



**Consolidated Financial Statements of  
Magna Terra Minerals Inc.**

**For the years ended  
August 31, 2018 and August 31, 2017  
(Expressed in Canadian Dollars)**

## Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Magna Terra Minerals Inc. (the "Company" or "Magna Terra") are the responsibility of management and the Board of Directors.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management has established processes which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statements of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the financial statements together with other financial information of the Company for issuance to the shareholders. The financial statements have been audited by MNP LLP. Their report outlines the scope of their examination and opinion on the financial statements.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

DATED this 31st day of December, 2018.

MAGNA TERRA MINERALS INC.

Per: (signed) "Lew Lawrick"  
Name: Lew Lawrick  
Title: President & Chief Executive Officer

Per: (signed) "Errol Farr"  
Name: Errol Farr  
Title: Chief Financial Officer

## Independent Auditors' Report

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To the Shareholders of Magna Terra Minerals Inc.:

We have audited the accompanying consolidated financial statements of Magna Terra Minerals Inc., which comprise the consolidated statement of financial position as at August 31, 2018, and the consolidated statements of income and other comprehensive income, cash flows and changes in equity for the year 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 financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit 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 auditors' 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 audit 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 Magna Terra Minerals Inc. as at August 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements, which describes the material uncertainties that may cast doubt about the company as a going concern.

### *Other Matter*

The financial statements as at August 31, 2017 and for the year then ended, were reported on by other auditors who expressed an unqualified opinion on those statements in their report dated December 28, 2017.

Toronto, Ontario  
December 31, 2018

*MNP LLP*

Chartered Professional Accountants  
Licensed Public Accountants

**MNP**

# Magna Terra Minerals Inc.

## Consolidated Statements of Financial Position

(In Canadian dollars)

| As at  | August 31<br>2018<br>\$ | August 31<br>2017<br>\$ |
|--|-------------------------|-------------------------|
| <b>ASSETS</b>  |                         |                         |
| <b>Current</b>   |                         |                         |
| Cash   | 1,000                   | 140,047                 |
| Other receivables  | 15,045                  | 47,966                  |
| Prepaid expenses   | 3,000                   | -                       |
| Short term investments (note 4)                            | -                       | 1,214,550               |
|  | <b>19,045</b>           | <b>1,402,563</b>        |
| <b>Non-current</b>   |                         |                         |
| Foreign VAT receivable                                     | 36,116                  | 86,156                  |
| Exploration and evaluation assets (note 6)                 | 2,696,209               | 1,686,764               |
|  | <b>2,751,370</b>        | <b>3,175,483</b>        |
| <b>LIABILITIES</b>   |                         |                         |
| <b>Current</b>   |                         |                         |
| Trade and other payables (note 11)                         | 313,005                 | 192,643                 |
| Loan from related party (note 8)                           | 60,500                  | -                       |
|  | <b>373,505</b>          | <b>192,643</b>          |
| <b>SHAREHOLDERS' EQUITY</b>                                |                         |                         |
| Share capital, warrants, share based compensation (note 7) | 6,239,602               | 6,206,172               |
| Deficit  | (3,861,737)             | (3,223,332)             |
|  | <b>2,377,865</b>        | <b>2,982,840</b>        |
|  | <b>2,751,370</b>        | <b>3,175,483</b>        |

The accompanying notes are an integral part of these consolidated financial statements.  
Nature of operations and going concern (notes 1 and 2)

Approved on behalf of the board:

(signed) "Lew Lawrick"  
\_\_\_\_\_  
Director

(signed) "Dennis Logan"  
\_\_\_\_\_  
Director

# Magna Terra Minerals Inc.

## Consolidated Statements of Income and Other Comprehensive Income

(In Canadian dollars)

|  | For the years ended |                   |
|--|---------------------|-------------------|
|  | August 31           | August 31         |
|  | 2018                | 2017              |
|  | \$                  | \$                |
| <b>Expenses</b>  |                     |                   |
| Professional fees  | 130,158             | 40,345            |
| General and administrative (note 12)                                   | 218,342             | 174,863           |
| Management fees (note 8)   | 285,753             | 180,625           |
| Share based compensation   | 19,680              | 347,990           |
| Loss on sale of subsidiary (4)   | 12,035              | -                 |
| Foreign exchange loss  | (16,238)            | (49,988)          |
| Reversal of Atala impairment losses (note 4)                           | -                   | (197,952)         |
| (Gain) loss on short term investments (note 5)                         | (6,889)             | 105,583           |
| <b>Comprehensive loss for the year</b>                                 | <b>(642,841)</b>    | <b>(601,466)</b>  |
| <b>Loss per share basic and diluted</b>                                | <b>(0.01)</b>       | <b>(0.01)</b>     |
| <b>Weighted average number of shares outstanding basic and diluted</b> | <b>70,415,618</b>   | <b>55,140,705</b> |

