

**GEM INTERNATIONAL RESOURCES INC.**

Condensed Interim Consolidated Financial Statements

(Expressed in Canadian Funds)

For the Nine Months Ended June 30, 2018 and 2017

(Unaudited – Prepared by Management)

## GEM INTERNATIONAL RESOURCES INC.

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## **GEM INTERNATIONAL RESOURCES INC.**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

The accompanying unaudited condensed interim consolidated financial statements of **Gem International Resources Inc.** 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 financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**GEM INTERNATIONAL RESOURCES INC.**Condensed Interim Consolidated Statements of Financial Position  
(Expressed in Canadian Dollars)

<b>As at</b>	<b>Note</b>	<b>June 30, 2018 (Unaudited)</b>	<b>September 30, 2017 (Audited)</b>
<b>ASSETS</b>			
<i>Current Assets</i>			
Cash		\$ 1,750	\$ 2,866
Other receivables	3	3,262	1,126
		<b>5,012</b>	<b>3,992</b>
Reclamation bond	4	-	-
Deposits on Options	5	-	-
		<b>\$ 5,012</b>	<b>\$ 3,992</b>
<b>LIABILITIES</b>			
<i>Current Liabilities</i>			
Accounts payable and accrued liabilities	9	\$ 324,745	\$ 202,280
Loans payable	6	124,572	-
		<b>449,317</b>	<b>202,280</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7	26,717,682	26,717,682
Contributed surplus		3,771,991	3,771,991
Deficit		(30,933,978)	(30,687,961)
		<b>(444,305)</b>	<b>(197,573)</b>
		<b>\$ 5,012</b>	<b>\$ 3,992</b>

**Nature of Operations and Going Concern** 1*On behalf of the Board of Directors:*"John W. Barr", Director  
John W. Barr"John Campbell Smyth", Director  
John Campbell Smyth*The accompanying notes are an integral part of these condensed interim consolidated financial statements*

**GEM INTERNATIONAL RESOURCES INC.**

Condensed Interim Consolidated Statements of Net and Comprehensive Loss (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

	Note	For the Three Months Ended		For the Nine Months Ended	
		June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
<b>General and Administrative Expenses</b>					
Audit, accounting and legal	9	\$ 16,509	\$ 13,838	\$ 70,501	\$ 60,677
Bank, finance charges and interest		21,382	98	21,547	582
Consulting fees	9	16,425	71,425	87,448	312,225
Marketing and investor relations		-	13,469	-	48,275
Office and miscellaneous		5,187	239	6,752	1,214
Property investigation costs		-	-	-	7,294
Regulatory and transfer agent fees		13,966	988	21,672	17,073
Rent	9	-	4,500	6,000	13,500
Shareholders information		4,329	-	5,649	3,410
Stock-based compensation	7 d)	-	-	-	92,473
Travelling and promotion		15,008	14,663	26,470	68,477
Loss from operations		(92,806)	(119,220)	(246,039)	(625,200)
<b>Other Income:</b>					
Foreign exchange gain		(4)	(625)	17	3,120
Interest income		(4)	8	5	68
<b>Net and comprehensive loss for the period</b>		<b>\$ (92,798)</b>	<b>\$ (119,837)</b>	<b>\$ (246,017)</b>	<b>\$ (622,012)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>		<b>58,265,639</b>	<b>58,265,539</b>	<b>58,265,639</b>	<b>48,537,334</b>

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

**GEM INTERNATIONAL RESOURCES INC.**

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

	Number of Common Shares	Share Capital	Contributed Surplus	Deficit	Total Shareholders' Equity
<b>Balance, September 30, 2016</b>	<b>40,065,539</b>	<b>\$25,803,107</b>	<b>\$3,679,518</b>	<b>(\$28,891,765)</b>	<b>\$590,860</b>
Shares issued for private placement – Note 6 (b)(i)	18,000,000	900,000	-	-	900,000
Share issuance costs on private placement – Note 6 (b)(i)	-	(5,425)	-	-	(5,425)
Shares issued – exercise of warrants – Note 6 c	200,000	20,000	-	-	20,000
Stock-based compensation – Note 6 d	-	-	92,473	-	92,473
Net loss for the period	-	-	-	(502,175)	(502,175)
<b>Balance, June 30, 2017</b>	<b>58,265,539</b>	<b>\$26,717,682</b>	<b>\$3,771,991</b>	<b>(\$29,393,940)</b>	<b>\$1,095,733</b>
Net loss for the period	-	-	-	(1,294,021)	(1,294,021)
<b>Balance, September 30, 2017</b>	<b>58,265,539</b>	<b>\$26,717,682</b>	<b>\$3,771,991</b>	<b>(\$30,687,961)</b>	<b>(\$198,288)</b>
Net loss for the period	-	-	-	(246,017)	(246,017)
<b>Balance, June 30, 2018</b>	<b>58,265,539</b>	<b>\$26,717,682</b>	<b>\$3,771,991</b>	<b>(\$30,933,978)</b>	<b>(\$444,305)</b>

