

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2018 AND 2017
(Expressed in Canadian Dollars)



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Independent Auditor's Report

**To the Shareholders of
Superior Mining International Corporation**

We have audited the accompanying consolidated financial statements of Superior Mining International Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2018 and July 31, 2017, and the consolidated statements of loss and comprehensive loss, changes in deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Superior Mining International Corporation and its subsidiaries as at July 31, 2018 and July 31, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Superior Mining International Corporation to continue as a going concern.

"Crowe MacKay LLP"

**Chartered Professional Accountants
Vancouver, British Columbia
November 27, 2018**

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	July 31, 2018	July 31, 2017
ASSETS		
Current		
Cash	\$ 294,556	\$ 3,020
Receivables (Note 4)	5,571	2,197
	<u>\$ 300,127</u>	<u>\$ 5,217</u>
LIABILITIES AND DEFICIENCY		
Current		
Accounts payable and accrued liabilities (Note 6)	\$ 1,771,927	\$ 1,581,558
Advance from directors (Note 9)	180,638	87,673
Loans payable (Note 9 and 10)	492,268	445,399
	<u>2,444,833</u>	<u>2,114,630</u>
Deficiency		
Capital stock (Note 7)	19,311,181	19,025,731
Reserves (Note 7)	27,296	86,120
Deficit	<u>(21,294,800)</u>	<u>(21,037,270)</u>
Capital and reserve attributable to shareholders of Superior Mining International Corporation	(1,956,323)	(1,925,419)
Non-controlling interest	<u>(188,383)</u>	<u>(183,994)</u>
Total deficiency	<u>(2,144,706)</u>	<u>(2,109,413)</u>
Total liabilities and deficiency	<u>\$ 300,127</u>	<u>\$ 5,217</u>

Nature and continuance of operations (Note 1)

Subsequent event (Note 14)

Approved and authorized for issue on November 27, 2018 on behalf of the Board of Directors:

<u>“Brent Butler”</u>	Director	<u>“Cyrus Driver”</u>	Director
Brent Butler		Cyrus Driver	

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED	July 31, 2018	July 31, 2017
EXPENSES		
Accrued interest (Note 9 and 10)	\$ 46,869	\$ 44,075
Bank charges and interest	1,093	1,038
Consulting	53,444	6,000
Filing and transfer agent fees	13,118	16,520
Financing fees (Note 9)	-	106,152
Foreign exchange loss	3,944	2,687
Management fees (Note 9)	30,000	60,000
Office, telephone and printing	3,731	473
Professional fees	168,544	56,709
Write-off of exploration property (Note 5)	-	413,740
Loss and comprehensive loss for the year	\$ (320,743)	\$ (707,394)
Comprehensive loss attributable to:		
Shareholders of Superior Mining International Corporation	\$ (316,354)	\$ (705,753)
Non-controlling interests	(4,389)	(1,641)
	\$ (320,743)	\$ (707,394)
Basic and diluted loss per common share	\$ (0.05)	\$ (0.12)
Weighted average number of common shares outstanding	6,117,413	5,788,647

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY
(Expressed in Canadian Dollars)

	Number of shares	Capital stock	Share-based payment reserve	Deficit	Total	Non- controlling Interest	Total deficiency
Balance as at August 1, 2017	5,788,646	\$ 19,025,731	\$ 86,120	\$ (21,037,270)	\$ (1,925,419)	\$ (183,994)	\$ (2,109,413)
Private placement	6,000,000	300,000	-	-	300,000	-	300,000
Share issuance costs	-	(14,550)	-	-	(14,550)	-	(14,550)
Options expired	-	-	(58,824)	58,824	-	-	-
Loss for the year	-	-	-	(316,354)	(316,354)	(4,389)	(320,743)
Balance as at July 31, 2018	11,788,646	\$ 19,311,181	\$ 27,296	\$ (21,294,800)	\$ (1,956,323)	\$ (188,383)	\$ (2,144,706)
Balance as at August 1, 2016	5,788,646	\$ 19,025,731	\$ 350,883	\$ (20,596,280)	\$ (1,219,666)	\$ (182,353)	\$ (1,402,019)
Options expired	-	-	(264,763)	264,763	-	-	-
Loss for the year	-	-	-	(705,753)	(705,753)	(1,641)	(707,394)
Balance as at July 31, 2017	5,788,646	\$ 19,025,731	\$ 86,120	\$ (21,037,270)	\$ (1,925,419)	\$ (183,994)	\$ (2,109,413)

