



LINCOLN MINING CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Lincoln Mining Corp.

Opinion

We have audited the accompanying consolidated financial statements of Lincoln Mining Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of income (loss) and comprehensive income (loss), cash flows, and changes in shareholders' deficiency for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the consolidated financial statements, which indicates that the Company has a working capital deficiency of \$2,765,792 and total liabilities of \$3,034,752 at December 31, 2018. As stated in Note 2, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

April 29, 2019

LINCOLN MINING CORPORATION
Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

	Notes	2018	2017
		\$	\$
Assets			
Current assets			
Cash		70,102	21,899
Receivables	8	81,625	35,762
Prepaid expenses		28,560	115,892
		180,287	173,553
Non-current assets			
Equipment		2,709	6,059
Deposits		14,160	14,006
Mineral properties	4	69,171	-
		86,040	20,065
Total assets		266,327	193,618
Liabilities and shareholders' deficiency			
Current liabilities			
Accounts payable and accrued liabilities	8	2,013,204	2,382,608
Exploration funding	15	33,010	-
Loans payable	6	74,336	86,305
Promissory notes	7	825,529	604,810
		2,946,079	3,073,723
Non-current liabilities			
Provision for environmental rehabilitation	5	88,673	81,543
		88,673	81,543
Total liabilities		3,034,752	3,155,266
Shareholders' deficiency			
Share capital	9	23,399,098	22,118,931
Capital reserves	9	2,877,687	2,588,249
Share subscriptions received in advance	9	-	38,095
Deficit		(29,045,210)	(27,706,923)
Total shareholders' deficiency		(2,768,425)	(2,961,648)
Total liabilities and shareholders' deficiency		266,327	193,618

Nature of operations (Note 1)

Commitment (Note 12)

Subsequent events (Note 15)

Approved and authorized by the Board on April 29, 2019.

<u>"Paul Saxton"</u>	Director	<u>"Andrew Milligan"</u>	Director
Paul Saxton		Andrew Milligan	

LINCOLN MINING CORPORATION**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)***For the years ended December 31, 2018 and 2017**(All amounts are in Canadian Dollars, unless otherwise stated)*

	Notes	2018	2017
Exploration expenses	4, 8	1,147,512	446,937
Administrative expenses			
Administrative support		-	1,405
Consulting and management fees	8	138,680	123,050
Depreciation		3,350	4,594
Foreign exchange loss (gain)		121,096	(74,633)
Investor relations and shareholder services		145,065	180,489
Office maintenance		47,301	14,312
Professional fees	8	201,233	180,677
Travel		46,893	20,053
		703,618	449,947
Finance expenses (income)			
Interest income		(44)	(61)
Interest expense		17,672	18,879
		17,628	18,818
Other Income			
Write-off of accounts payable		-	(33,175)
Write-off of receivables		-	7,683
Gain on settlement of debts	6, 7, 9	(530,471)	(3,018,025)
		(530,471)	(3,043,517)
Net income (loss) and comprehensive income (loss) for the year		(1,338,287)	2,127,815
Basic and diluted earnings (loss) per common share		\$ (0.02)	\$ 0.06
Weighted average number of common shares outstanding		71,120,248	34,703,820

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

LINCOLN MINING CORPORATION
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

	2018	2017
	\$	\$
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income (loss) for the year	(1,338,287)	2,127,815
Items not affecting cash:		
Accrued interest expense	17,672	18,879
Depreciation	3,350	4,594
Unrealized foreign exchange	23,290	(12,435)
Write-off of accounts payable	-	(33,175)
Write-off of receivables	-	7,683
Gain on settlement of debts	(530,471)	(3,018,025)
Changes in non-cash working capital items:		
Increase in accounts payable and accrued liabilities	598,801	215,717
(Increase) decrease in prepaid expenses and deposits	87,178	(16,329)
Increase in receivables	(45,863)	(23,186)
Net cash used in operating activities	(1,184,330)	(728,462)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral properties	(64,493)	-
Recoveries of mineral properties	61,426	-
Exploration funding	33,010	-
Net cash provided by investing activities	29,943	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Shares issued for cash, net	995,500	676,950
Share subscriptions received in advance	-	38,095
Promissory notes payable	222,244	-
Loans payable	(15,154)	(11,705)
Net cash provided by financing activities	1,202,590	703,340
Net change in cash for the year	48,203	(25,122)
Cash, beginning of the year	21,899	47,021
Cash, end of the year	70,102	21,899

Supplemental cash flow information (Note 11)

LINCOLN MINING CORPORATION
Consolidated Statements of Changes in Shareholders' Deficiency

(All amounts are in Canadian Dollars, unless otherwise stated)

	Number of shares	Share capital \$	Capital reserves \$	Share subscriptions received in advance \$	Deficit \$	Total \$
Balance at December 31, 2016	25,496,021	21,425,218	1,584,242	5,000	(29,834,738)	(6,820,278)
Private placement	11,400,000	570,000	-	(5,000)	-	565,000
Private placement	3,100,000	155,000	-	-	-	155,000
Share subscriptions received	-	-	-	38,095	-	38,095
Share issuance costs	-	(87,057)	44,007	-	-	(43,050)
Debt settlement agreements	929,496	55,770	960,000	-	-	1,015,770
Net income for the year	-	-	-	-	2,127,815	2,127,815
Balance at December 31, 2017	40,925,517	22,118,931	2,588,249	38,095	(27,706,923)	(2,961,648)
Private placement	20,841,904	759,477	282,618	(38,095)	-	1,004,000
Share issuance costs	-	(8,500)	-	-	-	(8,500)
Debt settlement agreements	13,429,755	529,190	6,820	-	-	536,010
Net loss for the year	-	-	-	-	(1,338,287)	(1,338,287)
Balance at December 31, 2018	75,197,176	23,399,098	2,877,687	-	(29,045,210)	(2,768,425)

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

LINCOLN MINING CORPORATION
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

1 Nature of operations

Lincoln Mining Corporation (the “Company” or “Lincoln”) is incorporated under the Business Corporations Act, British Columbia. The Company’s head and registered office, principal address and records is Suite 400 – 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2. The Company is a precious metals exploration and development company.