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

**GEM INTERNATIONAL RESOURCES INC.**

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

	<b>For the Three Months Ended</b>		<b>For the Nine Months Ended</b>	
	<b>June 30,</b>	June 30,	<b>June 30,</b>	June 30,
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Operating Activities</b>				
Net loss for the period	<b>(\$92,798)</b>	(\$119,837)	<b>(\$246,017)</b>	(\$622,012)
Non-cash items included in net loss:				
- stock-based compensation	-	-	-	92,473
Changes in non-cash working capital				
- prepaid expenses	-	17,425	-	46,798
- other receivables	<b>(1,141)</b>	2,198	<b>(2,136)</b>	1,522
- accounts payable and accrued liabilities	<b>5,385</b>	(948)	<b>122,465</b>	50,742
Net cash used in operating activities	<b>(88,554)</b>	(101,162)	<b>(125,688)</b>	(430,477)
<b>Investing Activities</b>				
Exploration and evaluation assets	-	-	-	(500,655)
Net cash used in investing activities	-	-	-	(500,655)
<b>Financing Activities</b>				
Shares issued, net of costs	-	-	-	894,575
Shares issued, exercise of warrants	-	-	-	20,000
Loans payable	<b>88,480</b>	-	<b>124,572</b>	-
Net cash provided by financing activities	<b>88,480</b>	-	<b>124,572</b>	914,575
<b>Decrease in cash</b>	<b>(74)</b>	(101,162)	<b>(1,116)</b>	(16,557)
<b>Cash, beginning of period</b>	<b>1,824</b>	110,969	<b>2,866</b>	26,364
<b>Cash, end of period</b>	<b>\$ 1,750</b>	\$ 9,807	<b>\$ 1,750</b>	\$ 9,807

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

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Nine Months Ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars)

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### **1. Nature of Operations**

Gem International Resources Inc. (the “Company”) was incorporated on September 25, 1985 under the laws of British Columbia, Canada and is a junior natural resource company listed on the TSX Venture Exchange, having the symbol GI.V. The Company is primarily engaged in the acquisition, exploration and development of mineral properties with its principal focus on diamond, gold and other precious metals. All of the Company’s activities to date have been of an exploratory nature.

The address of the Company’s registered office and principal place of business is the 25<sup>th</sup> Floor, 700 West Georgia Street, Vancouver, British Columbia, Canada V7Y 1B3.

#### **Going Concern**

The Company has not yet determined whether any of its properties contain mineral deposits that are economically recoverable. The recoverability of any amounts shown as deferred mineral interest costs is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of its properties.

While the Company’s condensed consolidated interim financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events indicate a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. For the nine months ended June 30, 2017, the Company reported a loss of \$246,017 (June 30, 2017: \$622,012) and as at that date had an accumulated deficit of \$30,933,978 (June 30, 2017: \$29,393,940). As of June 30, 2018, the Company had net working capital deficit of \$(444,305) (June 30, 2017: working capital deficit of \$77,284). The Company does not have sufficient funds available to bring its mineral properties to production, if possible, which would allow it to be self-sustaining. The Company will need additional financing to continue exploring, and if successful develop its properties to bring it to the production stage. While in the past the Company has been successful in obtaining funding from equity financings, option agreements, loans or through other arrangements, there is no assurance that these initiatives will be successful in the future.

These condensed consolidated interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material. The directors of the Company have approved these condensed consolidated interim financial statements.

### **2. Significant Accounting Policies**

#### **a) Statement of Compliance**

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual audited financial statements for the year ended September 30, 2017, which have been prepared in accordance with IFRS as issued by the IASB.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
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### **2. Significant Accounting Policies - *continued***

#### **a) Statement of Compliance - *continued***

The policies applied in these financial statements are based on IFRS issued and outstanding as of August 29, 2018, the date the Board of Directors approved these condensed interim consolidated financial statements.

#### **b) Basis of Presentation**

These condensed interim consolidated financial statements were prepared on an accrual basis and are based on historical costs, except for financial instruments measured at fair value.

#### **Adoption of IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)**

On January 1, 2018, the Company adopted the requirements of IFRS 15. IFRS 15 covers principles that an entity shall apply to report useful information to users of the financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The Company elected to apply IFRS 15 using a full retrospective approach.