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

# Magna Terra Minerals Inc.

## Consolidated Statements of Cash Flows

(In Canadian dollars)

|  | For the years ended |                |
|--|---------------------|----------------|
|  | August 31           | August 31      |
|  | 2018                | 2017           |
|  | \$                  | \$             |
| <b>Operating activities</b>  |                     |                |
| Comprehensive loss for the year  | (642,841)           | (601,466)      |
| Adjustment for non-cash items:   |                     |                |
| Gain on short-term investments   | (6,889)             | (856,281)      |
| Reversal of Atala impairment losses (note 4)                                     | -                   | (197,952)      |
| Share based compensation (note 7)  | 19,680              | 347,990        |
| Loss on sale of subsidiary (note 4)  | 12,035              | -              |
| Net change in non-cash working capital balances related to operating activities: |                     |                |
| Other receivables  | 32,789              | (42,726)       |
| Prepaid expenses   | (3,000)             | -              |
| Due to related party   | 60,500              | (29,000)       |
| Trade and other payables   | 54,998              | 70,585         |
| Net cash used in operating activities  | (472,728)           | (346,987)      |
| <b>Investing activities</b>  |                     |                |
| Purchase of short-term investment  | -                   | (700,390)      |
| Proceeds from sale of subsidiary net of cash sold (note 4)                       | 24,164              |                |
| Foreign VAT taxes receivable   | 395                 | (86,157)       |
| Proceeds from sale of short-term investment (note 5)                             | 1,221,439           | 1,611,316      |
| Additions to mineral properties  | (912,317)           | (1,107,090)    |
| Net cash provided from (used in) investing activities                            | 333,681             | (282,321)      |
| <b>Financing activities</b>  |                     |                |
| Common shares issued for cash  | -                   | 794,546        |
| Share issue expense  | -                   | (30,498)       |
| Net cash provided from (used in) investing activities                            | -                   | 764,048        |
| <b>Net increase (decrease) in cash</b>   | <b>(139,047)</b>    | <b>134,740</b> |
| Cash, beginning of the year  | 140,047             | 5,307          |
| <b>Cash, end of the year</b>   | <b>1,000</b>        | <b>140,047</b> |

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

# Magna Terra Minerals Inc.

## Consolidated Statements of Changes in Equity

(In Canadian dollars)

|  | Share capital     |                  | Share based compensation | Sub-total        | Deficit            | Total            |
|--|-------------------|------------------|--------------------------|------------------|--------------------|------------------|
|  | #                 | \$               | \$                       | \$               | \$                 | \$               |
| <b>Balance, August 31, 2016</b>                            | <b>48,312,465</b> | <b>4,794,134</b> | <b>108,570</b>           | <b>4,902,704</b> | <b>(2,730,436)</b> | <b>2,172,268</b> |
| Common shares issued for cash                              | 15,890,928        | 794,546          | -                        | 794,546          | -                  | 794,546          |
| Common shares issued for exploration and evaluation assets | 6,000,000         | 300,000          | -                        | 300,000          | -                  | 300,000          |
| Share issue expenses                                       | -                 | (30,498)         | -                        | (30,498)         | -                  | (30,498)         |
| Share based compensation                                   | -                 | -                | 347,990                  | 347,990          | -                  | 347,990          |
| Expiry of options  | -                 | -                | (32,760)                 | (32,760)         | 32,760             | -                |
| Cancellation of options                                    | -                 | -                | (75,810)                 | (75,810)         | 75,810             | -                |
| Net loss for the year                                      | -                 | -                | -                        | -                | (601,466)          | (601,466)        |
| <b>Balance, August 31, 2017</b>                            | <b>70,203,393</b> | <b>5,858,182</b> | <b>347,990</b>           | <b>6,206,172</b> | <b>(3,223,332)</b> | <b>2,982,840</b> |
| Sale of subsidiary   | -                 | -                | -                        | -                | 4,436              | 4,436            |
| Common shares issued for exploration evaluation and assets | 250,000           | 13,750           | -                        | 13,750           | -                  | 13,750           |
| Share based compensation                                   | -                 | -                | 19,680                   | 19,680           | -                  | 19,680           |
| Net loss for the year                                      | -                 | -                | -                        | -                | (642,841)          | (642,839)        |
| <b>Balance, August 31, 2018</b>                            | <b>70,453,393</b> | <b>5,871,932</b> | <b>367,670</b>           | <b>6,239,602</b> | <b>(3,861,737)</b> | <b>2,377,867</b> |

