

Bonterra Resources Inc.
Condensed Interim Financial Statements
Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

Bonterra Resources Inc.

Three Months Ended August 31, 2018

INDEX

Page

Condensed Interim Financial Statements

Notice of No Auditor Review

Condensed Interim Statements of Financial Position 1

Condensed Interim Statements of Comprehensive Loss 2

Condensed Interim Statements of Changes in Equity 3

Condensed Interim Statements of Cash Flows 4

Notes to the Condensed Interim Financial Statements 5-24

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

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

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

October 29, 2018

Bonterra Resources Inc.
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars)

	August 31, 2018	May 31, 2018
Assets		
Current		
Cash and cash equivalents	\$ 10,795,116	\$ 22,136,434
Marketable securities (note 7)	900,000	800,000
Receivables (notes 8 and 12)	2,071,773	1,744,751
Advance to Metanor Resources Inc. (note 18(a))	4,000,000	-
Prepaid expenses	291,878	333,252
	18,058,767	25,014,437
Property, Plant and Equipment (note 9)	3,156,390	3,111,149
	\$ 21,215,157	\$ 28,125,586
Liabilities		
Current		
Accounts payable and accrued liabilities (notes 11 and 12)	\$ 3,899,613	\$ 3,338,873
Other liabilities (note 11)	1,406,246	3,469,531
	5,305,859	6,808,404
Shareholders' Equity		
Share Capital (note 13)	92,308,498	89,970,687
Share-based Payments Reserve (note 13)	7,647,662	7,810,473
Deficit	(84,046,862)	(76,463,978)
	15,909,298	21,317,182
	\$ 21,215,157	\$ 28,125,586

Going Concern (note 2)

Commitments (note 16)

Subsequent Events (note 18)

Approved on behalf of the Board:

<i>"Robert Gagnon"</i>	<i>"Nav Dhaliwal"</i>
..... Director Director
Robert Gagnon	Nav Dhaliwal

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

Bonterra Resources Inc.
Condensed Interim Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	Three Months Ended	
	August 31, 2018	August 31, 2017 (Restated – note 17)
Expenses		
Consulting fees	\$ 374,683	\$ 277,333
Depreciation (note 9)	3,784	2,120
Exploration and evaluation (notes 9, 10 and 12)	8,366,638	4,404,000
Management and director fees (note 12)	116,000	266,000
Office and general	37,715	112,900
Professional fees (note 12)	388,627	34,146
Rent (note 12)	53,260	55,333
Share-based payments (note 13)	-	14,960
Shareholder communications and investor relations	365,793	207,043
Transfer agent and filings fees	27,821	2,582
Travel	192,809	59,701
Loss Before Other Items	(9,927,130)	(5,436,118)
Other Items		
Other income (note 11)	2,063,285	1,035,164
Interest income	37,167	47,095
Unrealized gain on marketable securities (note 7)	100,000	-
Part XII.6 tax and penalties recovered (note 11)	143,794	-
Net Loss and Comprehensive Loss for the Period	\$ (7,582,884)	\$ (4,353,859)
Basic and Diluted Loss Per Share	\$ (0.03)	\$ (0.02)
Weighted Average Number of Common Shares Outstanding – Basic and Diluted	231,588,326	180,767,733

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

Bonterra Resources Inc.
Condensed Interim Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Share-based Payments Reserve	Deficit (Restated – note 17)	Total (Restated – note 17)
	Number of Shares	Share Capital			
Balance, May 31, 2017	161,788,238	\$ 59,257,592	\$ 7,677,200	\$ (54,461,118)	\$ 12,473,674
Private placements	27,857,000	19,999,880	-	-	19,999,880
Flow-through liability	-	(6,071,380)	-	-	(6,071,380)
Share issue costs	-	(1,343,915)	-	-	(1,343,915)
Stock options vested	-	-	14,960	-	14,960
Net loss and comprehensive loss for period	-	-	-	(4,353,859)	(4,353,859)
Balance, August 31, 2017	189,645,238	71,842,177	7,692,160	(58,814,977)	20,719,360
Private placements	32,500,000	21,495,000	-	-	21,495,000
Flow-through liability	-	(4,595,000)	-	-	(4,595,000)
Share issue costs	-	(1,446,713)	-	-	(1,446,713)
Fair value of finder's warrants	-	(184,778)	184,778	-	-
Stock options granted and vested	-	-	542,395	-	542,395
Shares issued on exercise of stock options	600,000	168,000	-	-	168,000
Transfer of stock option fair value on exercise	-	129,851	(129,851)	-	-
Shares issued on exercise of warrants	3,850,341	1,333,141	-	-	1,333,141
Transfer of warrant fair value on exercise	-	479,009	(479,009)	-	-
Shares issued for exploration and evaluation expenditure	1,500,000	750,000	-	-	750,000
Net loss and comprehensive loss for period	-	-	-	(17,649,001)	(17,649,001)
Balance, May 31, 2018	228,095,579	89,970,687	7,810,473	(76,463,978)	21,317,182
Shares issued on exercise of warrants	1,890,000	575,000	-	-	575,000
Transfer of warrant fair value on exercise	-	162,811	(162,811)	-	-
Shares issued for exploration and evaluation expenditure	4,000,000	1,600,000	-	-	1,600,000
Net loss and comprehensive loss for period	-	-	-	(7,582,884)	(7,582,884)
Balance, August 31, 2018	233,985,579	\$ 92,308,498	\$ 7,647,662	\$ (84,046,862)	\$ 15,909,298