The consolidated financial statements of the Company for the year ended December 31, 2018 comprise the Company and its subsidiaries (Note 2(b)). These consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated. The Company is listed on the TSX Venture Exchange (“TSX-V: LMG”) and the Frankfurt Stock Exchange (“ZMG”).

2 Basis of Presentation

(a) Basis of preparation

The consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Going concern assumption

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

The Company has not yet determined whether its mineral properties contain ore reserves; therefore, the Company has incurred ongoing losses since inception. Further, the Company has a working capital deficiency of \$2,765,792 and total liabilities of \$3,034,752. The future success of the Company is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development, and upon establishing future profitable production, or realization of proceeds on disposal.

Management recognizes that the Company will need to raise additional funds to maintain operations and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future. These material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to the adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

New and amended standards adopted by the Company

IFRS 9 – Financial Instruments: Classification and Measurement. IFRS 9 is a new standard that replaces IAS 39 and is effective for annual periods beginning on or after January 1, 2018. IFRS 9 introduces new requirements for the classification and measurement of financial instruments 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 and a debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows in the form of principal and interest. The adoption of IFRS 9 did not have a material impact on the Company’s consolidated financial statements.

LINCOLN MINING CORPORATION
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for future periods and have not been applied in preparing these consolidated financial statements.

IFRS 16 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. As of December 31, 2018, the Company is currently evaluating the financial impact of the standard on its consolidated financial statements in preparation for adoption. The Company anticipates the standard will increase both assets and liabilities reported on the consolidated statement of financial position. Additionally, the Company expects impacts to the consolidated statement of income, likely with an increase in depreciation and net finance expenses and decreases in rental administrative expenses.

(b) Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions are eliminated. Profits or losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries are consistent with the policies adopted by the Company.

The consolidated financial statements include financial statements of Lincoln Mining Corporation, the parent company and the subsidiaries listed below:

	Country of Incorporation	Economic interests	Principal activity
Lincoln Gold Corporation	Canada	100%	Holding company
Lincoln Gold US Corporation	United States of America	100%	Mineral exploration
Lincoln Resource Group Corporation	United States of America	100%	Mineral exploration
Minera Lincoln de Mexico, S.A. de C.V.	Mexico	100%	Mineral exploration

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The activities undertaken by exploration and evaluation segment are supported by corporate activities. The operating results of the segments are reviewed regularly by the Company's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance and by the Board of Directors that makes strategic decisions.

LINCOLN MINING CORPORATION
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

(d) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in the Canadian dollar, which is the Company's, and its subsidiaries' functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss.

(e) Mineral properties

The Company accounts for its mineral properties as exploration and evaluation assets in accordance with IFRS 6. The Company capitalizes mineral property interest acquisition costs, which include the cash consideration, option payment under an earn-in arrangement and, the fair value of common shares issued for mineral property interests. The acquisition costs are deferred until the property is placed into development (when commercial viability and technical feasibility are established), sold or abandoned or determined to be impaired. Before moving acquisition costs into property, plant and equipment upon commencement of development stage, the property is first tested for impairment. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Exploration and evaluation expenditures

The Company expenses to operations all exploration and evaluation costs incurred prior to the determination of economically recoverable reserves. Exploration and evaluation expenditure relates costs incurred for investigation and evaluation of potential mineral reserves and resources, including trenching, exploratory drilling, sampling, mapping and other activities in searching for ore bodies under the properties, and evaluate the technical and commercial viability of developing mineral properties identified through exploration. Exploration and evaluation expenditures, net of any recoveries, are recorded on a property-by-property basis.

(f) Equipment

Equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price and any costs directly attributable to bringing the asset into operation.

Depreciation is provided on a straight line basis over the estimated useful lives as follows:

- mining equipment: 3 years
- vehicles: 4 years
- office and computer equipment: 2-5 years

Depreciation expense is allocated based on estimated asset lives. Should the asset life or depreciation rates differ from the initial estimate, an adjustment would be made in the consolidated statements of loss and comprehensive loss.

LINCOLN MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

(g) Impairment of long-lived assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(h) Financial instruments

Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Company reclassifies debt instruments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

LINCOLN MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

Debt instruments

Subsequent measurement of debt instrument depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- **FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Impairment

The Company assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using effective interest method.

Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

LINCOLN MINING CORPORATION

Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

Compound financial instruments

Compound financial instruments issued by the Company comprise of a convertible debenture that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of the similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Proceeds from unit placements are allocated between shares and warrants using the residual value method whereby the shares are recorded at fair value and any residual is allocated to the warrant. The value of the warrants issued to brokers is determined using the Black-Scholes model.

(j) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the year ended December 31, 2018, there were no "in-the-money" dilutive instruments that impacted the calculation of dilutive earnings per share.

(k) Share-based compensation

The Company operates a share-based compensation plan, under which the Company receives services from directors, officers, employees and consultants as consideration for equity instruments (options) of the Company.