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED	July 31, 2018	July 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (320,743)	\$ (707,394)
Item not affecting cash:		
Unrealized foreign exchange loss	3,944	2,687
Accrued interest	46,869	44,075
Write off of exploration property	-	413,740
Changes in non-cash working capital items:		
Increase in receivables	(3,374)	(1,072)
Increase in accounts payable and accrued liabilities	186,425	221,228
Net cash used in operating activities	<u>(86,879)</u>	<u>(26,676)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Private placement	300,000	-
Share issuance costs	(14,550)	-
Advance from related parties	92,965	27,606
Net cash provided by financing activities	<u>378,415</u>	<u>27,606</u>
Change in cash for the year	291,536	930
Cash, beginning of year	<u>3,020</u>	<u>2,090</u>
Cash, end of year	<u>\$ 294,556</u>	<u>\$ 3,020</u>

Supplemental disclosure with respect to cash flows (Note 8)

1. NATURE AND CONTINUANCE OF OPERATIONS

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company's head, registered and records office address is 545 - 999 Canada Place, Vancouver, BC, Canada, V6C 3E1. The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the amounts comprising exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production. These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at July 31, 2018, the Company had an accumulated deficit of \$21,294,800 (2017 - \$21,037,270); a working capital deficiency of \$2,144,706 (2017 - \$2,109,413) and has not generated revenues from operations. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its exploration and evaluation assets, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretation Committee ("IFRIC"). These consolidated financial statements have been prepared on the basis of IFRS standards that are effective for the Company's reporting year ended July 31, 2018.

Basis of consolidation and presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

SUPERIOR MINING INTERNATIONAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PRESENTATION (cont'd...)

Basis of consolidation and presentation (cont'd...)

The consolidated financial statements include the financial statements of the parent and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest at July 31, 2018 and 2017	Principal Activity
Superior Mining South Africa (Pty) Corporation	South Africa	100%	Mineral exploration
Owl Eye Trading 71 (Pty) Ltd.	South Africa	100%	Mineral exploration
Turquoise Moon Trading 403 Pty Ltd. ("TM")	South Africa	87%	Mineral exploration
Middelvlei Gold & Investments (Pty) Ltd. ("MGI")	South Africa	50%	Mineral exploration

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments and critical estimates

The preparation of these financial statements in conformity with IFRS requires estimates and assumptions that affect the amounts reported in these financial statements.

Significant Accounting Judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

- i) Going concern risk assessment (Note 1); and
- ii) Determination of functional currency.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

- i) **Deferred income taxes** - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.
- ii) **Recoverability of the carrying value of the Company's exploration and evaluation assets.**

Foreign currency translation

The functional currency for each of the Company's subsidiaries is the currency in which funds from financing activities are generated. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates.

The functional currency of Superior Mining International Corporation, the parent entity, is the Canadian dollar, which is also the presentation currency of our consolidated financial statements. The functional currency of the Company's foreign subsidiaries is also the Canadian dollar.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates in effect at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

Financial instruments

Financial assets:

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd)

Financial assets: (cont'd)

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

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

Financial liabilities:

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

The Company has classified its cash as *Fair value through profit or loss*. The Company's accounts payable and accrued liabilities, advance from directors, and loans payable are classified as *Other financial liabilities*.

Convertible debentures

Convertible debentures are classified separately into financial liability and equity components in accordance with the substance of the contractual agreement. At the date of issue, the fair value of the liability component is estimated using a discount rate that would have been applicable to non-convertible debt. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the face value of the convertible debenture as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets

Pre-exploration costs are expensed in the period in which they are incurred. Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

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.” Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

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.

Interests in Joint Arrangements

A joint arrangement can take the form of a joint venture or joint operation. All joint arrangements involve a contractual arrangement that establishes joint control, which exists only when decisions about the activities that significantly affect the returns of the investee require unanimous consent of the parties sharing control. A joint operation is a joint arrangement in which the Company has rights to the assets and obligations for the liabilities relating to the arrangement. A joint venture is a joint arrangement in which the Company has rights to only the net assets of the arrangement.