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

Bonterra Resources Inc.
Condensed Interim Statements of Cash Flows
For the Three Months Ended August 31,
(Expressed in Canadian Dollars)

	2018	2017 (Restated – note 17)
Operating Activities		
Net loss for the period	\$ (7,582,884)	\$ (4,353,859)
Items not involving cash		
Depreciation	127,259	2,120
Share-based payments	-	14,960
Shares issued for exploration and evaluation	1,600,000	-
Other income	(2,063,285)	(1,035,164)
Unrealized gain on marketable securities	(100,000)	-
Changes in non-cash working capital		
Receivables	(327,022)	(109,193)
Prepaid expenses	41,374	(1,695,887)
Accounts payable and accrued liabilities	1,043,485	823,660
Cash Used in Operating Activities	(7,261,073)	(6,353,363)
Investing Activities		
Advance to Metanor Resources Inc.	(4,000,000)	-
Purchase of property, plant and equipment	(655,245)	(1,434,865)
Cash Used in Investing Activities	(4,655,245)	(1,434,865)
Financing Activities		
Shares and units issued for cash	575,000	19,999,880
Share issuance costs	-	(1,343,915)
Cash Provided by Financing Activities	575,000	18,655,965
Inflow (Outflow) of Cash and Cash Equivalents	(11,341,318)	10,867,737
Cash and Cash Equivalents, Beginning of Period	22,136,434	13,687,072
Cash and Cash Equivalents, End of Period	\$ 10,795,116	\$ 24,554,809
Cash and Cash Equivalents		
Cash	\$ 1,279,714	\$ 1,016,658
Term deposits	9,515,402	23,538,151
	\$ 10,795,116	\$ 24,554,809

Supplemental Disclosure with Respect to Cash Flows (note 14)

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

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Bonterra Resources Inc. (the “Company”) is an exploration stage company incorporated on May 1, 2007, under the laws of the province of British Columbia, Canada. Its principal business activity is the acquisition, exploration and evaluation of mineral properties located in the province of Québec, Canada. The Company’s common shares are traded on the TSX Venture Exchange (“TSX-V”) under the symbol “BTR”. The Company’s shares also trade on the OTC Exchange in the United States under the symbol “BONXF” and on the Frankfurt Stock Exchange under the symbol “9BR1”. The Company’s head office and principal business address is 1680 – 200 Burrard Street, Vancouver, British Columbia, Canada, V6C 3L6. The Company’s registered and records office is 1000 – 840 Howe Street, Vancouver, British Columbia, Canada, V6Z 2M1.

2. GOING CONCERN

These condensed interim financial statements (the “financial statements”) have been prepared on the basis of accounting principles applicable to a going concern, which assumes that 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.

The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation projects when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation projects or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

3. BASIS OF PREPARATION

a) Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The condensed interim financial statements of the Company should be read in conjunction with the Company’s May 31, 2018 annual financial statements, which have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. These condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 29, 2018.

b) Basis of measurement

These financial statements have been prepared under the historical cost basis, except for financial instruments classified as available-for-sale (“AFS”) and fair value through profit or loss (“FVTPL”). These financial statements have been prepared under the accrual basis of accounting, except for cash flow information.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in note 4 to the audited financial statements for the year ended May 31, 2018.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income/loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Critical judgments in applying accounting policies

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next fiscal year are discussed below.

a) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

b) Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity that are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

c) Going concern risk assessment

The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon its ability to fund its existing acquisition and exploration commitments on its exploration and evaluation projects when they come due, which would cease to exist if the Company decides to terminate its commitments, and to cover its operating costs. The Company may be able to generate working capital to fund its operations by the sale of its exploration and evaluation assets or raising additional capital through equity markets. However, there is no assurance it will be able to raise funds in the future. These financial statements do not give effect to any adjustments required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

Key sources of estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the financial statements.

a) Decommissioning liabilities

Rehabilitation provisions have been created based on the Company's internal estimates. Assumptions, based on the current economic environment, have been made that management believes are a reasonable basis upon which to estimate the future liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of contamination, restoration standards and techniques will result in changes to provisions from year to year. Actual rehabilitation costs will ultimately depend on future market prices for the rehabilitation costs, which will reflect the market condition at the time the rehabilitation costs are actually incurred.

The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for. As at August 31, 2018, the Company has no known rehabilitation requirements, and accordingly, no provision has been made.

b) Share purchase warrant valuation

The Company measures the value of share purchase warrants issued as part of private placement units using a pro rata method. The pro rata method requires each component to be valued at fair value and an allocation of the total proceeds received based on the pro rata relative values of the components. The fair value of the common share purchase warrants is determined at the announcement date using the Black-Scholes option pricing model. Estimating fair value for share purchase warrants requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model, including the expected life of the share purchase warrant, volatility and dividend yield, and making assumptions about them. The assumptions and models used for estimating fair value for share purchase warrants are disclosed in note 13.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

c) Valuation of flow-through premium

The determination of the valuation of flow-through premium and warrants in equity units is subject to significant judgment and estimates. The flow-through premium is valued as the estimated premium that investors pay for the flow-through feature, being the portion in excess of the market value of shares without the flow-through feature issued in concurrent private placement financing. In the case that the Company did not issue non-flow-through shares together with the flow-through shares, the market value of shares without the flow-through feature will be determined using their closing quoted bid price.