The fair value of stock options granted to directors, officers and employees is measured on the grant date, using the Black-Scholes option pricing model. Equity-settled awards are not re-measured subsequent to the initial grant date. The Company uses accelerated method (also referred to as 'graded' vesting) for attributing stock option expense over the vesting period. Stock option expense incorporates an expected forfeiture rate. The expected forfeiture rate is estimated based on historical forfeiture rates and expectations of future forfeiture rates. The adjustment is made if the actual forfeiture rate differs from the expected rate, when the equity instrument vests.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital. The fair value of exercised options is reclassified from capital reserve - options to share capital.

(l) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

LINCOLN MINING CORPORATION
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

(All amounts are in Canadian Dollars, unless otherwise stated)

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(m) Provision

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(n) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(o) Related party transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered related if they are subject to common control. Related parties may be individuals or corporate entities. A transaction is considered a related party transaction when there is a transfer of resources or obligations between related parties.

(p) Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

3 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions concerning the future. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

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The most significant accounts that require estimates as the basis for determining the stated amounts include:

Income taxes

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

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are as follows:

Company's title on mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry practice for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Special warrants issued in debt settlement

The fair value of the special warrants issued is measured using the Black-Scholes model, taking into account the terms and conditions upon which the special warrants are granted. Changes in assumptions concerning volatilities, interest rates and expected life could have significant impact on the fair valuation attributed to the special warrants.

4 Mineral properties

The Company's mineral property interests are comprised of the following properties:

	United States Oro Cruz	Total
	\$	\$
Opening balance	-	-
Additions	130,597	130,597
Recoveries	(61,426)	(61,426)
Closing balance	69,171	69,171

There were no additions or disposals of the Company's mineral property interests during the year ended December 31, 2017.

Exploration expenditures (recoveries) incurred during the year ended December 31, 2018:

	United States		Other	Total
	Pine Grove	Oro Cruz	Properties	
	\$	\$	\$	\$
Contractors	278,540	17,958	6,561	303,059
Drilling and metallurgical	5,070	-	-	5,070
Field supplies	480	-	-	480
General administration	86,741	-	-	86,741
Geochemistry	1,228	-	-	1,228
Land maintenance	1,018	100,459	-	101,477
Legal	1,918	-	-	1,918
Permitting environment	426,017	-	-	426,017
Property evaluation	240,683	-	-	240,683
Travel and accommodation	1,835	470	-	2,305
Recovery from a joint venture partner	(21,466)	-	-	(21,466)
Total mineral property expenditures	1,022,064	118,887	6,561	1,147,512

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Exploration expenditures (recoveries) incurred during the year ended December 31, 2017:

	United States		Other Properties	Total
	Pine Grove	Oro Cruz		
	\$	\$	\$	\$
Contractors	218,045	3,372	-	221,417
Drilling and metallurgical	649	-	-	649
Field supplies	904	-	-	904
General administration	112,669	571	-	113,240
Geochemistry	76,699	-	-	76,699
Land maintenance	3,368	30,522	-	33,890
Legal	17,987	-	-	17,987
Permitting environment	320,624	-	-	320,624
Property evaluation	68,940	1,623	7,546	78,109
Travel and accommodation	1,413	1,909	-	3,322
Recovery from a joint venture partner	(311,313)	(108,591)	-	(419,904)
Total mineral property expenditures	509,985	(70,594)	7,546	446,937

Title to mineral properties 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 mineral properties. The Company has investigated title to all of its mineral properties, and, to the best of its knowledge, title to all of its properties, are properly registered and in good standing.

United States

(a) Pine Grove Property, Nevada

During fiscal 2007 the Company entered into three separate agreements with Wheeler Mining Company (“Wheeler”), Lyon Grove, LLC (“Lyon Grove”) and Harold Votipka (“Votipka”) which collectively comprise the Pine Grove Property. In fiscal 2010, the Company added the Cavanaugh property.

- (i) In July 2007 the Company entered into an agreement with Wheeler to lease Wheeler’s 100% owned mining claims in Lyon County, Nevada from July 13, 2007 to December 31, 2022 with an exclusive option to renew the lease by written notice to December 31, 2023. If the property is and remains in commercial production by November 1 of each year after 2022, the Company may renew the lease for a period of one year by delivering written notice to the owner prior to November 15 of that year.

The Company was required to produce a bankable feasibility study on the properties by December 31, 2010 and obtain all necessary funding to place the properties into commercial production. The Company has since received an extension as new technical data is being developed. The Company must pay an NSR of 3% - 7% upon commencement of commercial mining production based on gold prices and the Company must pay a 5% NSR on metals or minerals other than gold produced and sold from the properties.

The following non-refundable advance NSR payments must be made by the Company:

- US\$10,000 upon signing the agreement (paid); and
- US\$30,000 prior to each one year anniversary of the lease (Years 1-6 paid by the Company; Years 7-11 paid by Goldcliff Resource Corporation (“Goldcliff”).

- (ii) In July 2007 the Company entered into an agreement with Votipka to acquire three claims located within the Pine Grove Mining District in Lyon County, Nevada in return for a payment of US\$12,000 (paid in 2007). Upon commencement of commercial production, the Company will pay a 5% NSR to Votipka. The Company retains the right to buy down up to 2.5% of the NSR at any time for US\$100,000 per percentage point.

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In August 2007 the Company entered into an agreement with Lyon Grove to lease the Wilson Mining Claim Group located in Lyon County, Nevada from August 1, 2007 to July 31, 2022, with an option to purchase. The Company can extend the term of the lease for up to ten additional one year terms providing the Company is conducting exploration mining activities at the expiration of the term immediately preceding the proposed extension term.