Joint ventures are accounted for in accordance with the policy “Investments in Associates and Joint Ventures.” Joint operations are accounted for by recognizing the Company’s share of the assets, liabilities, revenue, expenses and cash flows of the joint operation in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Investments in Associates and Joint Ventures

Investments over which the Company exercises significant influence and which the Company does not control or jointly control are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale. Investments in joint ventures as determined in accordance with the policy "Interests in Joint Arrangements" are also accounted for using the equity method.

The equity method involves recording the initial investment at cost and subsequently adjusting the carrying value of the investment for the Company's proportionate share of the profit or loss, other comprehensive income or loss and any other changes in the associate's or joint venture's net assets such as dividends.

The Company's proportionate share of the associate's or joint venture's profit or loss and other comprehensive income or loss is based on its most recent financial statements. Adjustments are made to align any inconsistencies between the Company's accounting policies and the associate's or joint venture's policies before applying the equity method. Adjustments are also made to account for depreciable assets based on their fair values at the acquisition date of the investment and for any impairment losses recognized by the associate or joint venture.

If the Company's share of the associate's or joint venture's losses equals or exceeds the investment in the associate or joint venture, recognition of further losses is discontinued. After interest is reduced to zero, additional losses will be provided for and a liability recognized only to the extent that the Company has incurred legal or constructive obligations to provide additional funding or make payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

At each reporting date, the Company considers whether there is objective evidence of impairment in associates and joint ventures, and records an impairment charge accordingly.

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. As at July 31, 2018, there was no material provision for environmental rehabilitation.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years ended July 31, 2018 and 2017, this calculation proved to be anti-dilutive. Basic and diluted loss per share is calculated using the weighted-average number of common shares outstanding during the period.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share-based payments

The Company grants stock options to acquire 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 using the graded method. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based payment is transferred to accumulated losses (deficit). The Company estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate.

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 the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Share issuance costs

Costs directly identifiable with the raising of capital are charged directly to capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Valuation of warrants

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. The fair value attributed to the warrants, if any, is recorded in reserves.

Income taxes

Income tax on the statement of loss and comprehensive loss for the years presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Income taxes (cont'd)

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

New or revised standards and amendments to existing standards not yet effective

The Company has not applied the following new or revised standards and amendments that have been issued but are not yet effective:

- New standard IFRS 9, *Financial Instruments*, was issued in final form in July 2014 and will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for classifying and measuring financial assets. This standard is effective for years beginning on or after January 1, 2018. The impact of this amendment is expected to be minimal but is yet to be determined.

4. RECEIVABLES

The Company's receivables arise from Goods and Services Tax ("GST") receivable.

5. EXPLORATION AND EVALUATION ASSETS

During the year ended July 31, 2018, the Company did not incur any exploration and evaluation expenditures.

During the year ended July 31, 2017, the following exploration and evaluation expenditures were incurred:

	Mangalisa, South Africa	Red Castle, Australia	Total
Balance, August 1, 2016	\$ 1	\$ 408,095	\$ 408,096
Exploration expenditures:			
General	-	5,644	5,644
	1	413,739	413,740
Impairment loss:	(1)	(413,739)	(413,740)
Balance, July 31, 2018 and 2017	\$ -	\$ -	\$ -

Mangalisa, South Africa

During fiscal 2008, the Company was granted a lease, giving it the right to explore a property in the eastern part of the Free State Goldfield, near the village of Riebeeckstad, South Africa.

During the year ended July 31, 2016, the Company decided to write down the project to \$1 due to market conditions, recognizing an impairment loss of \$1,646,094. During the year ended July 31, 2017, the Company decided to write down the remaining \$1.