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

## **Magna Terra Minerals Inc.**

### **Notes to the Consolidated Financial Statements**

**For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)**

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#### **1. Nature of operations**

Magna Terra Minerals Inc. ("Magna Terra" or the "Company") is incorporated under the *Canada Business Corporations Act* and is involved in the acquisition and exploration of mining properties in Argentina and Canada (see note 5). Substantially all of the Company's efforts are devoted to financing and developing these properties.

Its stock is listed on the TSX Venture Exchange under the symbol MTT and the Bolsa de Comercio de Santiago (the Chilean Stock Exchange) under the symbol MTTCL. The address of the Company and its registered office is located at 150 York Street, Suite 410, Toronto, Ontario, M5H 3S5.

#### **2. Going concern**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than in the normal course of business and at amounts that may differ from those shown in these financial statements.

For the year ended August 31, 2018, the Company had a net loss of \$642,841 (for the year ended August 31, 2017 incurred net loss of \$601,466), had a cash deficiency from operations of \$472,728 (for the year ended August 31, 2017 - used \$346,987), and as at August 31, 2018, had an accumulated deficit of \$3,861,737 (August 31, 2017 - \$3,223,332) and a working capital deficit of \$380,460 (August 31, 2017 - a surplus of \$1,209,920).

To date there has been no determination whether the Company's interests in mineral exploration properties contain mineral reserves, which are economically recoverable. The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration and evaluation assets and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves and the achievement of profitable operations; and the ability of the Company to raise alternative financing; or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

#### **Statement of compliance**

These audited financial statements have been prepared in accordance with accounting policies in full compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The policies applied in these financial statements are based on IFRS issued and outstanding as of December 20, 2018, the date the Board of Directors approved the financial statements.

#### **Basis of presentation**

These financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in note 3.

#### **Functional and presentation currency**

The audited financial statements are presented in Canadian dollars, which is the Company's functional

## Magna Terra Minerals Inc.

### Notes to the Consolidated Financial Statements

For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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currency.

### 3. Significant accounting policies

#### Significant estimates and judgments

The preparation of these audited financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses.

Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to impairment assessments of exploration and evaluation assets ("E&E assets"), the short-term investments and the valuation of share based payments. The most significant judgments relate to the use of the going concern assumption in the preparation of the financial statements and the determination of the economic viability of exploration and evaluation assets.

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

#### Consolidation

During the prior year the Company acquired all of the issued and outstanding shares of Atala Resources Corporation ("Atala"). Therefore, these consolidated financial statements include the accounts of the Company, which includes its wholly-owned subsidiary Atala and Atala's wholly owned subsidiaries Atala Argentina S.A. and AUEx Argentina S.A. Subsidiaries are those entities over which Atala has the power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns, generally accompanying a shareholding that confers more than half of the voting rights. The consolidated financial statements include the operating results of acquired subsidiaries from the date the Company obtains control.

Magna Terra's principal wholly-owned subsidiaries, and the main countries in which they operate, are as follows:

| Name                           | Principal Place of Business | % Ownership |      | Functional Currency |
|--------------------------------|-----------------------------|-------------|------|---------------------|
|                                |                             | 2018        | 2017 |                     |
| Atala Resources Corporation    | Canada                      | 100         | 100  | Canadian Dollar     |
| Atala Resources Argentina S.A. | Argentina                   | 100         | 100  | Canadian Dollar     |
| AUEx Argentina S.A.            | Argentina                   | -           | 100  | Canadian Dollar     |

#### Exploration and evaluation assets ("E&E")

Costs related to the acquisition, and exploration of E&E assets are capitalized until a decision is made as to whether or not the assets contains sufficient economic reserves for mine development. Upon management concluding that an asset is economic for mine development than the asset will be transferred to mine under development. The Company's management reviews the carrying amounts of E&E assets for impairment on a regular basis, at least annually. Government assistance is applied as a reduction of deferred exploration expenditures.