The following lease payments must be made by the Company:

- US\$10,000 upon signing the agreement (paid) and
- US\$25,000 prior to each one year anniversary of the lease (paid to date).

The lease payment made for any one calendar year may be credited against any NSR due and payable during the same calendar year.

The following work commitments must be made by the Company:

- US\$25,000 by August 1, 2008; (incurred)
- US\$25,000 by August 1, 2009; (incurred)
- US\$50,000 by August 1, 2010; (incurred)
- US\$50,000 by August 1, 2011; (incurred)
- US\$50,000 by August 1, 2012; (incurred) and each subsequent lease year (incurred to date)

Upon commencement of production the Company must pay an NSR of 2.5% - 5% on various claims and areas of interest. Lyon Grove retains the right to require the Company to purchase the property any time after the Company has made application to permit and develop a mine on the property, subject to the Company's continued obligation to pay the royalties, for US\$1,000.

In June 2016, Goldcliff, a company with a common director, acquired the lease to the Wilson claims from the Company in exchange for Goldcliff assuming the future lease commitments as well as outstanding lease payments and work commitments.

- (iii) In August 2010, the Company and its wholly owned subsidiary Lincoln Gold US Corp ("Lincoln US") entered into a purchase agreement for Lincoln US to acquire unpatented mining claims and associated water rights (collectively known as the "Cavanaugh property") situated at the Company's Pine Grove project in Lyon County, Nevada. In consideration for the sale of the Cavanaugh property, the vendors have received a total of US\$650,000 and 40,000 common shares of the Company as follows:

- On closing US\$250,000 and 15,000 shares (paid)
- August 23, 2011 US\$150,000 and 15,000 shares (paid)
- August 23, 2012 US\$150,000 and 10,000 shares (paid)
- August 23, 2013 US\$100,000 (paid)

The vendors will also retain a 1.5% NSR subject to the Company's option to buy down the royalty at a rate of US\$75,000 per one-half percent at any time up until 3 years after the Company's Board of Directors approves mine construction.

During the year ended December 31, 2016, the Company entered into an Exploration License Agreement (the "Agreement") with Placer Solutions LLC ("Placer"), a private company based in Montana, USA, to explore the placer claims on Lincoln's Pine Grover project in Nevada (the "Claim"). The Agreement applies to the Company's Pine Grove placer claims only as it is the Company's intent to develop its lode claims separately.

Under the terms of the Agreement, for a period of 18 months, the Company has granted Placer: i) the exclusive right to explore the Claims for a one-time payment of US\$10,000 (received), ii) an exclusive option to enter into a five (5) year mining lease on the Claims for an annual rental fee of US\$10,000 (received) for the first year and US\$6,000 thereafter and a net operating profit royalty of 20% (the "Lease Option").

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Should Placer exercise the Lease Option, Placer has an exclusive right to purchase the Claims (and certain ancillary water rights) plus buyout the royalty for a total consideration of US\$1,500,000 for a period of three years from the anniversary of the lease. The Agreement may be terminated at Placer's discretion upon 60 days' written notice to the Company.

- (iv) In August 2016, the Company entered into an agreement with Goldcliff whereby Goldcliff can earn a 40% interest in the Wheeler and Votipka leases and Cavanaugh property in exchange for incurring US\$1,400,000 in exploration expenditure on the properties over three years, and conveying back to the Company a 60% interest in the Wilson lease that previously was acquired by Goldcliff. The Company is the operator for the earn-in.

During the year ended December 31, 2017, the Company was informed by the Nevada State Division of Water Resources that it was forfeiting certain water rights at Pine Grove for non-use. This was at the time when the Company was in the process of applying for a point of diversion change.

The Company filed a petition for judicial review of the decision of the Division of Water Resources seeking reinstatement of the water rights and the right to apply for an extension of time to place the water to beneficial use. The District Court entered its written decision in August 2017 granting the Company's petition. Lincoln has applied for an extension of time to place the water to beneficial use and will apply to change the point of diversion of the water to the Company's proposed mine site.

(b) Oro Cruz Property, California

In February 2010, the Company's 100% owned U.S. subsidiary, Lincoln US, concluded a lease agreement (the "Lease") to lease certain lode claims covering the Oro Cruz Property in Imperial County, California. The Lease involves advance royalty payments beginning at US\$50,000 per year and gradually increasing to US\$200,000 per year on the seventh anniversary and each subsequent anniversary of the effective date of February 22, 2010 as follows:

- US\$50,000 on the execution date of the agreement (paid)
- US\$50,000 by February 22, 2011 (paid)
- US\$75,000 by February 22, 2012 (paid)
- US\$75,000 by February 22, 2013 (paid)
- US\$100,000 by February 22, 2014 (\$50,000 paid)
- US\$100,000 by February 22, 2015 (not paid)
- US\$150,000 by February 22, 2016 (not paid)
- US\$200,000 by February 22, 2017 (not paid)
- US\$200,000 by February 22, 2018 (not paid) and each subsequent anniversary of the effective date

The NSR has been set at 3% for the first 500,000 ounces of gold production and 4% thereafter. An aggregate of 2% of the royalty can be bought down at a rate of US\$500,000 per half percent.

