

**GAINEY CAPITAL CORP.**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

## **NOTICE TO READER**

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

The accompanying unaudited condensed consolidated interim financial statements of Gainey Capital Corp. as at September 30, 2017 and 2016, notes to unaudited consolidated interim financial statements and related Management's Discussion and Analysis have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these 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.

**GAINEY CAPITAL CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars)  
(Unaudited)

AS AT

	SEPTEMBER 30, 2017	MARCH 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,188,299	\$ 8,604
Restricted cash (Note 13)	46,000	46,000
Receivables	3,912	705
Due from related party (Note 11)	-	51,885
Prepaid expenses	2,083	7,083
	1,240,294	114,277
<b>Exploration advances</b> (Note 7)	89,371	75,871
<b>Plant and equipment</b> (Note 6)	347,977	387,383
<b>Exploration and evaluation assets</b> (Note 7)	8,081,164	7,837,918
	\$ 9,758,806	\$ 8,415,449
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 211,112	\$ 151,354
Due to related party (Note 11)	149,114	15,632
	360,226	166,986
<b>Shareholders' equity</b>		
Share capital (Note 9)	11,467,859	10,470,459
Share subscriptions received	321,776	-
Reserves	1,068,582	1,068,582
Deficit	(3,459,637)	(3,290,578)
	9,398,580	8,248,463
	\$ 9,758,806	\$ 8,415,449

Nature and continuance of operations (Note 1)

On behalf of the Board:

“David Coburn”

Director

“Brent Omland”

Director

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

**GAINEY CAPITAL CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 and 2016**

	<b>Three months ended September 30, 2017</b>	Three months ended September 30, 2016	<b>Six months ended September 30, 2017</b>	Six months ended September 30, 2016
<b>EXPENSES</b>				
Accounting and audit	\$ 10,199	\$ 9,750	\$ 17,699	\$ 17,250
Amortization	-	24,807	-	49,614
Consulting fees	1,800	1,337	1,800	1,337
Legal	2,984	25,342	7,142	26,607
Management fees	37,577	39,348	77,926	77,848
Office	3,316	12,498	6,735	20,406
Shareholder & investor relations	32,200	5,705	45,783	6,892
Stock option expense	-	303,800	-	303,800
Transfer agent and regulatory fees	9,855	12,021	11,797	21,686
Travel	-	22,342	-	39,852
	<b>(97,931)</b>	<b>(456,950)</b>	<b>(168,882)</b>	<b>(565,292)</b>
<b>OTHER INCOME</b>				
Interest income	-	-	-	-
Foreign exchange loss	(123)	1,668	(177)	1,087
	<b>(123)</b>	<b>1,668</b>	<b>(177)</b>	<b>1,087</b>
<b>Loss and comprehensive loss for the period</b>	<b>\$ (98,054)</b>	<b>\$ (455,282)</b>	<b>\$ (169,059)</b>	<b>\$ (564,205)</b>
<b>Loss per common share – basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding:</b>				
<b>Basic and diluted</b>	<b>48,708,086</b>	<b>44,455,954</b>	<b>46,593,638</b>	<b>43,902,227</b>

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

**GAINEY CAPITAL CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 and 2016**

	Share Capital		Reserves	Deficit	Total
	Number of Shares	Amount			
Balance – April 1, 2016	43,797,954	10,285,693	855,848	(2,438,494)	8,703,047
Exercise of options	658,000	65,800	-	-	65,800
Share-based compensation	-	-	331,700	-	331,700
Loss for the year	-	-	-	(564,205)	(564,205)
<b>Balance – September 30, 2016</b>	<b>44,455,954</b>	<b>\$ 10,351,493</b>	<b>\$ 1,187,548</b>	<b>\$ (3,002,699)</b>	<b>\$ 8,536,342</b>
Balance – April 1, 2017	44,455,954	\$ 10,470,459	\$ 1,068,582	\$ (3,290,578)	\$ 8,248,463
Shares issued for private placement	10,030,670	1,027,400	-	-	1,027,400
Share issue costs	-	(30,000)	-	-	(30,000)
Share subscriptions received	-	321,776	-	-	321,776
Loss for the year	-	-	-	(169,059)	(169,059)
<b>Balance – September 30, 2017</b>	<b>54,486,624</b>	<b>\$ 11,789,635</b>	<b>\$ 1,068,582</b>	<b>\$ (3,459,637)</b>	<b>\$ 9,398,580</b>