## **Magna Terra Minerals Inc.**

### Notes to the Consolidated Financial Statements

For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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The direct cost of E&E assets consist of:

- Acquisition of exploration properties;
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

Where the Company enters arrangements with a third party to provide a working interest in a mineral property held, in exchange for cash and/or share consideration and/or certain exploration expenditures on the property, the exploration incurred by the third party is not recognized as part of the Company's interest and any cash/share consideration received is offset against the carrying value of the property and property option revenue is recognized after the carrying value is eliminated.

#### **Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its mineral properties on an annual basis to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the mineral exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write down.

Impairment exists when the carrying amount of the asset, or group of assets, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the statement of loss. The recoverable amount of an asset is the higher of its fair value less costs to dispose and its value in use.

#### **Basic and diluted comprehensive loss per share**

Basic income or loss per share is calculated using the weighted average number of shares outstanding during the period. In order to determine diluted loss per share, any expected proceeds from the exercise of dilutive warrants and options are assumed to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The dilutive effect of these convertible securities is reflected in dilutive loss per share assuming such conversion occurred at the beginning of the period. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share.

#### **Income taxes**

Income tax expense consists of current and deferred tax expense. Current and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized, and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized in net earnings and comprehensive income or in equity depending on the item to which the adjustment relates.

## **Magna Terra Minerals Inc.**

### **Notes to the Consolidated Financial Statements**

**For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)**

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Deferred tax assets are recognized to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

#### **Share-based payment transactions**

Employees, including directors and senior executives, of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). In situations where equity instruments are issued and some or all of the services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

#### **Equity-settled transactions**

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted. The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

#### **Share issuance costs**

Share issuance costs incurred on the issue of the Company's shares are charged directly to share capital.

#### **Financial instruments**

All financial assets and liabilities are initially recognized at fair value. In subsequent periods, financial assets and liabilities which are fair-value-through-profit-loss ("FVTPL") are recorded at fair value with gains and losses recognized in net income; financial assets which are loans and receivables or held to maturity are recorded at amortized cost using the effective interest rate method and gains and losses recognized in net income; financial assets which are available for sale are recorded at fair value with gains and losses recognized (net of applicable taxes) in other comprehensive income except for prolonged and significant losses which are recognized in net income; financial liabilities that are not FVTPL are recorded at amortized cost using the effective interest rate method and recognized in net income.

#### **Fair value through profit and loss**

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statement of loss.

The Company does not currently hold any derivative instruments or apply hedge accounting.

## **Magna Terra Minerals Inc.**

### Notes to the Consolidated Financial Statements

For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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#### **Other financial liabilities**

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Transaction costs related to financial instruments other than FVTPL are capitalized as part of the cost of the financial instruments. Transaction costs related to FVTPL are expensed as incurred.

#### **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 negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- the likelihood that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets.

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 profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

#### **Financial instruments recorded at fair value:**

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on 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 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### **Related party transactions**

Parties are considered to be related if one party has the ability to directly or indirectly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be Individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

## Magna Terra Minerals Inc.

### Notes to the Consolidated Financial Statements

For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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#### Recent accounting pronouncements "IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 was issued by the IASB in October 2010 and will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. There will be no material impact on the financial statements as a result of this adoption.

#### 4. Acquisition of Atala Resources Corporation ("Atala")

On May 5, 2017, the Company completed a Share Purchase Agreement (the "Agreement"), with Atala and the shareholders of Atala (the "Atala Shareholders"); whereby Magna Terra acquired all of the issued and outstanding shares of Atala for a total purchase price of \$300,000. As consideration for the purchase price, Magna Terra issued 6 million common shares at a deemed price of \$0.05 per Magna Terra Share. Under the terms of the Agreement, Magna Terra also assumed all of Atala's liabilities.

The acquisition of Atala includes all of the assets and liabilities of Atala and its 100% owned subsidiaries Atala Resource Argentina S.A. ("Atala Argentina") and AuEx Argentina S.A. ("AuEx"). This acquisition has been accounted for as an asset acquisition and not a business combination. This is because Atala's primary assets are exploration and evaluation assets and it has neither operating revenues nor employees. As such, Atala does not have any significant inputs and processes applied to those inputs that have the ability to create outputs.