6. FINANCIAL INSTRUMENTS

Financial instruments are agreements between two parties that result in promises to pay or receive cash or equity instruments. The Company classifies its financial instruments as follows: cash and cash equivalents and marketable securities are classified as financial assets at FVTPL; receivables, as loans and receivables; and accounts payable and accrued liabilities, as other financial liabilities. The carrying values of these instruments approximate their fair values due to their short term to maturity.

The following table sets forth the Company's financial assets measured at fair value by levels within the fair value hierarchy:

August 31, 2018	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 10,795,116	\$ -	\$ -	\$ 10,795,116
Marketable securities	\$ 900,000	\$ -	\$ -	\$ 900,000
May 31, 2018	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 22,136,434	\$ -	\$ -	\$ 22,136,434
Marketable securities	\$ 800,000	\$ -	\$ -	\$ 800,000

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

- Credit risk;
- Liquidity risk; and
- Market risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company manages credit risk, in respect of cash and cash equivalents, by placing it at major Canadian financial institutions. Included in receivables is \$2,024,175 (May 31, 2018 - \$1,643,880) owing from the Canada Revenue Agency and Revenu Québec. Of the amounts owing from the Canada Revenue Agency and Revenu Québec, \$1,220,225 has been subsequently collected. Accordingly, the Company has minimal credit risk.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

6. FINANCIAL INSTRUMENTS (Continued)

b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquid funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The contractual financial liabilities of the Company as of August 31, 2018 equal \$3,799,613 (May 31, 2018 - \$3,095,079). All of the liabilities presented as accounts payable are due within 30 days of the reporting date.

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on capital.

i) Currency risk – The Company has no funds held in a foreign currency, and as a result, is not exposed to significant currency risk on its financial instruments at period-end.

ii) Interest rate risk – Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Interest earned on cash and cash equivalents is at nominal interest rates, and therefore, the Company does not consider interest rate risk to be significant. The Company has no interest-bearing financial liabilities.

iii) Other price risk – Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is exposed to other price risk on its marketable securities.

d) Capital management

The Company considers its capital to be comprised of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this method of financing due to the current difficult market conditions.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

Management reviews the capital structure on a regular basis to ensure that the above objectives are met. There have been no changes to the Company's approach to capital management during the three months ended August 31, 2018. The Company is not subject to externally imposed capital requirements.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

7. MARKETABLE SECURITIES

As at August 31, 2018, marketable securities consisted of shares in a publicly-traded company with a cost of \$1,200,000 (May 31, 2018 - \$1,200,000) and a fair value of \$900,000 (May 31, 2018 - \$800,000).

8. RECEIVABLES

	August 31, 2018	May 31, 2018
Sales tax receivable	\$ 2,024,175	\$ 1,643,880
Other receivables	47,598	100,871
Total receivables	\$ 2,071,773	\$ 1,744,751

9. PROPERTY, PLANT AND EQUIPMENT

	Furniture and Equipment	Computer Equipment	Camp and Infrastructure	Leasehold Improvements	Total
Cost					
Balance, May 31, 2017	\$ 21,005	\$ 45,379	\$ -	\$ -	\$ 66,384
Additions	21,044	13,331	3,284,787	25,055	3,344,217
Disposal	-	(3,106)	-	-	(3,106)
Balance, May 31, 2018	42,049	55,604	3,284,787	25,055	3,407,495
Additions	-	-	172,500	-	172,500
Balance, August 31, 2018	\$ 42,049	\$ 55,604	\$ 3,457,287	\$ 25,055	\$ 3,579,995
Depreciation					
Balance, May 31, 2017	\$ 14,409	\$ 24,488	\$ -	\$ -	\$ 38,897
Depreciation	3,424	8,266	246,359	2,506	260,555
Disposal	-	(3,106)	-	-	(3,106)
Balance, May 31, 2018	17,833	29,648	246,359	2,506	296,346
Depreciation	1,211	1,947	123,475	626	127,259
Balance, August 31, 2018	\$ 19,044	\$ 31,595	\$ 369,834	\$ 3,132	\$ 423,605
Net book value, May 31, 2017	\$ 24,216	\$ 25,956	\$ 3,038,428	\$ 22,549	\$ 3,111,149
Net book value, August 31, 2018	\$ 23,005	\$ 24,009	\$ 3,087,453	\$ 21,923	\$ 3,156,390

Depreciation of camp and infrastructure for the three months ended August 31, 2018 of \$123,475 (2017 - \$nil) is included in exploration and evaluation expenditures.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION EXPENDITURES

a) Gladiator Project

(i) *Coliseum Property*

During the year ended May 31, 2010, the Company acquired a 100% interest in 95 claim blocks in Québec near Windfall Lake at a cost of \$20,000 (paid), the issuance of 50,000 common shares to the vendors and 5,440 common shares to a finder (issued), and incurring \$140,000 of exploration expenditures (incurred). The shares were valued at \$155,232 based on the market value of the shares on the share issue date. The property is subject to a 2% net smelter returns royalty ("NSR") of which 0.5% can be purchased by the Company for \$1,000,000.