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**GAINEY CAPITAL CORP.**  
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Expressed in Canadian Dollars)**  
**(Unaudited)**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 and 2016**

	<b>Three months ended September 30, 2017</b>	<b>Three months ended September 30, 2016</b>	<b>Six months ended September 30, 2017</b>	<b>Six months ended September 30, 2016</b>
<b>CASH PROVIDED BY (USED IN):</b>				
<b>Cash flows from operating activities:</b>				
Loss for the period	\$ (98,054)	\$ (455,282)	\$ (169,059)	\$ (564,205)
Non-cash items:				
Amortization	19,703	24,807	39,406	49,614
Share-based compensation	-	331,700	-	331,700
Changes in non-cash working capital:				
GST receivable	(2,539)	(2,354)	(3,207)	5,509
Accounts receivable	1,870	(52,536)	51,885	(77,449)
Accrued interest receivable	-	4,358	-	5,610
Prepaid expense	2,500	(3,275)	5,000	1,125
Trade and other payables	166,351	40,945	193,240	45,033
	<b>89,831</b>	<b>(111,637)</b>	<b>117,265</b>	<b>(203,063)</b>
<b>Cash flows from investing activities:</b>				
Exploration advances	(27,000)	20,854	(13,500)	(1,939)
Expenditures on resource properties	(204,854)	(298,286)	(243,246)	(369,448)
Recovery of exploration costs	-	-	-	-
	<b>(231,854)</b>	<b>(277,432)</b>	<b>(256,746)</b>	<b>(371,387)</b>
<b>Cash flows from financing activities:</b>				
Shares issued for cash (net)	997,400	-	997,400	-
Share subscriptions received	321,776	-	321,776	-
Proceeds from option exercise	-	65,800	-	65,800
	<b>1,319,176</b>	<b>65,800</b>	<b>1,319,176</b>	<b>65,800</b>
<b>Increase (decrease) in cash</b>	<b>1,177,153</b>	<b>(323,269)</b>	<b>1,179,695</b>	<b>(508,650)</b>
<b>Cash – beginning of period</b>	<b>11,146</b>	<b>588,282</b>	<b>8,604</b>	<b>773,663</b>
<b>Cash – end of period</b>	<b>\$ 1,188,299</b>	<b>\$ 265,013</b>	<b>\$ 1,188,299</b>	<b>\$ 265,013</b>

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

**GAINEY CAPITAL CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Gainey Capital Corp. (the “Company”) is in the business of mineral property exploration and development in Mexico. The Company was incorporated under the Business Corporations Act (British Columbia) on February 11, 2011 and is publicly listed on the TSX Venture Exchange (the “Exchange”) under the symbol GNC.

The Company’s head office is located at Suite 501–595 Howe Street, Vancouver, BC, Canada V6C 2T5.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether they contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

The Company had a net loss of \$169,059 for the six months ended September 30, 2017 and an accumulated deficit of \$3,459,637 which has been funded primarily by the issuance of equity. The Company’s ability to continue as a going concern is uncertain and is dependent upon the generation of profits from exploration and evaluation assets, obtaining additional financing or maintaining continued support from its shareholders and creditors. In the event that additional financial support is not received or operating profits are not generated, the carrying values of the Company’s assets may be adversely affected. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

These condensed interim consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying condensed interim consolidated financial statements.

**2. BASIS OF PREPARATION**

*Statement of compliance*

These condensed interim 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 of the International Financial Reporting Interpretations Committee (“IFRIC”).

These condensed interim consolidated financial statements were reviewed by the Audit Committee and approved and authorized for issuance by the Board of Directors on November 28, 2017.

*Consolidation*

The condensed interim consolidated financial statements at September 30, 2017 include, on a consolidated basis, the assets, liabilities, revenues and expenses of the Company and its wholly-owned subsidiary, Gainey Mexico, S.A. de C.V., which was incorporated in Mexico and will be carrying out the exploration activities and ore processing in Mexico. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intercompany transactions and balances are eliminated on consolidation.

**GAINEY CAPITAL CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**  
**FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

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**3. SIGNIFICANT ACCOUNTING POLICIES**

Basis of measurement

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Significant Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates*

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

1. whether or not an impairment has occurred in its exploration and evaluation assets;
2. the inputs used in the accounting for share-based compensation expense; and
3. the valuation of deferred income tax amounts.