Pursuant to this agreement, Lincoln must also incur expenditures in the amounts and during the periods described as follows:

- US\$250,000 cumulative amount expended by the end of the second lease year (incurred)
- US\$300,000 during the third lease year (incurred)
- US\$350,000 during the fourth lease year (not incurred)
- US\$400,000 during the fifth lease year (not incurred)
- US\$450,000 during the sixth lease year (not incurred)
- US\$500,000 during the seventh lease year (not incurred)

On May 9, 2017, the Company entered into a letter agreement, through its subsidiary, Lincoln Gold US Corp. ("Lincoln US"), granting Ausgold Resources Pty. Ltd. ("Ausgold") an option until June 30, 2017 to enter into a joint venture agreement for the development of the Oro Cruz Property located in Imperial Country, California ("JV Option"). As consideration for granting the JV Option, Ausgold has paid Lincoln US USD\$7,500 and committed to purchasing USD\$30,000 worth of securities in the Company's next private placement.

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If the JV Option is exercised, the joint venture will cover the Hercules claims and the 131 claims held by Lincoln US as well as any mining interests or mineral properties acquired by either party within five miles of the Lincoln US claims.

On March 26, 2018, the Company has terminated the option it granted to Ausgold on May 9, 2017 on the Oro Cruz property as a consequence of Ausgold not satisfying its obligations under the option agreement. Lincoln retains the property in good standing and is in the process of reacquiring an option on the Hercules claims.

On May 1, 2018, the Company entered into a Purchase Option Letter agreement to re-acquire a 100% interest in the Hercules claims from ADGIS, Inc. ("ADGIS") (this agreement replaces the original agreement from February 2010). The Company must make scheduled payments to ADGIS totaling US\$500,000 over five years and royalty payments as follows:

- US\$25,000 by May 15, 2018 (paid)
- US\$25,000 by August 1, 2018 (paid)
- US\$25,000 by October 1, 2018 (paid) (Note 15)
- US\$25,000 by December 1, 2018 (paid) (Note 15)
- US\$50,000 by May 15, 2019
- US\$50,000 by May 15, 2020
- US\$100,000 by May 15, 2021
- US\$100,000 by May 15, 2022
- US\$100,000 by May 15, 2023
- 2% net smelter return royalty from production within the Hercules claim boundaries ("Hercules Royalty")
- 1% net smelter return royalty from production generated by the Company outside the Hercules claim boundaries and within a 1-mile radius of the Hercules claims ("Buffer Royalty")

0.5% of the Hercules Royalty and the Buffer Royalty together can be repurchased by the Company for US\$500,000, which would reduce the Hercules Royalty to 1.5% and the Buffer Royalty to 0.5%.

An additional 0.5% of the Hercules Royalty can be repurchased by the Company for US\$500,000 to reduce the Hercules royalty to 1%.

In March 2019, the Company granted Demerara Gold Corp. ("Demerara") and Bell Mountain Exploration Corp. ("Bell Mountain") the right to earn up to a 75% interest in the Oro Cruz property (Note 15).

5 Provisions

The Company's recognized a constructive provision for environmental rehabilitation relating to a Pine Grove Property road, which will require future cleanup costs estimated to be approximately US\$70,000. Management expects that the cleanup costs would be incurred in the future, at the end of the expected useful life of the property, however, as the technical feasibility of Pine Grove Property has not been completed yet, the life of the property is uncertain at the reporting date. The provision represents best management estimates and includes the following assumptions: term – 10 years; inflation rate – 0.7%, pre-tax risk-free interest rate – 2.8%.

The closing balance is summarized as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Beginning balance	81,543	87,276
Changes in exchange rates	7,130	(5,733)
Closing balance	88,673	81,543

During the year ended December 31, 2018 and 2017, the finance costs in relation to the accretion of the provision are negligible.

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6 Loans payable

The following loans were provided by directors, former directors, insiders and others to the Company to support its working capital requirements.

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Opening balance	86,305	1,392,381
Loans provided during the year	-	17,900
Loans repaid during the year	(15,154)	(29,605)
Interest accrued during the year	3,185	3,981
Settlement of debt	-	(1,298,352)
Closing balance	74,336	86,305

During the year ended December 31, 2018, the Company received \$Nil (2017 - \$17,900), and repaid \$15,154 (2017 - \$29,605), unsecured demand loan from the President of the Company. The remaining balance of the loan is unsecured, bearing interest at 5% per annum, calculated and payable on demand. The Company may repay the principal, in whole or in part, at any time without penalty. As at December 31, 2018, the loan payable balance to the President of the Company is \$74,336 (2017 - \$86,305).

On June 9, 2017, the Company completed a debt settlement agreement (the "Settlement") with two former directors of the Company (the "Creditors") with respect to outstanding debt (including principal and interest) totaling \$4,033,795, of which \$1,298,352 was included in loans payable. Under the terms of the Settlement, the Creditors were issued an aggregate of 929,496 common shares of the Company and 16 million special warrants (the "Special Warrants"). Each Special Warrant may be exercised for only fully paid and non-assessable common share (a "Special Warrant Share") in the capital of the Company without payment of additional consideration for a period of 10 years from the date of issue (Notes 7 and 9).

7 Promissory notes

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Opening balance	604,810	3,332,057
Promissory notes provided during the year	222,244	-
Interest accrued during the year	14,487	14,898
Settlement of promissory notes	(32,172)	(2,735,443)
Foreign exchange	16,160	(6,702)
Closing balance	825,529	604,810

On February 28, 2014, the \$2,300,000 convertible debenture held by Procon Mining and Tunneling Ltd. and its affiliates (collectively, "Procon") (plus approximately \$175,000 in accrued interest), was repaid in full and discharged using funds through promissory notes maturing February 28, 2019 from companies controlled by two directors of the Company (the "Loans"). The Loans were interest bearing at a rate of 6% per annum, payable monthly commencing April 1, 2014. Concurrent with the transaction, the two directors resigned from the Company.