The allocation of the purchase price to the net assets of Atala was as follows:

|   | \$             |
|---|----------------|
| Current assets  | 100,117        |
| Exploration and evaluation assets   | 800,665        |
| Total assets  | 990,782        |
| Total liabilities   | (1,073,200)    |
| Liabilities in excess of assets acquired  | (82,418)       |
| Common shares issued  | (300,000)      |
| Purchase price discrepancy ("PPD")  | 382,418        |
| Acquisition costs   | 106,194        |
| <b>PPD and acquisition costs allocated to exploration and evaluation assets</b> | <b>488,612</b> |

Immediately prior to the closing of the acquisition, Magna Terra recorded the reversal of its impairment losses of \$197,952 that it previously recognized on its advances to Atala. The loans to Atala have been eliminated on consolidation.

On January 3, 2018, Atala Argentina closed the sale of the shares of AuEx to a third party for cash of \$24,303 and the forgiveness of debt. AuEx's assets included primarily VAT recoverable and also had income tax losses. This resulted in the recording of a loss of \$12,035 during the year.

#### 5. Short term investments

On April 28, 2016, the Company received 2,535,293 common shares of First Mining Gold Corp. ("First Mining") as part of the property purchase agreement with First Mining for the Pitt Gold property. During the year ended August 31, 2017, the Company sold 1,535,293 First Mining shares for proceeds of

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\$1,302,859. During the year ended August 31, 2018, the Company sold the remaining 1,000,000 First Mining shares for proceeds of \$625,967. As at August 31, 2018, the Company no longer holds any First Mining shares.

During the year ended August 31, 2017, the Company held 15,000,000 common shares of Northern Superior Resources Inc. ("Northern"). The Company sold 5,000,000 common shares of Northern for gross proceeds of \$313,252 and purchased 5,000,000 units of Northern at a cost of \$250,000. Each unit consists of one common share and one common share purchase warrant (the "Warrant"). The Warrant entitles the Company to acquire Northern common shares at a price of \$0.075 until March 6, 2019. During the year ended August 31, 2018, the Company sold 15,000,000 Northern shares for proceeds of \$595,472. As at August 31, 2018, the Company holds nil Northern shares and 5,000,000 Warrants with a market value of nil.

#### 6. Exploration and evaluation assets

The Company holds interests in the following exploration properties.

|                                   | Santa Cruz projects | Quebec projects | Total            |
|-----------------------------------|---------------------|-----------------|------------------|
| <b>Balance, August 31, 2016</b>   | -                   | 5,722           | 5,722            |
| Acquisition of mineral properties | 1,289,277           | -               | 1,289,277        |
| Expenditures                      | 342,568             | 49,197          | 391,765          |
| <b>Balance, August 31, 2017</b>   | <b>1,631,845</b>    | <b>54,919</b>   | <b>1,686,764</b> |
| Acquisition costs                 | 82,301              | -               | 82,301           |
| Expenditures                      | 942,121             | -               | 942,121          |
| Government grants                 | -                   | (18,977)        | (18,977)         |
| <b>Balance, August 31, 2018</b>   | <b>2,660,267</b>    | <b>35,942</b>   | <b>2,696,209</b> |

#### Santa Cruz Projects

The Santa Cruz projects consist of an exploration property portfolio that spans approximately 103,000 hectares in 8 independent areas in the highly prospective Province of Santa Cruz, Argentina.

The Company owns the mining rights to the Boleadora group as well as El Monte, Gertrudis, Katrina Piedra Negra, El Meridano, Covadonga, and La Rosita projects which were acquired from Renaissance Gold Inc. ("RenGold") by Atala in 2014. In the original acquisition agreement (the "Agreement"), for a period of 10 years from 2014, the Company was obligated to pay to RenGold an amount of \$30,000 should it complete an equity financing of minimum proceeds \$1 million and an additional amount of \$50,000 should it complete an additional financing for additional minimum proceeds of \$1 million. On October 26, 2017, the Company closed an amending agreement (the "Amending Agreement") which modifies the Agreement. The Amending Agreement terminates certain rights RenGold retained for future cash payments above, in return for providing RenGold with:

- (i) 250,000 common shares of the Company (issued); and
- (ii) \$25,000 cash (paid).

RenGold is also entitled to a 4% NSR royalty on certain properties, less any royalties payable to the Province of Santa Cruz and any underlying vendor. The royalty can be purchased back in an amount in excess of 1% at a price of US\$1 million per 1%. In no case will the RenGold NSR be less than 1%.