*Critical accounting judgments*

Examples of significant judgments, apart from those involving estimation, include:

1. the accounting policies for exploration and evaluation assets;
2. classification of financial instruments; and
3. determination of functional currency.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

Exploration and evaluation assets

All property payments and all costs related to the exploration permitting process, exploration and development of evaluation and exploration assets are capitalized by property until the commencement of commercial production. Properties that have close proximity and have the possibility of being developed as a single mine are grouped as projects and are considered separate cash generating units (“CGU”) for the purpose of determining future mineral reserves and impairments.

Management reviews the capitalized costs on its evaluation and exploration assets at least annually to consider if there is an impairment in value to take into consideration from current exploration results and management’s assessment of the future probability of profitable operations from the property, or likely gains from the disposition or option of the property. If a property is abandoned, or considered to have no future economic potential, the acquisition and accumulated exploration and evaluation costs are written off to profit or loss. If the carrying value of a project exceeds its estimated value, an impairment provision is recorded.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the exploration and evaluation asset is considered to be a mine under development and is classified as “Mining Assets”. Exploration and evaluation expenditures accumulated are also tested for impairment before the property costs are transferred to mining assets.

Plant and Equipment

Plant and equipment are recorded at cost less accumulated amortization and, where applicable, impairment losses. The cost less residual value is amortized over the estimated useful life. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual period of financial reporting and the impact of any change in estimates is recognized prospectively. Depreciation is calculated using the declining balance method at a rate of 20% for processing plant and equipment and mining equipment, and at 30% for transportation equipment.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

**Financial assets**

Financial assets are classified into one of four categories:

1. Fair value through profit or loss (“FVTPL”);
2. Held-to-Maturity (“HTM”);
3. Loans and receivables; and
4. Available for sale (“AFS”).

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*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted. For all financial assets, objective evidence of impairment could include:

1. significant financial difficulty of the issuer or counterparty;
2. default or delinquency in interest or principal payments; or
3. it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of loss and comprehensive loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through the statement of loss and comprehensive 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.

Foreign Exchange

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiary is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

**4. NEW ACCOUNTING STANDARDS AND AMENDMENTS**

During the six months ended September 30, 2017, there were no new IFRS or International Accounting Standards ("IAS") or amendments that became effective that had a material impact on the Company's consolidated financial statements.

**GAINEY CAPITAL CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. ACCOUNTING STANDARDS NOT YET EFFECTIVE**

IFRS 15, Revenue from Contracts with Customers

IFRS 15 specifies how and when an IFRS reporter will recognize revenue as well as requiring such entities to provide users of financial statements with more informative and relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

IFRS 15 was issued in May 2014 and applies to an annual reporting period beginning on or after January 1, 2017.

In May 2015, IASB proposed to defer the effective date to January 1, 2018.

IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Company has initially assessed that there will be no material reporting changes as a result of adopting the above new standards; however, enhanced disclosure requirements are expected.

**6. PLANT AND EQUIPMENT**

	Processing plant and equipment	Mining equipment	Transportation equipment	Total
<b>Cost</b>				
<b>Balance, March 31, 2017</b>	\$ 588,902	\$ 25,100	\$ 31,269	\$ 645,271
Additions and Reclassifications	-	-	-	-
<b>Balance, September 30, 2017</b>	<b>\$ 588,902</b>	<b>\$ 25,100</b>	<b>\$ 31,269</b>	<b>\$ 645,271</b>
<b>Accumulated amortization</b>				
<b>Balance, March 31, 2017</b>	\$ (230,695)	\$ (9,270)	\$ (17,923)	\$ (257,888)
Amortization	(35,821)	(1,583)	(2,002)	(39,406)
<b>Balance, September 30, 2017</b>	<b>(266,516)</b>	<b>(10,853)</b>	<b>(19,925)</b>	<b>(297,294)</b>
<b>Net book value, September 30, 2016</b>	<b>\$ 402,983</b>	<b>\$ 17,810</b>	<b>\$ 16,204</b>	<b>\$ 436,997</b>
<b>Net book value, September 30, 2017</b>	<b>\$ 322,386</b>	<b>\$ 14,247</b>	<b>\$ 11,344</b>	<b>\$ 347,977</b>

**GAINEY CAPITAL CORP.**  
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. EXPLORATION AND EVALUATION ASSETS**

Title to exploration and evaluation assets involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets, and, to the best of its knowledge, title to all of its properties, except as described below, are properly registered and in good standing.

However, there can be no guarantee of title and the exploration and evaluation assets may otherwise be subject to prior claims, agreements, or transfers and rights of ownership may be affected by undetected defects.