On June 9, 2017, the Company completed a debt settlement agreement (the "Settlement") with two former directors of the Company (the "Creditors") with respect to outstanding debt (including principal and interest) totaling \$4,033,795, of which \$2,735,443 was included in promissory notes payable. Under the terms of the Settlement, the Creditors were issued an aggregate of 929,496 common shares of the Company and 16 million special warrants (the "Special Warrants"). Each Special Warrant may be exercised for only fully paid and non-assessable common share (a "Special Warrant Share") in the capital of the Company without payment of additional consideration for a period of 10 years from the date of issue (Notes 6 and 9).

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As of December 31, 2018, the Company has received advances of \$440,000 (2017 - \$440,000) from Mr. Ronald K. Netolitzky, a control person of the Company. The advances are unsecured, non-interest bearing and due on demand.

During the year ended December 31, 2015, the Company received \$50,000 from an insider of the Company. The loan is unsecured and evidenced by promissory notes bearing interest at 6% per annum, calculated and payable on demand. The Company may prepay the principal, in whole or in part, at any time without penalty.

During the year ended December 31, 2015, the Company received US\$66,000 from a company that has an insider in common with Lincoln. During the year ended December 31, 2017, the existing promissory note was terminated and both parties subsequently entered into a new promissory note agreement consisting of the existing principal and interest in the aggregate amount of US\$71,000. The loan is secured by the Company's US properties and evidenced by a promissory note bearing interest at 9% per annum. Principal and accrued interest was payable upon termination of the note on September 15, 2017. On January 3, 2018, the Company issued 643,441 common shares for settlement of debt in the amount of \$32,172 (Notes 6 and 9). The Company is currently in default of this note and is renegotiating the terms of the note.

During the year ended December 31, 2016, the Company received \$6,527 from a company with certain directors in common. The loan is unsecured, non-interest bearing and due on demand.

On August 24, 2018, September 11, 2018 and October 23, 2018, the Company received \$65,180 (US\$50,000), \$65,070 (US\$50,000) and \$91,994 (US\$70,000) from Dragon Hill Creation Limited, respectively. The loans are unsecured and evidenced by promissory notes bearing interest at 10% per annum, calculated and payable on the termination date of the promissory notes being June 30, 2019. The Company may prepay the principal, in whole or in part, at any time without penalty.

8 Related party transactions

The following transactions were carried out with related parties:

Key management personnel – services rendered and other compensation

Key management includes officers and directors – executive and non-executive. The compensation paid or payable to key management personnel for the services rendered during the year ended December 31, 2018 and 2017 were as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Management fees	118,000	108,000
Exploration expenses	160,669	110,318
Accounting fees	60,000	70,250
Total	338,669	288,568

The amounts disclosed in the table are the amounts recognized as an expense during the reporting year. The Company also reimburses key executive directors for travel and other expenses incurred in the normal course of business.

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Balance due to related parties

	As at December 31, 2018	As at December 31, 2017
	\$	\$
Executive officers and their controlled companies	837,315	1,389,285
Directors	15,000	154,269
Others	-	-
Total	852,315	1,543,554

The balances due to related parties are included in accounts payable and accrued liabilities.

Balance due from related parties

	As at December 31, 2018	As at December 31, 2017
	\$	\$
Companies with a director in common	69,357	18,596
Total	69,357	18,596

The balances due from related parties are included in receivables.

Loans from related parties

See Notes 6 and 7 for further details.

Other transactions with related parties

During the year ended December 31, 2018, the Company received \$42,636 (2017 - \$40,125) from Golden Band Resources Inc., a company with certain officers and directors in common, for office rent.

9 Share capital and reserves

a) Authorized share capital

As at December 31, 2018, the authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares, consisting only of common shares are fully paid.

On April 26, 2017, the Company closed a non-brokered private placement. The Company issued a total of 11,400,000 units at a price of \$0.05 per unit for total gross proceeds of \$570,000. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share until April 26, 2022. The Company paid \$32,200 in cash commissions and issued a total of 644,000 finder's warrants having the same terms as the private placement warrants. The fair value of the finder's warrants was \$38,510 calculated using the Black-Scholes Option Pricing Model using the following assumptions: expected life – 5 years; expected volatility – 265.58%; expected dividend yield – 0%; and risk-free rate – 1.07% (Note 11).

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On June 9, 2017, the Company completed a debt settlement agreement (the "Settlement") with two former directors of the Company (the "Creditors") with respect to outstanding debt (including principal and interest) totaling \$4,033,795. Under the terms of the Settlement, the Creditors were issued an aggregate of 929,496 common shares of the Company valued at \$55,770 and 16 million special warrants (the "Special Warrants"). Each Special Warrant may be exercised for only fully paid and non-assessable common share (a "Special Warrant Share") in the capital of the Company without payment of additional consideration for a period of 10 years from the date of issue (Notes 6, 7 and 11). The Settlement includes, amongst other things, a restriction on the exercise of the Special Warrants such that the Company shall not be obligated to issue any Special Warrant Shares upon the purported exercise of the Special Warrants if immediately following the exercise of such Special Warrants, the Creditors and their affiliates hold in aggregate more than 9% of the issued and outstanding common shares of the Company. The Special Warrants have no voting rights and no entitlement to dividends. The fair value of the Special Warrants was \$960,000 calculated using the Black-Scholes Option Pricing Model using the following assumptions: expected life – 10 years; expected volatility – 223.96%; expected dividend yield – 0%; and risk-free rate – 1.59%. The common shares and Special Warrants issued resulted in a gain on settlement of debts of \$3,018,025.