(ii) *West Arena Property*

The Company entered into an option agreement on September 15, 2010, and as amended on February 8, 2011 and March 19, 2012, to acquire a 100% interest in 23 additional mineral claims adjacent to the Coliseum claims in Québec for aggregate consideration of \$10,000 cash (paid), 87,500 common shares (issued) and \$750,000 in exploration expenditures (incurred). The Company has completed the acquisition and owns 100% subject to the NSR below.

The agreement is subject to a 2% NSR of which 1% can be purchased for \$500,000. A finder's fee of 2,845 shares was paid in connection with this acquisition.

On November 7, 2013, the Company sold an additional 1% NSR to Gold Royalties Corporation ("GRO") in exchange for 1,000,000 common shares of GRO, valued at \$325,000.

(iii) *East Arena Property*

On December 30, 2010, the Company closed and received approval from the TSX-V for a property purchase agreement entered into on December 10, 2010 to acquire a 100% interest in 57 mineral claims east of the Urban-Barry Township in Québec. Consideration paid was 100,000 common shares valued at \$860,000 based on the market price of the shares on the share issue date, and cash payments of \$35,000. The agreement is subject to a 2% NSR of which 1% may be purchased for \$1,000,000.

(iv) *St-Cyr Property*

On February 23, 2016, the Company entered into an agreement to acquire a 100% interest in the St-Cyr Property, located in Québec. In consideration, the Company issued 700,000 common shares of the Company (issued on March 2, 2016 and valued at \$224,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for \$1,000,000.

(v) *West Lacroix Lake Property*

On February 23, 2016, the Company entered into an agreement to acquire a 100% interest in the West Lacroix Lake Property, located in Québec. In consideration, the Company issued 500,000 common shares of the Company (issued on March 2, 2016 and valued at \$160,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for \$1,000,000.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

a) Gladiator Project (continued)

(vi) *Lac Barry Property*

On March 10, 2016, and as amended March 30, 2017, the Company entered into an option agreement with Golden Valley Mines Ltd. (“Golden Valley”) to acquire an 85% interest in Golden Valley’s Lac Barry Property, located in Québec.

In consideration, the Company issued 519,480 common shares of the Company (issued on March 16, 2016 and valued at \$225,973) and paid \$25,000. In order to maintain the option, the Company must incur expenditures of \$2,000,000 as follows:

- \$250,000 before April 15, 2017 (incurred);
- an additional \$750,000 on or before March 10, 2018 (incurred); and
- an additional \$1,000,000 on or before March 10, 2019.

Golden Valley retains a 15% interest in the property and a 3% NSR, of which 1% can be purchased by the Company for \$1,000,000.

(vii) *Macho South Property*

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Macho South Property, located in Québec. In consideration, the Company issued 1,200,000 common shares of the Company (issued on March 21, 2016 and valued at \$510,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for \$1,000,000.

(viii) *Barry Property*

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Barry Property, located in Québec. In consideration, the Company issued 800,000 common shares of the Company (issued on March 21, 2016 and valued at \$340,000). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for \$1,000,000.

(ix) *Bailly Property*

On March 11, 2016, the Company entered into an agreement to acquire a 100% interest in the Bailly Property, located in Québec. In consideration, the Company issued 250,000 common shares of the Company (issued on March 21, 2016 and valued at \$106,250). The vendor retains a 2% NSR, of which 1% can be purchased by the Company for \$1,000,000.

On March 21, 2016, the Company issued 202,232 common shares of the Company (valued at \$85,949) as finder’s fees on the acquisitions of the Macho South, Barry and Bailly properties.

(x) *Thubiére Property*

On March 10, 2017, the Company entered into an agreement to acquire a 100% interest in the Thubiére Property, located in Québec. In consideration, the Company paid \$5,000 and issued 150,000 common shares (issued on March 21, 2017 and valued at \$54,000).

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

a) Gladiator Project (continued)

(xi) *Lac Mista Property*

On March 14, 2017, the Company entered into an agreement to acquire a 100% interest in the Lac Mista Property, located in Québec. In consideration, the Company paid \$10,000 and issued 150,000 common shares (issued on March 21, 2017 and valued at \$54,000). The vendors retain a 2% gross overriding royalty reserve on the property, of which 1% may be repurchased by the Company for \$1,000,000.

(xii) *Trove Property*

On March 29, 2017, the Company entered into an option agreement with Durango Resources Inc. (“Durango”) to acquire a 100% interest in the Trove Property, located in Québec.

In consideration, the Company must make payments as follows:

- cash payment of \$150,000 (paid) and issuance of 1,500,000 common shares of the Company upon approval by the TSX-V (issued on April 17, 2017 and valued at \$630,000);
- an additional cash payment of \$150,000 (paid) and issuance of an additional 1,500,000 common shares of the Company on or before April 19, 2018 (issued on April 13, 2018 and valued at \$750,000); and
- an additional cash payment of \$200,000 on or before April 19, 2019.

In the event of a minimum discovery of an inferred mineral resource of 500,000 ounces or greater of gold, the Company will issue to Durango 2,000,000 common shares upon completion of a technical report.