	<b>El Colomo Property</b>	
<b>Acquisition costs:</b>		
Beginning balance: March 31, 2017		5,743,598
<b>Acquisition costs – September 30, 2017</b>	<b>\$</b>	<b>5,743,598</b>
<b>Exploration costs - Beginning balance:</b>		<b>2,094,320</b>
Deferred exploration costs:		
Consulting		655
Amortization		39,406
Duties and taxes on mineral claims		139,400
Geological consulting		4,701
Legal fees		27,533
Site personnel		29,994
Travel		1,557
Total deferred exploration costs:		243,246
<b>Cumulative exploration costs, September 30, 2017</b>	<b>\$</b>	<b>2,337,566</b>
<b>Balance, September 30, 2017</b>	<b>\$</b>	<b>8,081,164</b>

On October 2, 2013, the Company completed the acquisition from Golden Anvil S.A. de C.V. (“Golden Anvil”) of certain assets comprising of the El Colomo concessions, a concentration plant, and other associated assets and equipment (the “Assets”). The Company’s consideration for acquiring the Assets was as follows:

- Issued 12,000,000 common shares in the capital of the Company to Golden Anvil nominees (the “Consideration Shares”). The Consideration Shares were valued at \$0.50 per common share for an aggregate value of \$6,000,000, which was capitalized as exploration and evaluation assets; and
- Issued a special warrant of the Company to Golden Anvil. The special warrant is convertible, for no additional consideration, from time to time, into that number of common shares of the Company equal to the number of ounces of gold or gold-equivalent, categorized as measured and indicated mineral resources (as such terms are defined by the Canadian Institute of Mining, Metallurgy and Petroleum), upon receipt by the Company and/or Golden Anvil of a technical report prepared in accordance with National Instrument 43-101 by an independent qualified person (as defined in NI 43-101) in relation to the El Colomo concessions on or before September 27, 2019, subject to an aggregate maximum of 3,000,000 common shares. No value was attributed to the special warrant.

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**7. EXPLORATION AND EVALUATION ASSETS (cont'd)**

The Consideration Shares and special warrant issued are subject to surplus escrow agreements pursuant to Exchange policy, and to an additional 100% lock-up agreement that expires on the first anniversary of completion of the Qualifying Transaction. The Consideration Shares and any shares issued on the conversion of the special warrant were to be released from escrow on a trickle-out basis over a period of three years from the date of the final Exchange bulletin (the "Bulletin").

The Company also issued 665,000 common shares to Avonlea Ventures Inc. ("Avonlea"), an arm's length party, as a finder's fee with respect to the acquisition of the Assets. The common shares were valued at \$0.50 per common share for an aggregate value of \$332,500, which was capitalized as exploration and evaluation assets. Based on the finder's fee agreement with Avonlea, the shares are subject to resale restrictions such that 10% of the shares are free of voluntary resale restrictions on the date of the Bulletin and an additional 15% of the shares are free of voluntary resale restrictions each six-month period thereafter.

On August 14, 2017, the Company filed a NI43-101 with respect to the El Colomo Gold-Silver project located in the Sierra Madre Occidental Trend in western Mexico.

**Promissory Note**

In connection with the acquisition of the Assets, the Company has received a signed Promissory Note (the "Note") in the amount of \$266,215 from Golden Anvil. The Note reflects certain amounts paid by the Company on the behalf of Golden Anvil for duties and taxes, unpaid consulting fees associated with a 43-101 Technical Report completed, 50% of certain sponsorship fees incurred as well as other expenses. These costs were paid by the Company but were incurred by Golden Anvil prior to the finalizing of the Qualifying Transaction which closed in September 2013.

The Note has an interest rate of 12% per annum compounded monthly and as of September 30, 2017, this debt, including interest, amounts to \$429,199 (September 30, 2016 - \$380,892). The Note is secured by 800,000 Consideration Shares ("Pledged Shares") and personally guaranteed by Marco Antonio Rincon-Valdes (a former director of the Company – Note 11) and Francisco Rolando Rincon-Romo. Pursuant to the Note, Golden Anvil had agreed to repay 50% of the original balance on or before October 2, 2014, and the remaining 50% on or before April 2, 2015. Payment was not made, and the Company has taken action pursuant to the personal guarantees and if necessary, the Company may realize on the Pledged Shares. Any amounts recovered from Golden Anvil will be offset against the carrying value of the Company's exploration and evaluation assets.