On September 15, 2017, the Company closed a non-brokered private placement. The Company issued a total of 3,100,000 units at a price of \$0.05 per unit for total gross proceeds of \$155,000. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.10 per share until September 15, 2019. The Company paid \$10,850 in cash commissions and issued a total of 217,000 finder's warrants having the same terms as the private placement warrants. The fair value of the finder's warrants was \$5,497 calculated using the Black-Scholes Option Pricing Model using the following assumptions: expected life – 2 years; expected volatility – 164%; expected dividend yield – 0%; and risk-free rate – 1.31% (Note 11).

On January 3, 2018, the Company completed a debt settlement agreement with various creditors of the Company with respect to outstanding debt (including principal and interest) totaling \$1,046,481. Of this amount, 11,285,513 common shares were issued to settle indebtedness to certain related parties of \$959,269, 1,100,801 common shares were issued to settle indebtedness to creditors of \$55,040 and 643,441 common shares were issued to settle promissory notes payable of \$32,172 (Notes 6, 7 and 11). The common shares issued resulted in a gain on settlement of debts of \$525,291.

On January 26, 2018, the Company closed a non-brokered private placement. The Company issued a total of 13,421,904 units at a price of \$0.05 per unit for total gross proceeds of \$671,095. The residual value of the warrants of \$134,218 was reallocated from share capital to reserves. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share until April 26, 2022. The Company paid \$6,250 in cash commissions.

On February 20, 2018, the Company closed a non-brokered private placement. The Company issued a total of 1,420,000 units at a price of \$0.05 per unit for total gross proceeds of \$71,000. The residual value of the warrants of \$28,400 was reallocated from share capital to reserves. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share until April 26, 2022.

On May 30, 2018, the Company closed a non-brokered private placement. The Company issued a total of 6,000,000 units at a price of \$0.05 per unit for total gross proceeds of \$300,000. The residual value of the warrants of \$120,000 was reallocated from share capital to reserves. Each unit is comprised of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share until April 26, 2022. The Company paid \$2,250 in share issuance costs.

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On November 15, 2018, the Company completed a debt settlement agreement with a creditor of the Company with respect to outstanding debt totaling \$20,000 by issuing 400,000 common shares and 400,000 share purchase warrants. Each warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.08 per share until April 26, 2022. The fair value of the share purchase warrants was \$6,820 calculated using the Black-Scholes Option Pricing Model using the following assumptions: expected life – 3.45 years; expected volatility – 188%; expected dividend yield – 0%; and risk-free rate – 2.29%. The common shares and share purchase warrants issued resulted in a gain on settlement of debts of \$5,180.

b) Capital reserves

	Capital reserve – options	Capital reserve – warrants	Capital reserve – convertible debenture	Total
	\$	\$	\$	\$
Balance as at December 31, 2016	1,227,184	141,672	215,386	1,584,242
Share issuance costs – finders' warrants	-	38,510	-	38,510
Share issuance costs – finders' warrants	-	5,497	-	5,497
Special Warrants	-	960,000	-	960,000
Balance as at December 31, 2017	1,227,184	1,145,679	215,386	2,588,249
Private placements	-	282,618	-	282,618
Debt settlement agreements	-	6,820	-	6,820
Balance as at December 31, 2018	1,227,184	1,435,117	215,386	2,877,687

c) Stock options

As at December 31, 2018, the Company had outstanding stock options, enabling the holders to acquire further common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,809,000	0.15	November 26, 2019
1,809,000		

Stock option transactions for the year ended December 31, 2018 and 2017 are summarized as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
		\$		\$
Balance, beginning of year	1,809,000	0.15	1,809,000	0.15
Expired	-	-	-	-
Balance, end of year	1,809,000	0.15	1,809,000	0.15
Options exercisable, end of year	1,809,000	0.15	1,809,000	0.15

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d) Warrants

As at December 31, 2018, the Company had share purchase warrants, enabling the holders to acquire further common shares as follows:

Number of Shares	Exercise Price	Expiry Date
3,317,000	\$0.10	September 15, 2019
33,285,904	\$0.08	April 26, 2022
36,602,904		

Warrants transactions for the year ended December 31, 2018 and 2017 are summarized as follows:

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number of Warrants	Weighted average exercise price	Number of Warrants	Weighted average exercise price
		\$		\$
Balance, beginning of year	16,893,500	0.09	1,532,500	0.12
Issued	21,241,904	0.08	15,361,000	.08
Expired	(1,532,500)	0.10	-	-
Balance, end of year	36,602,904	0.08	16,893,500	0.09

e) Special warrants

As at December 31, 2018, the Company had special warrants, enabling the holders to acquire further non-assessable common shares as follows:

Number of Shares	Exercise Price	Expiry Date
16,000,000	\$Nil	June 9, 2027
16,000,000		

Pursuant to the Settlement (Note 6), the Company is not obligated to issue any common shares from the exercise of the special warrants if immediately following the exercise of such special warrants, the creditors and their affiliates hold in aggregate more than 9% of the issued and outstanding common shares of the Company. In addition, the special warrants have no voting rights and no entitlement to dividends.

f) Share subscriptions received in advance

During the year ended December 31, 2017, the Company received \$38,095 related to a private placement that closed on January 26, 2018.

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10 Financial instruments

Capital risk management

The Company defines its capital as shareholders' deficiency. 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 development of mineral properties. 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 properties in which the Company currently has interests are in the exploration stage. As such, the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will need to raise additional funds in the future until the production commences. The Company will continue to assess new properties and seek to acquire an interest in additional properties if management consider there is sufficient geologic or economic potential and the Company has adequate financial resources and support from investors. 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 to the Company's approach to capital management during the current year.