The Piedra Negra, El Meridano, Covadonga, and La Rosita projects are subject to an underlying option agreement with a private Argentine vendor pursuant to which Atala shall make options payments to the vendor commencing on January 1<sup>st</sup> of every year for the next 3 years (US\$50,000 in 2019, US\$125,000

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in 2020 and US\$300,000 in 2021 for a total of US\$475,000. The Vendor is also entitled to receive a 2% NSR royalty. The royalty can be purchased back for US\$800,000.

#### Quebec Projects

##### Verneuil

The Company holds a 50% interest (SOQUEM Inc. 50%) in 34 claims located approximately 15 km to the east of the Lebel-sur-Quevillon, district of Abitibi. A 2% net smelter return royalty on future production is attached to the property.

##### Noyell

The Company holds a 100% interest in 49 claims located approximately 25 km south of Matagami, along the Douay-Cameron Corridor adjacent to the Vezza deposit, district of Abitibi.

##### Matchi-Manitou

The Company holds a 29% interest in 29 claims located in Tavernier and Pershing townships, district of Abitibi. A 1% net smelter return royalty on future production is attached to the property. In accordance with this joint venture agreement on a 29/71% basis, each partner has to contribute its share, failing which; its interest would be diluted.

## 7. Shareholders' equity

#### Authorized share capital

The Company is authorized to issue an unlimited number of common shares.

On May 5, 2017, the Company completed the first tranche of a non-brokered private placement and the acquisition of Atala (note 4). The Company issued 13,720,928 units (the "Units") of Magna Terra for gross proceeds of \$686,046. Each Unit consists of one common share and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder to acquire one common share of the Company at a price of \$0.08 until May 5, 2019. Finders fees in the amount of \$10,500 were paid in conjunction with the Offering. In connection with the Atala Transaction the Company issued 6,000,000 common shares to the Atala shareholders.

On June 19, 2017, the Company completed the second tranche of its private placement for gross proceeds of \$108,500 bringing the total amount raised to \$794,546. In this tranche a total of 2,170,000 Units were issued at \$0.05 per Unit. Each Unit consists of one common share and one Warrant. Each Warrant entitles the holder to acquire one common share of the Company at a price of \$0.08 until June 19, 2019. No finder's fees were paid in conjunction with this portion of the private placement.

On October 26, 2017 the Company issued 250,000 common shares as described in note 5 above.

#### Warrants

The composition of the outstanding warrants as at August 31, 2018 consists of the following:

|          | Expiry date   | Number            | Exercise Price |
|----------|---------------|-------------------|----------------|
| Warrants | May 5, 2019   | 13,720,928        | \$0.08         |
| Warrants | June 19, 2019 | 2,170,000         | \$0.08         |
|          |               | <b>15,890,928</b> |                |

#### Share based compensation

The Company adopted a fixed stock option plan (the "Plan") whereby the Board of Directors may grant to employees, officers, directors, management consultants and external consultants of the Company or of its

## Magna Terra Minerals Inc.

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subsidiary thereof, options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board. The exercise price of each option may not be lower than the market price of the common shares at the time of the grant of the options. The options vest at the date of the grant unless additional restrictions on the vesting of the options are imposed by the Board of Directors except for the consultants working in investor relations, whose options are vested in quarterly installments over a twelve-month period from grant. The option period is a period of time fixed by the Board of Directors but cannot exceed 5 years.

|                                       | Options<br>#     | Weighted average<br>exercise price<br>\$ |
|---------------------------------------|------------------|--|
| <b>Balance, August 31, 2016</b>       | <b>2,550,000</b> | <b>0.06</b>                              |
| Issued                                | 3,400,000        | 0.065                                    |
| Issued                                | 1,900,000        | 0.07                                     |
| Expired                               | (650,000)        | 0.10                                     |
| Cancelled                             | (1,900,000)      | 0.05                                     |
| <b>Balance, August 31, 2017</b>       | <b>5,300,000</b> | <b>0.07</b>                              |
| Issued                                | 400,000          | 0.05                                     |
| <b>Balance, August 31, 2018</b>       | <b>5,700,000</b> | <b>0.07</b>                              |
| <b>Exercisable at August 31, 2018</b> | <b>5,600,000</b> | <b>0.07</b>                              |

A summary of the outstanding stock options is presented below:

| Date of grant     | Remaining<br>life | Number of<br>options<br># | Exercise price<br>\$ |
|-------------------|-------------------|---------------------------|----------------------|
| May 18, 2017      | 3.73 years        | 3,400,000                 | 0.065                |
| August 9, 2017    | 3.95 years        | 1,900,000                 | 0.070                |
| September 7, 2017 | 4.03 years        | 400,000                   | 0.050                |
|                   |                   | <b>5,700,000</b>          |                      |

On May 18, 2017, the Company granted 3,400,000 stock options with an exercise price of \$0.065 and expiring on May 18, 2022. The options have been valued using the Black-Scholes method with a risk-free interest rate of 1.14%, expected volatility of 214%, dividend yield of nil and an expected life of 5 years, resulting in share-based compensation of \$217,260.