During the year ended March 31, 2017, the Company received notice of a claim from Marco Antonio Rincon-Valdes seeking the delivery of 571,337 common shares in the capital of the Company pursuant to the original terms of the El Colomo purchase agreement, as well as for general damages associated with a claimed breach of the purchase agreement. As at March 31, 2017, no provisions have been recorded for any potential liability arising from this matter, as management believes the claim to be without merit, with the likelihood of the Company being required to issue the common shares and pay the general damages being remote.

**GAINEY CAPITAL CORP.**  
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**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>September 30, 2017</b>	<b>March 31, 2017</b>
Accounts payable	\$ 320,226	\$ 126,354
Accrued liabilities	40,000	25,000
	<b>\$ 360,226</b>	<b>\$ 66,226</b>

**9. SHARE CAPITAL**

*Authorized share capital*

Unlimited number of common shares without par value.

*Share issuances*

On August 24, 2017, the Company closed the 1<sup>st</sup> Tranche of a private placement by issuing 10,033,333 shares at a price of \$0.12 for gross proceeds of \$1,204,000. Each Unit is comprised of one common share and one common share purchase warrant, each Warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.24 per share for a period of 36 months. All securities issued in connection with the Offering will be subject to a statutory four-month plus one-day hold period.

*Year ended March 31, 2017*

There were 658,000 shares issued for exercise of options at \$0.10 per option for gross proceeds of \$65,800.

*Shares held in escrow*

Included in the shares outstanding at September 30, 2017 are 6,673,698 (2016 – 11,808,499) common shares held in escrow, which may not be transferred, assigned or otherwise dealt without the consent of the regulators.

During the six-month period ended September 30, 2017, certain escrow releases were not completed pursuant to escrow agreements because of non-payment issues in regards to the Note with Golden Anvil (Note 7).

A special warrant (as described in Note 7) exercisable for up to 3,000,000 common shares of the Company is also held in escrow.

*Warrants*

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

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Life (years)</b>
Balance, March 31, 2015 and 2016	15,252,900	\$ 0.29	0.15
Expired	(885,400)	0.30	
Balance, March 31, 2017	14,367,500	\$ 0.30	0.65
Granted	10,114,020	0.24	2.90
<b>Balance, September 30, 2017</b>	<b>24,481,520</b>	<b>\$ 0.28</b>	

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**10. SHARE-BASED PAYMENTS**

*Stock options*

The Company follows the policies of the Exchange, under which it is authorized to grant options to officers, directors, employees and consultants, enabling them to acquire an amount of shares equal to up to 10% of the issued and outstanding common shares of the Company. The exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the Exchange. The options can be granted for a maximum term of 10 years and vest at the discretion of the board of directors.

The changes in stock options are as follows:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance, March 31, 2015	1,316,000	\$ 0.30
Granted	2,070,000	0.25
Balance, March 31, 2016	3,386,000	0.27
Exercised	(658,000)	0.10
Cancelled	(658,000)	0.50
Granted	2,375,000	0.20
Balance, March 31, 2017	4,445,000	0.22
Cancelled	(220,000)	0.25
<b>Balance, September 30, 2017</b>	<b>4,225,000</b>	<b>\$ 0.22</b>

On September 8, 2016, the Company granted 2,375,000 stock options exercisable to purchase common shares at a price of \$0.20 per common share expiring on September 8, 2021 to directors, officers, and consultants of the Company. 2,300,000 of the stock options vested on grant, with the remaining 100,000 vesting at a rate of 25% per quarter from the grant date.

On June 1, 2015, the Company granted 2,070,000 stock options exercisable to purchase common shares at a price of \$0.25 per common share expiring on June 1, 2020 to directors, officers, and consultants of the Company. 1,820,000 of the stock options vested on grant, with the remaining 250,000 vesting at a rate of 25% per quarter from the grant date.

The following stock options were outstanding and exercisable at September 30, 2017:

<b>Number of Options Outstanding</b>	<b>Number of Options Exercisable</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>
1,850,000	1,850,000	\$ 0.25	June 1, 2020
2,375,000	2,375,000	0.20	September 8, 2021
4,225,000	4,225,000	\$ 0.22	

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**10. SHARE-BASED PAYMENTS (cont'd)**

*Reserves*

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

The Company uses the Black-Scholes option pricing model for valuing stock options. For the year ended March 31, 2017, the Company recognized share-based compensation of \$303,800 (2016 - \$248,935) and capitalized \$27,900 (2016 - \$99,021) to exploration and evaluation assets.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	<b>2017</b>	<b>2016</b>
Risk-free interest rate	-	0.90
Expected life of options	-	5 years
Expected volatility	-	107.81%
Expected dividend yield	-	0.00%