The Company must also incur exploration expenditures of \$1,000,000 by April 19, 2019. Durango retains a 2% NSR, of which 1% may be repurchased by the Company for \$1,000,000.

In relation to the acquisition of the Trove Property, the Company paid a finder’s fee of 267,284 common shares (issued and valued at \$112,259).

Subsequent to August 31, 2018, the Company terminated its option on the Trove Property.

(xiii) *Duke Property*

On July 6, 2018, the Company entered into an agreement with Beaufield Resources Inc. to acquire a 70% interest in the Duke Property, located in Québec. In consideration, the Company must make payments as follows:

- Cash payment of \$250,000 (paid) and issue 4,000,000 common shares of the Company (issued on July 12, 2018 and valued at \$1,600,000) upon acceptance by the TSX-V;
- An additional \$250,000 on or before July 6, 2019; and
- An additional \$250,000 on or before July 6, 2020.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

a) Gladiator Project (continued)

(xiii) Duke Property (continued)

The Company must also incur exploration expenditures as follows:

- \$1,500,000 on or before July 6, 2019;
- An additional \$1,500,000 on or before July 6, 2020; and
- An additional \$1,500,000 on or before July 6, 2021.

The Duke Property is subject to an underlying 2.3% NSR, of which 1% can be purchased for \$1,000,000.

(xiv) Maximus Property

On July 23, 2018, the Company entered into an agreement to acquire a 100% interest in the Maximus Property, located in Québec, at a cost of \$200,000 (paid).

b) Larder Lake Project

On March 16, 2016, the Company entered into an option agreement to acquire a 100% interest in the Larder Lake Property from Kerr Mines and its wholly owned subsidiary, Bear Lake Gold Ltd., located in Ontario. The terms of the agreement were amended on April 14, 2016 and TSX-V approval for the transaction was received on April 26, 2016.

In consideration for the Larder Lake Property, the Company issued 10,000,000 common shares of the Company (issued on April 26, 2016 and valued at \$3,800,000). The Company was also required to pay \$1,150,000 as follows:

- \$200,000 upon TSX-V approval (paid);
- \$300,000 on or before December 26, 2016 (paid);
- \$350,000 on or before April 26, 2017 (paid); and
- \$300,000 on or before October 26, 2017 (paid).

The Company was required to accelerate the final two payments as a result of completing an equity financing for gross proceeds of \$4,000,000 or more in non-flow-through financing during the year ended May 31, 2017.

In relation to the acquisition of the Larder Lake Project, the Company paid a finder's fee of 558,908 common shares (issued and valued at \$212,385).

On March 10, 2017, the Company entered into an agreement to acquire a 100% interest in the McVittie claim, located in Ontario. The Company issued 100,000 common shares as consideration (issued on March 20, 2017 and valued at \$35,000). The vendors retain a 1.5% NSR on the claim, of which 1% may be repurchased by the Company for \$750,000.

Subsequent to August 31, 2018, the Larder Lake Project was included in the spin-out of assets to Gatling Exploration Inc. ("Gatling") (note 18(a)).

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

10. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

A summary of exploration and evaluation expenditures for the three months ended August 31, 2018 and 2017 is as follows:

For the Three Months Ended August 31, 2018	Gladiator Project	Larder Lake Project	Total
Acquisition Costs			
Claim maintenance	\$ 4,164	\$ 13,023	\$ 17,187
Option payments	2,050,000	-	2,050,000
Total Acquisition Costs	2,054,164	13,023	2,067,187
Property Exploration Costs			
Assays	635,397	-	635,397
Camp and other costs	673,688	1,344	675,032
Depreciation	123,475	-	123,475
Drilling	5,841,219	-	5,841,219
Geochemistry	24,625	-	24,625
Geological	277,848	20,000	297,848
Geophysics	35,978	-	35,978
Tax credits	(1,370,685)	-	(1,370,685)
Travel and transport	36,562	-	36,562
Total Exploration Costs	6,278,107	21,344	6,299,451
Total Exploration and Evaluation Expenditures	\$ 8,332,271	\$ 34,367	\$ 8,366,638
<hr/>			
For the Three Months Ended August 31, 2017	Gladiator Project	Larder Lake Project	Total
Acquisition Costs			
Claim maintenance	\$ 8,663	\$ -	\$ 8,663
Total Acquisition Costs	8,663	-	8,663
Property Exploration Costs			
Assays	158,995	-	158,995
Camp and other costs	148,948	1,176	150,124
Drilling	3,521,183	-	3,521,183
Geochemistry	163,489	-	163,489
Geological	241,432	-	241,432
Geophysics	128,727	-	128,727
Travel and transport	31,387	-	31,387
Total Exploration Costs	4,394,161	1,176	4,395,337
Total Exploration and Evaluation Expenditures	\$ 4,402,824	\$ 1,176	\$ 4,404,000

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

11. OTHER LIABILITIES

Other liabilities consisted of the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through share issuances.