Categories of financial instruments

	December 31, 2018	December 31, 2017
	\$	\$
Financial assets *		
<i>Loans and receivables</i>		
Cash	70,102	21,899
Other receivables	72,916	32,504
	143,018	54,403
Financial liabilities		
Current		
<i>Amortized at cost</i>		
Accounts payable and accrued liabilities	2,013,204	2,382,608
Exploration funding	33,010	-
Loans payable	74,336	86,305
Promissory notes	825,529	604,810
	2,946,079	3,073,723

* Sales taxes recoverable do not represent financial instruments and are excluded from the analysis

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Fair value

The carrying value of cash, other receivables, accounts payable and accrued liabilities, exploration funding, loans payable, and promissory notes approximated their fair value because of the relatively short-term nature of these instruments.

Foreign exchange risk

The Company's operations in the United States expose the Company to foreign exchange risk. The Company is subject to currency risk due to the fluctuations of exchange rates between the Canadian and US dollars. The Company does not believe it is exposed to significant foreign exchange risk. A 10% fluctuation in the foreign exchange rate between the Canadian and US dollar will result in a foreign exchange gain/loss of approximately \$97,000. The Company does not enter into derivative financial instruments to mitigate foreign exchange risk.

Credit risk

The Company is not exposed to material credit risk.

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Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not hold any financial liabilities with variable interest rates.

Liquidity risk

The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances and through short-term borrowing. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Price risk

The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of precious metals. The Company monitors precious metals prices to determine the appropriate course of action to be taken by the Company.

11 Supplemental cash flow information

	December 31, 2018	December 31, 2017
Cash paid for interest	\$ -	\$ -
Cash paid for income taxes	-	-

On April 26, 2017, the Company issued a total of 644,000 finder's warrants with a fair value of \$38,510 (Note 9).

On June 9, 2017, the Company issued an aggregate of 929,496 common shares of the Company and 16 million special warrants to settle outstanding debt totaling \$4,033,795 (Note 6).

On September 15, 2017, the Company issued a total of 217,000 finder's warrants with a fair value of \$5,497 (Note 9).

On January 3, 2018, the Company issued 13,029,755 common shares of the Company to settle outstanding debt totaling \$1,046,481 (Note 9).

On November 15, 2018, the Company issued 400,000 common shares and 400,000 share purchase warrants of the Company to settle outstanding debt totaling \$20,000 (Note 9).

As at December 31, 2018, accounts payable and accrued liabilities includes \$66,104 (US\$50,000) related to mineral property costs capitalized pursuant to the Purchase Option letter agreement for the Oro Cruz Property.

During the year ended December 31, 2018, the Company wrote-off accounts payable in the amount of \$Nil (2017 - \$33,175).

During the year ended December 31, 2018, the Company wrote-off receivables in the amount of \$Nil (2017 - \$7,683).

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12 Commitment

In addition to commitments disclosed elsewhere in the consolidated financial statements, pursuant to a premises lease, the Company's future lease commitment as at December 31, 2018 is as follows:

	\$
2019	57,027
2020	58,389
2021	44,557
	<u>159,973</u>

13 Segmented information

The Company operates in one reportable operating segment, being the acquisition, exploration and evaluation of mineral properties.

The Company operates within two geographic areas – United States of America and Canada.

	Non-current assets
	\$
December 31, 2017	
United States of America	7,767
Canada	12,298
	<u>20,065</u>
December 31, 2018	
United States of America	73,790
Canada	12,250
	<u>86,040</u>

14 Income taxes

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

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Net income (loss) for the year	(1,338,287)	2,127,815
Expected income tax recovery	(361,000)	553,000
Change in statutory, foreign tax, foreign exchange rates and other	701,000	1,126,000
Permanent differences	1,000	(392,000)
Share issue costs	(2,000)	(11,000)
Change in unrecognized deductible temporary differences	(339,000)	(1,276,000)
	-	-

The Canadian income tax rate increased during the year due to changes in the law that increased corporate income tax rates in Canada.

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The significant components of the Company's unrecognized temporary differences and unused tax losses are as follows:

	December 31, 2018	December 31, 2017	Expiry Date Range
	\$	\$	
Temporary differences:			
Mineral properties	4,434,000	3,757,000	No expiry date
Share issue costs	39,000	44,000	2037 to 2042
Other	104,000	92,000	No expiry date
Non-capital losses available for future periods	14,163,000	15,671,000	2026 to 2038

Tax attributes are subject to review, and potential adjustment by tax authorities.

15 Subsequent events

In January 2019, the Company paid US\$50,000 to ADGIS related to the Purchase Option letter agreement for the Oro Cruz Property (Note 4).

On March 4, 2019, the Company granted to Demerara and Bell Mountain the right to enter into a formal Option and Joint Venture Agreement until June 30, 2019 for the exploration of the Oro Cruz property. To earn a 75% interest, Demerara and Bell Mountain will have to spend approximately USD\$2.1 million in property payments, exploration and development over the next five years. As consideration for granting the due diligence period, Demerara and Bell Mountain will pay the Company US\$10,000 and commit to purchasing \$35,000 worth of securities in the Company's next private placement. Demerara has advanced \$33,010 (US\$25,000) to the Company as of December 31, 2018. These funds will become immediately due and payable to Demerara if the Option and Joint Venture Agreement is not entered into by June 30, 2019. Upon execution of the Option and Joint Venture Agreement, the funds advanced will be credited towards the exploration commitments under the agreement.