**11. RELATED PARTY TRANSACTIONS**

The remuneration of key management personnel, being those persons determined as having authority and responsibility for planning, directing and controlling the activities of the Company during the six months ended September 30, 2017 and 2016 is as follows:

	<b>Three Months ended</b>	
	<b>September 30, 2017</b>	<b>September 30, 2016</b>
Compensation paid/accrued to the Chief Executive Officer ("CEO")	\$ 77,926	\$ 77,848
Compensation paid/accrued to the Chief Financial Officer ("CFO")	15,000	15,000
Share-based payments	-	93,584
	<b>\$ 92,926</b>	<b>\$ 186,432</b>

*Related party balances*

As at September 30, 2017, a total of \$117,614 (2016 – Nil) is owing to the CEO of the Company and \$31,500 (2016 - \$Nil) is owing to the CFO of the Company.

See Note 7 for details in regards to a Promissory Note with Golden Anvil, a company with a director in common with a former director of the Company.

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**12. MANAGEMENT OF CAPITAL**

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company, in order to support the acquisition, exploration and evaluation of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company may issue new shares or issue debt in the near future to meet its current obligations.

At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six-month period ended September 30, 2017. The Company is not subject to externally imposed capital requirements.

**13. FINANCIAL RISK MANAGEMENT**

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making fair value measurements. The fair value hierarchy has the following levels:

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

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

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

As at September 30, 2017, the carrying values of the Company's accounts payable and accrued liabilities approximate their fair values due to their short terms to maturity. The Company's cash and cash equivalents and restricted cash, under the fair value hierarchy is based on level one quoted inputs.

**Financial Risks**

The Company has exposure to the following risks from its use of financial instruments:

*Credit risk*

The Company's credit risk is primarily attributable to cash and cash equivalents and receivables. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank accounts and GIC investments held with reputable financial institutions, from which management believes the risk of loss to be remote. Federal deposit insurance covers balances of up to \$100,000 in Canada and the Company hold nominal amounts in Mexican accounts as at September 30, 2017 and 2016. The Company limits its exposure to credit loss for cash by placing its cash with high quality financial institutions. Accordingly, as at September 30, 2017, the Company's exposure to credit risk is minimal.

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**13. FINANCIAL RISK MANAGEMENT (cont'd)**

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

At September 30, 2017, the Company had a cash balance of \$1,188,299 (March 31, 2017 - \$8,604) to settle current liabilities of \$360,226 (March 31, 2017 - \$166,986). The Company has corporate credit cards with various credit limits not exceeding \$35,000. As collateral for the credit cards, the Company has a one-year term deposit of \$46,000 earning annual interest at Canadian prime rate less 1.95%.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements and loans from related and other parties. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

*Market risk*

The Company is subject to normal risks including fluctuations in foreign exchange rates and interest rates. While the Company manages its operations in order to minimize exposure to these risks, it has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. At September 30, 2017, the Company was not exposed to significant interest rate risk.

The Company is principally engaged in the acquisition and exploration of exploration and evaluation assets in Mexico. To date the operating expenditures have been denominated in Canadian dollars. In the future, due to the location of operations, the Company may experience exposure to foreign exchange rate fluctuations for expenditures in foreign currencies against the Canadian dollar as the functional currency of the business entity.

**14. SEGMENTED INFORMATION**

The Company operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Mexico. As at September 30, 2017, all of the Company's exploration and evaluation assets and plant and equipment are located in Mexico.

**15. SUBSEQUENT EVENTS**

On November 15, 2017, the Company announced the closing of the second, and final tranche, of its previously announced non-brokered private placement by issuing an additional 5,979,653 units at a price of \$0.12 per unit to raise gross proceeds of \$717,758 with all securities issued having a four-month hold period which expires on March 11, 2018. Total gross proceeds of the Offering are \$1,957,558 with a total of 16,312,986 shares, 16,312,986 warrants, and 385,000 Finders' Warrants being issued.

With respect to finders' fees, the Company will pay an aggregate of \$30,000 in cash, issue 135,000 shares, and issue 385,000 Finders Warrants in connection with the Offering. The Company issued 250,000 Finders' warrants exercisable at a price of \$0.16 for a period of 24 months and will issue 135,000 Finders' warrants at an exercise price of \$0.24 for a period of 36 months.