	Issued During the Year Ended May 31, 2017	Issued During the Year Ended May 31, 2018	Total
Balance, May 31, 2017	\$ 385,436	\$ -	\$ 385,436
Liability incurred on flow-through shares issued June 2017	-	6,071,380	6,071,380
Liability incurred on super flow-through shares issued February 2018	-	3,059,000	3,059,000
Liability incurred on flow-through shares issued February 2018	-	1,536,000	1,536,000
Settlement of flow-through share liability by incurring expenditures	(385,436)	(7,196,849)	(7,582,285)
Balance, May 31, 2018	-	3,469,531	3,469,531
Settlement of flow-through share liability by incurring expenditures	-	(2,063,285)	(2,063,285)
Balance, August 31, 2018	\$ -	\$ 1,406,246	\$ 1,406,246

For the three months ended August 31, 2018

At August 31, 2018, the Company had a remaining commitment to incur exploration expenditures in relation to its February 2018 flow-through share financing of \$10,546,842. This amount excludes any qualifying expenditures included in accounts payable.

Included in accounts payable and accrued liabilities at August 31, 2018 is a provision for tax liabilities as a result of not meeting flow-through expenditure requirements of \$100,000 from flow-through common shares issued in calendar 2012 and 2013. The Company reduced the provision by \$143,794 during the three months ended August 31, 2018. No payments related to calendar 2012 and 2013 flow-through penalties were made during the 2017 and 2018 fiscal years.

For the year ended May 31, 2018

On June 30, 2017, the Company issued 17,857,000 flow-through shares at a price of \$0.84 per share. The premium paid by investors was calculated as \$0.34 per share. Accordingly, \$6,071,380 was recorded as other liabilities.

On February 26, 2018, the Company issued 13,300,000 super flow-through shares at a price of \$0.75 per share. The premium paid by investors was calculated as \$0.23 per share. Accordingly, \$3,059,000 was recorded as other liabilities.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

11. OTHER LIABILITIES (Continued)

On February 26, 2018, the Company issued 19,200,000 flow-through shares at a price of \$0.60 per share. The premium paid by investors was calculated as \$0.08 per share. Accordingly, \$1,536,000 was recorded as other liabilities.

At May 31, 2018, the Company had a remaining commitment to incur exploration expenditures in relation to its February 2018 super flow-through and flow-through share financings of \$6,304,991 and \$11,520,000, respectively.

Included in accounts payable and accrued liabilities at May 31, 2018 is a provision for tax liabilities as a result of not meeting flow-through expenditure requirements of \$243,794 from flow-through common shares issued in calendar 2012 and 2013. The Company paid Part XII.6 tax of \$808 during the year ended May 31, 2018 and has accrued \$2,241 in relation to its June 2017 flow-through shares. The Company also reversed a \$20,061 provision for Part XII.6 tax and penalties related to flow-through common shares issued in calendar 2012 and 2013.

12. RELATED PARTY TRANSACTIONS

These amounts of key management compensation are included in the amounts shown on the condensed interim statements of comprehensive loss:

	Three Months Ended August 31, 2018	Three Months Ended August 31, 2017
Short-term compensation	\$ 294,500	\$ 384,500

During the three months ended August 31, 2018, short-term compensation to related parties consisted of \$116,000 (2017 - \$266,000) in management and director fees, \$32,500 (2017 - \$22,500) in professional fees and \$146,000 (2017 - \$96,000) in exploration and evaluation expenditures.

During the three months ended August 31, 2018, the Company received \$18,000 (2017 - \$5,155) for the recovery of rent expense from companies related by a common officer. Included in receivables at August 31, 2018 was \$43,264 (2017 - \$48,698) for the recovery of shared expenses from companies related by a common officer.

During the three months ended August 31, 2018, the Company paid or accrued \$18,760 (2017 - \$47,557) to private companies with common directors for exploration and evaluation expenditures.

13. SHARE CAPITAL

a) Authorized

Unlimited number of common voting shares without par value

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

b) Issued and outstanding

During the three months ended August 31, 2018

During the three months ended August 31, 2018, the Company issued 1,890,000 common shares for proceeds of \$575,000 on the exercise of 1,890,000 share purchase and finder's warrants. The value of the warrants of \$162,811 was transferred to share capital from share-based payments reserve upon exercise.

During the three months ended August 31, 2018, the Company issued 4,000,000 common shares valued at \$1,600,000 for exploration and evaluation expenditures (note 10(a)).

During the year ended May 31, 2018

On June 30, 2017, the Company closed a bought deal private placement for gross proceeds of \$19,999,880. The Company issued 17,857,000 flow-through common shares of the Company at a price of \$0.84 per share and 10,000,000 common shares of the Company at a price of \$0.50 per share.

The premium paid by investors on the flow-through shares was calculated as \$0.34 per share. Accordingly, \$6,071,380 was recorded as other liabilities. The underwriters received a cash fee of \$1,199,993. Other share issue costs of \$143,921 were incurred.

On February 26, 2018, the Company closed a bought deal private placement for gross proceeds of \$21,495,000. The Company issued 13,300,000 super flow-through common shares of the Company at a price of \$0.75 per share and 19,200,000 flow-through common shares of the Company at a price of \$0.60 per share.

The premium paid by investors on the super flow-through and flow-through shares was calculated as \$0.23 and \$0.08 per share, respectively. Accordingly, \$3,059,000 and \$1,536,000, respectively, was recorded as other liabilities. The underwriters received a cash fee of \$1,289,700 and the Company issued 1,300,000 finder's warrants with an exercise price of \$0.60 per unit for a period of two years. The finder's warrants were valued at \$184,778 (note 13(c)). Other share issue costs of \$157,014 were incurred.