On August 9, 2017, the Company granted 1,900,000 stock options with an exercise price of \$0.065 and expiring on August 9, 2022. The options were valued using the Black-Scholes method with a risk-free interest rate of 1.77%, expected volatility of 213%, dividend yield of nil and an expected life of 5 years, resulting in share-based compensation of \$130,730.

On April 18, 2017, 650,000 stock options expired unexercised.

On September 7, 2017, the Company granted 400,000 stock options with an exercise price of \$0.050 and expiring on September 7, 2022. The options were valued using the Black-Scholes method with a risk-free interest rate of 1.61%, expected volatility of 213%, dividend yield of nil and an expected life of 5 years, resulting in share-based compensation of \$19,680. The options vest in four equal amounts on a quarterly basis over the first year of the option.

## Magna Terra Minerals Inc.

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For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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#### 8. Key management compensation and related party transactions

The Company defines its key management as the Board of Directors, Chief Executive Officer and Chief Financial Officer. For the year ended August 31, 2018, \$278,500 was paid as management compensation (for the year ended August 31, 2017 – \$187,875). Share based compensation awarded to key management for the year ended August 31, 2018 was \$19,680 (for the year ended August 31, 2017 - \$239,973).

|                          | For the year<br>ended August 31 |                |
|--------------------------|---------------------------------|----------------|
|                          | 2018                            | 2017           |
|                          | \$                              | \$             |
| Management fees          | 246,000                         | 180,625        |
| Directors fees           | 32,500                          | 7,250          |
| Share based compensation | 19,680                          | 239,973        |
|                          | <b>298,180</b>                  | <b>429,452</b> |

On April 27, 2018, the Company completed the sale of 10,000,000 common shares of Northern at \$0.04 per share for gross proceeds of \$400,000 to Thorsen Fordyce Merchant Capital Inc. ("Thorsen"), a company controlled by Lewis Lawrick, the President and CEO of the Company.

As at August 31, 2018, the Company has a loan outstanding from Thorsen in the amount of \$60,500, which is non-interest bearing and due on demand.

#### 9. Financial instrument risk management

##### a) Fair value of financial instruments

The carrying value of cash, trade and other payables and due to related party approximates fair value due to the short-term nature of these financial instruments.

The Company's financial instruments consist of the following:

|                               |                             |
|-------------------------------|-----------------------------|
| <b>Financial assets:</b>      | <b>Classification:</b>      |
| Cash                          | FVTPL                       |
| Short term investment         | FVTPL                       |
| Other receivables             | Loans and receivables       |
| <b>Financial liabilities:</b> | <b>Classification:</b>      |
| Trade and other payables      | Other financial liabilities |
| Due to related party          | Other financial liabilities |

As of August 31, 2018, except for cash, none of the Company's financial instruments are recorded at fair value in the statements of financial position. Cash is classified as level 1 fair value.

##### b) Risk management

###### Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company is exposed to credit risk with respect to its cash. To minimize this risk, cash has been placed with major Canadian financial institutions.

## Magna Terra Minerals Inc.

### Notes to the Consolidated Financial Statements

For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

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#### Liquidity risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. The Company ensures that there is sufficient capital in order to meet annual business requirements, after taking into account administrative, property holding and exploration budgets, against cash and short-term investments. As at August 31, 2018, the Company has \$1,000 in cash and current liabilities of \$399,503. As the Company does not have operating cash flow, the Company has and will continue to rely primarily on equity financing to meet its capital requirements.

#### Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its short-term investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. In addition, most of the Company's investments are in the resource sector.

### 10. Capital risk management

The Company's objective when managing capital is to raise sufficient funds to execute its exploration plan and to meet its ongoing administrative costs. As at August 31, 2018, the Company's capital consists of equity, which is comprised of share capital, share based compensation, and deficit, in the amount of \$2,377,867 (August 31, 2017 - \$2,982,840).

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed.