5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Redcastle, Australia

During the year ended July 31, 2012, the Company entered into a Heads of Agreement with Reinhold Resources Ltd. to earn-in a 51% interest (earned) in the Redcastle Project located in the Western Australia. The Company holds a 51% interest, having incurred exploration expenditures of AUD\$200,000 on the project before May 4, 2014. During the year ended July 31, 2017, the Company wrote down the project to \$Nil as management had no further plans for exploration on the project.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payables and accrued liabilities for the Company are broken down as follows:

	July 31, 2018	July 31, 2017
Trade payables	\$ 372,087	\$ 368,048
Due to related parties (Note 9)	1,317,840	1,197,510
Accrued liabilities	82,000	16,000
Total	\$ 1,771,927	\$ 1,581,558

7. CAPITAL STOCK RESERVED

a) Authorized share capital:

Unlimited common voting shares without par value.

b) Issued share capital:

During the year ended July 31, 2018, the Company closed a non-brokered private placement of 6,000,000 units at a price of \$0.05 per unit for aggregate gross proceeds of \$300,000. Each unit is comprised of one common share and one share purchase warrant of the Company. Each full warrant will entitle the holder to purchase one share at a price of \$0.10 until July 10, 2019. Finder's fees of \$14,550 cash were paid.

During the year ended July 31, 2017, the Company consolidated its common shares on a 10:1 basis. These consolidated financial statements reflect the share consolidation..

c) Stock options:

The Company has a fixed stock option plan whereby a maximum of 1,005,009 of the issued common shares are reserved for issuance under the plan. The options can be granted for a maximum term of five years and pricing and vesting are determined by the board of directors.

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7. CAPITAL STOCK RESERVED (cont'd...)

c) Stock options: (cont'd...)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Year Ended July 31, 2018		Year Ended July 31, 2017	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance at beginning of year	630,000	\$ 0.83	888,000	\$ 0.93
Expired / Cancelled	(410,000)	1.00	(258,000)	1.20
Balance at end of year	220,000	\$ 0.50	630,000	\$ 0.83
Number of options exercisable	220,000	\$ 0.50	630,000	\$ 0.83

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

	Number of Stock options	Exercise Price	Expiry Date
Stock options	220,000	\$ 0.50	March 16, 2019

d) Warrants:

Warrants transactions and the number of warrants outstanding are summarized as follows:

	Year Ended July 31, 2018		Year Ended July 31, 2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance at beginning of year	-	\$ -	-	\$ -
Granted	6,000,000	0.10	-	-
Balance at end of year	6,000,000	\$ 0.10	-	\$ -
Number of warrants exercisable	6,000,000	\$ 0.10	-	\$ -

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7. CAPITAL STOCK RESERVED (cont'd...)

d) Warrants: (cont'd...)

As at July 31, 2018, the following warrants were outstanding:

	Number of Stock options	Exercise Price	Expiry Date
Warrants	6,000,000	\$ 0.10	July 10, 2019

8. SUPPLEMENT DISCLOSURE WITH RESPECT TO CASH FLOWS

	July 31, 2018	July 31, 2017
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

During the year ended July 31, 2018, the Company recorded a transfer of fair value of \$58,824 (2017 - \$264,763) to deficit for 410,000 options (2017 - 258,000) expired.

9. RELATED PARTY TRANSACTIONS

Amounts paid or accrued to related parties are as follows:

		For the Year Ended July 31, 2018	For the Year Ended July 31, 2017
Key Management:			
CEO	Management fees	\$ 30,000	\$ 60,000
		\$ 30,000	\$ 60,000
Related Parties:			
A firm in which the CFO is a partner	Professional fees	\$ -	\$ 87,234
A firm in which the CFO is a partner	Financing fees	-	106,152
A company owned by the CFO	Professional fees	101,300	-
		\$ 101,300	\$ 193,386

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9. RELATED PARTY TRANSACTIONS (cont'd...)

The amounts due to the related parties included in accounts payables and accrued liabilities are as follows:

	July 31, 2018	July 31, 2017
Due to company owned by the CFO	\$ 517,272	\$ 477,272
Due to a director of a subsidiary of the Company	173,181	121,533
Due to a company owned by the CEO	532,142	533,645
Due to the CEO	95,245	65,061
	\$ 1,317,840	\$ 1,197,511

Other related party transactions

During the year ended July 31, 2018, the Company received advances from directors of the Company for working capital purposes, bringing the total advanced to \$180,638 (July 31, 2017 - \$87,673).

