interest rate was 10.45% (2018 – 9.88%).

With the acquisition of Metallorum by Aultan, both the Loan Agreement and the Subsidiary agreement were transferred to Aultan without any changes to their terms and conditions.

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#### 6. Loans with related party (cont'd...)

The following is a summary of the loans with Autlan:

	Principal received \$	Accrued Interest \$	Mexican value- added tax ("IVA") \$	Foreign exchange adjustment \$	Total due \$
Balance, December 31, 2017	205,620	3,033	325	(3,772)	205,206
Loan Agreement	151,629	4,478	-	4,422	160,529
Subsidiary Agreement	75,247	12,556	786	6,382	94,971
Balance, September 30, 2018	432,496	20,067	1,111	7,032	460,706
Loan Agreement	-	2,563	-	13,243	15,806
Subsidiary Agreement	24,303	5,453	(757)	3,666	32,665
Balance, December 31, 2018	456,799	28,083	354	23,941	509,177
Loan Agreement	134,300	10,579	-	(9,528)	135,351
Subsidiary Agreement	94,605	22,098	(80)	(9,918)	106,705
<b>Balance, September 30, 2019</b>	<b>685,704</b>	<b>60,760</b>	<b>274</b>	<b>4,495</b>	<b>751,233</b>

#### 7. Share Capital

a) Authorized: the Company is authorized to issue an unlimited number of common shares without par value. There are no restrictions on transfers.

b) Issued and outstanding:

There were 19,085,071 common shares issued and outstanding as of September 30, 2019 and December 31, 2018. No common shares were issued during the nine months ended September 30, 2019 or during the fiscal year ended December 31, 2018.

c) Warrants

There were no warrants outstanding as of September 30, 2019 (2018 – Nil).

d) Stock options

On May 23, 2006, the Board of Directors approved the adoption of a new incentive stock option plan (the "Plan"), which was approved by the shareholders on June 29, 2006, and ratified by the shareholders at each subsequent annual general meeting of shareholders, including the one held on June 19, 2019. The Plan allows grants of options to a maximum of 10% of the issued and outstanding shares of the Company at any time.

As the Company is currently in the search for mineral property acquisition targets, the stock options granted to the consultants and other non-employees of the Company are to serve as incentive in that process. Therefore, a reliable estimate of the fair value of these options based on the equivalent fair market value of services rendered is very difficult to assess given the unique and varying nature of these services and the lack of comparable market information. Accordingly, the Company has measured share-based payments to non-employees based on the fair value of the equity instruments granted.

There were no stock options outstanding as of September 30, 2019 (2018 – Nil).

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**8. Related party transactions**

During the nine months ended September 30, 2019 and 2018, the Company entered into the following transactions with related parties and incurred payments to key management personnel, which were in the normal course of operations.

Nine months ended September 30:	2019	2018
	\$	\$
Management fees paid to a company controlled by the Chief Financial Officer of the Company	45,000	45,000
Office rent paid to a company controlled by the Chief Financial Officer of the Company	450	450
Director's fees	18,000	15,000
Advances pursuant to Loan Agreement <sup>(i)</sup>	134,300	151,629
Advances pursuant to Subsidiary Agreement <sup>(ii)</sup>	94,605	75,247
Interest accrued on advances <sup>(i,ii)</sup>	32,677	17,034

<sup>(i)</sup> Pursuant to the Loan Agreement with Autlan (Note 6).

<sup>(ii)</sup> Pursuant to the Subsidiary Agreement with Autlan (Note 6).

In addition, during 2018 the Subsidiary entered into a Mandate and Indemnity Agreement (the "Mandate") with Metallorum Prospección, S.A.P.I. de C.V. (formerly Soluciones y Reparaciones Domésticas, S.A. de C.V.) ("Prospección"), an affiliate company also controlled by Autlan, with retroactive effect as of August 14, 2017. Prospección had entered into an agreement to acquire certain mineral concessions in Mexico from another affiliate company; however, Prospección does not have the corporate capacity to hold mineral concessions and, therefore, requested the Subsidiary to hold these concessions on its behalf. Pursuant to the Mandate, Prospección will pay and indemnify the Subsidiary for all costs and liabilities associated with the holding of these concessions.

During the nine months ended September 30, 2019, the Company paid \$776,304 on behalf of Prospección, and was immediately reimbursed by Prospección for this amount, with nil cash effect (2018 – \$463,663).

The amounts and loans due to related parties are as follows:

As at:	September 30, 2019	December 31, 2018
	\$	\$
Amounts owed to Autlan pursuant to Loan Agreement (Note 6):	395,589	260,239
Amounts owed to Autlan by Subsidiary pursuant to Subsidiary Agreement (Note 6):	355,644	248,938
Management fees and reimbursable expenses owed to a company controlled by an officer of the Company:	5,348	-
Directors' fees owed to a company controlled by a director of the Company:	2,100	-
	<b>758,681</b>	<b>509,177</b>

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### NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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#### 9. Property examination costs

The Company holds title to three mineral concessions in the state of Durango, Mexico (“La Casita” group of concessions), for which it is paying the semi-annual concession maintenance fees.