During the year ended May 31, 2018, the Company issued 3,850,341 common shares for proceeds of \$1,333,141 on the exercise of 3,850,341 share purchase and finder's warrants and 600,000 common shares for proceeds of \$168,000 on the exercise of 600,000 stock options. The value of the warrants of \$479,009 and the value of the stock options of \$129,851 were transferred to share capital from share-based payments reserve upon exercise.

During the year ended May 31, 2018, the Company issued 1,500,000 common shares valued at \$750,000 for exploration and evaluation expenditures (note 10(a)).

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

c) Warrants

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

	Three Months Ended August 31, 2018		Year Ended May 31, 2018	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	15,121,442	\$ 0.44	17,841,633	\$ 0.41
Issued	-	-	1,300,000	\$ 0.60
Exercised	(1,890,000)	\$ 0.30	(3,850,341)	\$ 0.35
Expired	(9,924,572)	\$ 0.48	(169,850)	\$ 0.35
Outstanding, end of period	3,306,870	\$ 0.41	15,121,442	\$ 0.44

The following warrants were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	Outstanding at August 31, 2018
March 2, 2019	0.50	\$ 0.28	1,637,608
March 14, 2019	0.53	\$ 0.28	146,400
March 23, 2019	0.56	\$ 0.35	222,862
February 26, 2020	1.49	\$ 0.60	1,300,000
	0.90		3,306,870

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its finder's warrants granted. The fair value of each finder's warrant grant was calculated using the following weighted average assumptions:

	Three Months Ended August 31, 2018	Year Ended May 31, 2018
Expected life (years)	N/A	2.00
Risk-free interest rate	N/A	1.79%
Expected annualized volatility	N/A	61%
Dividend yield	N/A	N/A
Stock price at grant date	N/A	\$0.50
Exercise price	N/A	\$0.60
Weighted average grant date fair value	N/A	\$0.14

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

c) Warrants (continued)

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

d) Stock options

The Company has a stock option plan to grant incentive stock options to directors, officers, employees and consultants. Under the plan, the aggregate number of common shares that may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date, including options granted prior to the adoption of the plan. Options granted may not exceed a term of 10 years, and the term will be reduced to one year following the date of death of the optionee. All options vest when granted unless they are otherwise specified by the Board of Directors or if they are granted for investor relations activities. Options granted for investor relations activities vest over a twelve-month period with no more than 25% of the options vesting in any three-month period.

The following is a summary of option transactions under the Company's stock option plan for the three months ended August 31, 2018 and year ended May 31, 2018:

	Three Months Ended August 31, 2018		Year Ended May 31, 2018	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	12,200,000	\$ 0.42	11,150,000	\$ 0.39
Granted	-	-	2,000,000	\$ 0.55
Exercised	-	-	(600,000)	\$ 0.28
Expired	(150,000)	\$ 0.55	(350,000)	\$ 0.49
Outstanding, end of period	12,050,000	\$ 0.42	12,200,000	\$ 0.42

The weighted average trading price on date of exercise for the stock options exercised during the year ended May 31, 2018 was \$0.50.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

13. SHARE CAPITAL (Continued)

d) Stock options (continued)

The following options were outstanding and exercisable:

Expiry Date	Weighted Average Remaining Contractual Life in Years	Exercise Price	August 31, 2018	
			Outstanding	Exercisable
September 21, 2018*	0.06	\$ 0.40	100,000	100,000
September 21, 2018*	0.06	\$ 0.50	100,000	100,000
April 3, 2020	1.59	\$ 0.40	5,950,000	5,950,000
October 14, 2020	2.12	\$ 0.22	1,200,000	1,200,000
December 8, 2020	2.27	\$ 0.22	400,000	400,000
December 14, 2020	2.29	\$ 0.57	200,000	200,000
February 1, 2021	2.42	\$ 0.55	1,650,000	1,650,000
March 30, 2021	2.58	\$ 0.50	2,450,000	2,450,000
	1.97		12,050,000	12,050,000

* expired unexercised subsequent to August 31, 2018

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for its stock options granted. The fair value of each option grant was calculated using the following weighted average assumptions:

	Three Months Ended August 31, 2018	Year Ended May 31, 2018
Expected life (years)	N/A	2.99
Risk-free interest rate	N/A	1.99%
Expected annualized volatility	N/A	75%
Dividend yield	N/A	N/A
Stock price at grant date	N/A	\$0.54
Exercise price	N/A	\$0.55
Weighted average grant date fair value	N/A	\$0.26

Option pricing models require the input of highly subjective assumptions regarding volatility. The Company has used historical volatility to estimate the volatility of the share price.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2018	2017
Income tax paid	\$ -	\$ -
Interest received	\$ 37,167	\$ 47,095
Non-cash investing and financing activities		
Fair value of warrants exercised	\$ 162,811	\$ -
Accounts payable related to property, plant and equipment (opening)	\$ 482,745	\$ -

15. SEGMENTED DISCLOSURE

The Company has one operating segment, being mineral exploration and development. All of the Company's assets are located in Canada.