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 does not have any externally imposed capital requirements or covenants

### 11. Trade and other payables

| As at          | August 31<br>2018<br>\$ | August 31<br>2017<br>\$ |
|----------------|-------------------------|-------------------------|
| Trade payables | 265,762                 | 149,043                 |
| Accruals       | 73,241                  | 43,600                  |
|                | <b>339,003</b>          | <b>192,643</b>          |

The standard maturity terms of the Company's trade and other payables are 30 – 60 days.

## Magna Terra Minerals Inc.

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For the years ended August 31, 2018 and August 31, 2017 (In Canadian dollars)

#### 12. General and administrative

|                           | For the year<br>ended August 31 |                |
|---------------------------|---------------------------------|----------------|
|                           | 2018                            | 2017           |
|                           | \$                              | \$             |
| Consulting fees           | 66,000                          | 44,000         |
| Geologic consulting       | 26,694                          | 11,297         |
| Shareholder services      | 13,983                          | 61,529         |
| Insurance                 | 13,266                          | 8,319          |
| Listing fees              | 9,449                           | 25,417         |
| Office                    | 19,767                          | 2,593          |
| Rent                      | 28,576                          | -              |
| Conferences and promotion | 40,607                          | 21,608         |
|                           | <b>218,342</b>                  | <b>174,863</b> |

#### 13. Income Taxes

##### Income tax expense

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.7% to the effective tax rate is as follows:

|   | 2018      | 2017      |
|---|-----------|-----------|
|   | \$        | \$        |
| Net income (loss) before recovery of income taxes                     | (642,841) | (601,466) |
| Expected income tax (recovery) expense                                | (171,640) | (227,400) |
| Difference in foreign tax rates                                       | (4,410)   | -         |
| Non-taxable portion of realized (gain) loss on short-term investments | -         | (161,800) |
| Reversal of impairment losses   | -         | (74,800)  |
| Share based compensation and non-deductible expenses                  | 40,500    | 134,800   |
| Unrealized loss (gain) on short term investments                      | -         | 181,800   |
| Change in tax benefits not recognized                                 | 135,550   | 147,400   |
| Income tax (recovery) expense   | -         | -         |

##### Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

|   | 2018      | 2017        |
|---|-----------|-------------|
|   | \$        | \$          |
| Property, plant and equipment                     | 14,670    | -           |
| Share issuance cost                               | 19,280    | 19,000      |
| Non-capital loss carried forward - Canada         | 588,630   | -           |
| Non-capital loss carried forward - Argentina      | 318,890   | -           |
| Investment tax credits                            | 20,980    | -           |
| Resource pools – exploration and evaluation asset | 3,218,680 | (1,367,000) |

The net capital loss carry-forward may be carried forward indefinitely, but can only be used to reduce capital gains.

## Magna Terra Minerals Inc.

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Share issue and financing costs will be fully amortized in 2020.

The remaining deductible temporary differences may be carried forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

|      | 2018           |
|------|----------------|
|      | \$             |
| 2031 | 40             |
| 2032 | 108,530        |
| 2033 | 2,610          |
| 2034 | 6,570          |
| 2035 | 38,050         |
| 2036 | 42,660         |
| 2037 | 48,590         |
| 2038 | 351,580        |
|      | <b>598,630</b> |

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#### 14. Segmented information

The Company operates in a single reportable operating segment, being the acquisition, exploration and retention of mineral property assets. Geographic segment information of the Company's non-current assets as at August 31, 2018 and August 31, 2017 are as follows:

|           | August 31<br>2018 | August 31<br>2017 |
|-----------|-------------------|-------------------|
|           | \$                | \$                |
| Canada    | 35,942            | 54,920            |
| Argentina | 2,722,383         | 1,718,000         |
|           | <b>2,758,325</b>  | <b>1,772,920</b>  |

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#### 15. Subsequent events

On December 28, 2018, the Company closed the first tranche of a private placement for gross proceeds of \$400,000 by the issuance of 8,000,000 units. Each unit was priced at \$0.05 and consists of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.10 per warrant share until December 28, 2020.

The Company paid finders fees of \$2,800 in cash and 56,000 broker warrants (the "Broker Warrants"), with each Broker Warrant entitling the holder to acquire one common share at a price of \$0.10 until December 28, 2020. All securities will be subject to a four month hold period ending on April 29, 2019.

On December 28, 2018, the Company granted 2,120,000 stock options to employees, officers and directors of the Company, with an exercise price of \$0.05 per share, exercisable until December 28, 2023.