At July 31, 2018, the amount of loans payable to the directors is \$146,903 (2017 - \$126,754) bearing an interest rate of 15%, and \$224,487 (2017 - \$207,119) bearing an interest rate of 12%, due on demand. For the year ended July 31, 2018, total interest expense related to the loans is \$37,518 (2017 - \$34,722).

10. LOANS PAYABLE

	July 31, 2018	July 31, 2017
Loans payable from directors, bearing an interest rate of 15% compounded monthly, unsecured, due on demand	\$ 146,903	\$ 126,754
Loans payable, bearing an interest rate of 12% per annum, unsecured, due on demand	345,365	318,645
	\$ 492,268	\$ 445,399

11. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, accounts payable and accrued liabilities and liability portion of convertible debentures. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk due to the potential for counterparties to default on their contractual obligations consist primarily of receivables. The maximum potential loss on these financial instruments is equal to the carrying amounts of these items. The Company limits its exposure to credit loss by dealing with counterparties it believes to be creditworthy.

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

Financial statements measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as either "Level 1" Unadjusted quoted prices in active markets for identical assets or liabilities; "Level 2" Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and, "Level 3" Inputs that are not based on observable market data.

Financial instruments measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as follows:

	July 31, 2018			July 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Asset						
Cash	\$ 294,556	\$ -	\$ -	\$ 3,020	\$ -	\$ -

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2018, the Company had current assets of \$300,127 (July 31, 2017 - \$5,217) to settle current liabilities of \$2,444,833 (July 31, 2017 - \$2,114,630). The Company is planning additional financings in the near term to raise working capital to finance its ongoing operations.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant as the interest rates on the loans payable are fixed.

11. FINANCIAL INSTRUMENTS AND RISK (cont'd...)

Fair value (cont'd...)

(b) Foreign currency risk

The Company has monetary assets and liabilities denominated in foreign currencies and non-monetary assets represented by mineral exploration interests in Australia (AUD\$). The Company could accordingly be at risk for foreign currency fluctuations. As at July 31, 2018, the Company also had cash and accounts payable in South African rand (ZAR\$) and Singapore dollar (SGD\$). The amounts are minimal and any risk due to foreign currency fluctuations is not significant.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

12. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. capital stock, reserves and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the 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 common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's policy remains unchanged from the prior year.

13. INCOME TAXES

For the years ended July 31,	2018	2017
Loss before taxes for the year	\$ (320,743)	\$ (707,394)
Canadian federal and provincial income tax rates	26.42%	26%
Expected income tax recovery based on the above rates	\$ (84,730)	\$ (183,922)
Impact of change in tax rates and rate difference in other jurisdictions	(112,880)	(149,784)
Items not deductible for tax purposes	1,821	935
Change in unrecognized tax benefits	195,789	332,791
Deferred income tax recovery	\$ -	\$ -

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13. INCOME TAXES (cont'd...)

The significant components of the Company's deferred income tax assets and liabilities, using a Canadian basic statutory rate of 27% and South African statutory tax rate of 28% are as follows:

	2018	2017
Non-capital loss carryforwards	\$ 2,876,000	\$ 2,635,000
Cumulative exploration and development expenses	661,000	709,000
Capital loss carryforwards	985,000	981,000
Share issue costs	3,000	-
	<u>4,525,000</u>	<u>4,325,000</u>
Unrecognized deferred tax assets	<u>(4,525,000)</u>	<u>(4,325,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has available for deduction against future taxable income non-capital losses for Canadian income tax purposes of approximately \$8,660,720. These losses, if not utilized, will expire as follows:

2038	\$ 593,990
2037	593,830
2036	428,970
2035	480,050
2034	613,550
2033	684,180
2032	895,300
2031	1,107,900
2030	814,900
2029	439,990
2028	655,260
2027	719,460
2026	<u>685,400</u>
	<u>\$ 8,660,720</u>

The Company also has losses in South Africa which may be carried forward indefinitely. Future tax benefits, which may arise as a result of these losses, have not been recognized in these consolidated financial statements as it is not probable that the Company will generate future taxable income against which to utilize the temporary differences.

14. SUBSEQUENT EVENT

Subsequent to July 31, 2018, the Company issued 41,152,680 common shares to creditors in settlement of outstanding debts aggregating \$2,057,634.