16. COMMITMENTS

- a) The Company has entered into agreements with officers and consultants that include termination and change of control clauses. In the case of termination, the officers and consultants are entitled to an amount equal to a multiple (ranging from one to two times) the annual base fee payable. In the case of a change of control, the officers and consultants are entitled to an amount equal to a multiple (ranging from one to three times) the sum of the annual base fee and minimum incentive fee payable. As at August 31, 2018, the total annual base fee of the officers and consultants under the agreements is \$864,000 and the total annual minimum incentive fee is \$49,000. Certain of the agreements contain a cash bonus payable upon any non-flow-through equity financings at the discretion of the Board of Directors.
- b) The Company has entered into an office sublease agreement commencing September 1, 2017 and expiring August 30, 2022 with basic rent and estimated operating costs per fiscal year approximately as follows:

Fiscal 2019	\$ 290,000
Fiscal 2020	295,000
Fiscal 2021	299,000
Fiscal 2022	304,000
Fiscal 2023	76,000
	\$ 1,264,000

17. CHANGE IN ACCOUNTING POLICY

Effective March 1, 2018, the Company changed its accounting policy for its exploration and evaluation expenditures, including acquisition costs, to recognize these costs in the statement of comprehensive loss in the period incurred, as permitted under IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

17. CHANGE IN ACCOUNTING POLICY (Continued)

The previous accounting policy was to capitalize direct exploration and evaluation expenditures and the related acquisition costs as an asset on the Company's statement of financial position. Tax credits were applied to reduce related exploration and evaluation assets in the period recognized. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, were expensed in the year in which they occurred.

The new accounting policy to expense exploration and evaluation expenditures has been applied retrospectively.

The impacts of this change in accounting policy in the financial statements are set out below:

Statements of Financial Position

As at May 31, 2017	As Previously Reported	Effect of Change in Accounting Policy	As Restated Under the New Policy
Exploration and evaluation assets	\$ 27,565,156	\$ (27,565,156)	\$ -
Deficit	\$ (26,895,962)	\$ (27,565,156)	\$ (54,461,118)
As at August 31, 2017			
Exploration and evaluation assets	\$ 31,969,156	\$ (31,969,156)	\$ -
Deficit	\$ (26,845,821)	\$ (31,969,156)	\$ (58,814,977)

Statements of Comprehensive Loss

For the Three Months Ended August 31, 2017	As Previously Reported	Effect of Change in Accounting Policy	As Restated Under the New Policy
Exploration and evaluation	\$ -	\$ 4,404,000	\$ 4,404,000
Net income (loss) for the period	\$ 50,141	\$ (4,404,000)	\$ (4,353,859)
Basic and diluted earnings (loss) per share	\$ 0.00	\$ (0.02)	\$ (0.02)

Bonterra Resources Inc.
Notes to the Condensed Interim Financial Statements
For the Three Months Ended August 31, 2018
(Expressed in Canadian Dollars)

17. CHANGE IN ACCOUNTING POLICY (Continued)

Statements of Cash Flows

For the Three Months Ended August 31, 2017	As Previously Reported	Effect of Change in Accounting Policy	As Restated Under the New Policy
Net income (loss) for the period	\$ 50,141	\$ (4,404,000)	\$ (4,353,859)
Changes in non-cash working capital			
Prepaid expenses	\$ (290,887)	\$ (1,405,000)	\$ (1,695,887)
Accounts payable and accrued liabilities	\$ (335,478)	\$ 1,159,138	\$ 823,660
Cash Used in Operating Activities	\$ (1,703,501)	\$ (4,649,862)	\$ (6,353,363)
Exploration and evaluation expenditures	\$ (4,649,862)	\$ 4,649,862	\$ -
Cash Used in Investing Activities	\$ (6,084,727)	\$ 4,649,862	\$ (1,434,865)

18. SUBSEQUENT EVENTS

- a) On September 24, 2018, the Company acquired Metanor Resources Inc. (“Metanor”) by way of plan of arrangement (the “Acquisition”) under section 192 of the *Canada Business Corporations Act*. Each holder of Metanor common shares received 1.6039 common shares of the Company for each Metanor share held, for a total of 163,513,129 common shares of the Company. The Company also advanced \$4,000,000 to Metanor prior to closing, with a term of six months and an interest rate of 10%. The advance and related interest were forgiven upon completion of the Acquisition.

Prior to the Acquisition, the Company completed a plan of arrangement (the “Arrangement”) whereby the Company spun out its Larder Lake Project assets and liabilities and \$7,000,000 in cash (the “Spin-Out”) in order to create Gatling, by way of plan of arrangement under the *Business Corporations Act* (British Columbia). Each holder of common shares of the Company received one Gatling common share for every seven common shares of the Company held.

As a result of the Acquisition and Arrangement, the Company’s existing stock option and warrant exercise prices were adjusted, outstanding warrants of Metanor were adjusted and stock options were granted to existing Metanor option holders.

- b) On October 15, 2018, the Company announced a marketed private placement to raise gross proceeds of up to \$20,000,130. Prior to the closing, the Company will consolidate its outstanding common shares on the basis of ten existing common shares for one new common share. As of October 29, 2018, the private placement has not closed, and the Company has not consolidated its common shares.
- c) Subsequent to August 31, 2018, 650,000 stock options expired unexercised.
- d) Subsequent to August 31, 2018, the Company granted 2,500,000 stock options to consultants at an exercise price of \$0.42 and with a term to expiry of one year.