During 2018, the Subsidiary entered into an agreement with owners of the surface rights where La Casita’s claims are located (the “*Ejido*”) to secure land access through monthly payments of MXN \$100,000 (approximately \$6,900) plus 16% Mexican value added tax (“IVA”) for a period of six months, in order to conduct surface geological sampling. During the nine months ended September 30, 2019, the Company paid the *Ejido* MXN \$200,000 (inclusive of IVA) (approximately \$13,824) (2018 – MXN \$232,000, approximately equivalent to \$15,709).

In addition, on October 30, 2017, the Company entered into an exploration and evaluation agreement with Minera Auricup, S.de R.L. (“Auricup”) for exclusive access to conduct exploration and evaluation of the merits of a mineral concession (the “Evaluation Agreement”) of Auricup’s Baviácora concession (the “Concession”), a gold and silver target of approximately 4,400 hectares, located in the state of Sonora, Mexico.

Under the terms of the Evaluation Agreement, the Company will pay for outstanding mineral rights of the Concession, will have exclusive access rights for a period of six months, and will obtain a minimum 15% ownership stake in the Concession. The starting of the six-month initial evaluation and exploration term is subject to Auricup negotiating the land access rights with the local communal land administration. If, for any reason, such access rights are not successfully negotiated within 120 days of the date of Evaluation Agreement, the Company has the option of demanding full repayment, or to obtain a similar stake in a different but equivalent mineral concession owned by Auricup. Should the initial exploration and evaluation under the present agreement be successful, the Company, at its sole option, has the exclusive right to negotiate an agreement to acquire a further interest in the Concession. As at September 30, 2019, negotiations for access to the Concession are still in progress and no further payments have been made.

During the nine months ended September 30, 2019, the Company issued a bid to the Mexican mining authorities for the potential acquisition of the Dany II concession in the state of Guanajuato, Mexico. The Company’s majority shareholder, Autlan, owns other concessions in this area. If the bid is successful, the Company will add this concession to its portfolio of properties for potential exploration.

The summary of property examination costs is as follows:

	Prepaid amount		Expensed	
	As at		Nine months ended September 30	
	<u>September 30, 2019</u>	December 31, 2018	<u>2019</u>	2018
	\$	\$	\$	\$
La Casita - maintenance fees	6,547	-	19,604	18,921
La Casita - access	-	-	13,814	15,709
Baviácora - access	-	-	-	26,920
Dany II concession - bidding	-	-	12,160	-
Other exploration	-	-	1,312	-
	<b>6,547</b>	-	<b>46,890</b>	61,550

The Company drew down on its Subsidiary Agreement for the above-mentioned payments.

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### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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#### **10. Financial instruments**

With the adoption of IFRS 9, the Company has classified cash, accounts receivables, accounts payable and accrued liabilities, value-added tax payable, due to related parties and loans with related party at amortized cost. At present, the Company does not have any FVTPL or FVTOCI financial assets.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

##### *Currency Risk*

As at September 30, 2019, all of the Company's cash and cash equivalents were held either in Canadian dollars, US dollars or Mexican pesos. The Company incurs expenditures in Canada and Mexico, and as such is exposed to currency risk associated with these costs.

A change in the value of the Mexican peso by 10% relative to the Canadian dollar would affect the Company's working capital by approximately \$40,000, and its net loss for the year by approximately \$7,000.

##### *Interest rate and credit risk*

The Company has cash balances and significant debt owed to a majority shareholder. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The Company is not exposed to interest rate risk, as its convertible loan instrument is subject to fixed interest rates. The Company is exposed to interest rate risk on its loans with a related party as detailed in Note 6. A change 1% in interest rate would affect the interest by approximately \$7,200 based on the principal outstanding as at September 30, 2019.

##### *Liquidity risk*

The Company will depend on the advances provided by Autlan through the Loan Agreement and the Subsidiary Agreement (Note 6). The liquidity risk relates to the low cash position and the dependence on these advances. See Note 1 for further discussion regarding liquidity risks

#### **11. Capital Disclosures**

The Company's objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company's main source of funds is from the funds received from Autlan as a part of the Loan Agreement (Notes 1 and 6).

The Company manages the capital structure and makes appropriate adjustments to it based upon changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash and cash equivalents to include amounts held in banks. The Company places its cash with institutions of high credit worthiness. On September 30, 2019, the Company had cash of \$56,687 (December 31, 2018 – \$15,056).

The Company is not subject to any externally imposed capital requirements.

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#### 12. Supplementary information with respect to cash flows

The following table provides a reconciliation of cash and non-cash related-party liabilities generated from financing activities:

	Balance	Cash	Non-cash		Balance
	December 31, 2017	Advances	Interest and tax	Foreign exchange	September 30, 2018
	\$	\$	\$	\$	\$
Loans with related party	205,206	86,469	4,734	22,020	318,429
	September 30, 2018	Advances	Interest and tax	Foreign exchange	December 31, 2018
	\$	\$	\$	\$	\$
Loans with related party	318,429	164,710	20,345	5,693	509,177
	December 31, 2018	Advances	Interest and tax	Foreign exchange	<b>September 30, 2019</b>
	\$	\$	\$	\$	\$
Loans with related party	509,177	228,905	32,597	(19,446)	<b>751,233</b>

#### 13. Segmented Information

The Company is in one segment, namely mineral exploration in Mexico, with administration in two geographical regions, namely Canada and Mexico

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