IFRS 15 requires companies to recognize revenue when “control” of goods or services transfers to the customer, whereas the previous standard, IAS 18, required entities to recognize revenue when the “risks and rewards” of the goods or services transfer to the customer. The Company concluded that there is no change to the timing of revenue recognition of its concentrate sales under IFRS 15 compared to the previous standard. As such, no adjustment was required to the Company’s financial statements.

#### **Adoption of IFRS 9 Financial Instruments (“IFRS 9”)**

On January 1, 2018, the Company adopted the requirements of IFRS 9. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected-loss” impairment model. The Company adopted a retrospective approach, other than for hedge accounting, which is applied prospectively.

IFRS 9 did not impact the Company’s classification and measurement of financial assets and liabilities, and there was no significant impact on the carrying amounts of the Company’s financial instruments at the transition date. The Company had the option to designate its current equity securities as financial assets at fair value through other comprehensive income or loss. The Company chose not to make this election, and changes in the fair value of its current equity securities will continue to be recognized in profit or loss in accordance with the Company’s current policy.

The introduction of the new ‘expected credit loss’ impairment model had negligible impact on the Company, given the Company sells its concentrate to large international organizations with no historical level of customer default, and the corresponding receivables from these sales are short-term in nature.

The Company currently has no hedging arrangements, and will apply the new accounting requirements under IFRS 9 as required.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
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### **2. Significant Accounting Policies - *continued***

#### **c) Critical Accounting Estimates, Judgments and Uncertainties**

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 the 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.

##### ***Critical Accounting Estimates and Assumptions***

Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amount of assets and liabilities within the next financial year.

##### ***Share-Based payments***

The Company uses the Black Scholes pricing model to estimate the fair value of stock options granted and warrants issued. Under this model, the Company must estimate the term, volatility and if applicable, the forfeiture rate of options granted and warrants issued.

##### ***Critical Accounting Judgments***

Critical accounting judgements are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

##### ***Depreciation rates***

The application of determining the useful lives of equipment are estimates by management based on assumptions about future events. Estimates and assumption made may change if new information becomes available. New information may become available during the use of the equipment that causes the Company to adjust its estimate.

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

The Company reviews and evaluates its property, including exploration and evaluation assets, plant and equipment for indications of impairment when events or changes in circumstances indicate that the related carrying amount may not be recoverable or at least at the end of each reporting period. The asset's recoverable amount is estimated if an indication of impairment exists.

Impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset.

## GEM INTERNATIONAL RESOURCES INC.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Nine Months Ended June 30, 2018 and 2017  
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### 2. Significant Accounting Policies - *continued*

#### c) Critical Accounting Estimates, Judgments and Uncertainties - *continued*

Impairment losses reducing the carrying value to the recoverable amount are recognized in profit and loss. An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

#### d) Subsidiaries

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases.

The subsidiaries of the Company are as follows:

Name of Subsidiary	Principal Activity	Place of Incorporation and Operation	Portion of Ownership Interest and Voting Power Held	
			June 30, 2018	June 30, 2017
Sierra Exploration and Mining Ltd.	Inactive	Tanzania	100%	100%
Gold Land Group Ltd.	Inactive	British Virgin Island	100%	100%
Ease Land Holdings Ltd.	Inactive	British Virgin Island	100%	100%

The subsidiaries have been inactive since May 1, 2014.

#### e) Consolidation Principles

Assets, liabilities, revenues and expenses of the subsidiaries are recognized in accordance with the Company's accounting policies. Intercompany transactions are eliminated at consolidation.

#### f) Business Combinations

Acquisitions of subsidiaries and businesses (other than entities which were under the control of the parent) are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair value (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree, plus any acquisition-related costs incurred to effect a business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 '*Business Combinations*' are recognized at their fair value at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 '*Noncurrent Assets Held for Sale and Discontinued Operations*,' which are recognized and measured at fair value less cost to sell.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Nine Months Ended June 30, 2018 and 2017  
(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies - *continued***

#### **g) Functional and Presentation Currency**

The Company's functional currency is the Canadian Dollar ("CAN"). The consolidated financial statements are presented in CAN which is the Company's presentation currency, unless otherwise noted.

All amounts in these consolidated financial statements are rounded to the nearest dollar.

#### **h) Exploration and Evaluation Assets**

Exploration and evaluation expenditures are capitalized once the legal right to explore a property has been acquired. Exploration and evaluation assets are recorded at cost less accumulated impairment losses. Direct costs related to the acquisition, exploration and evaluation of mineral properties are capitalized until the commercial viability of the asset is established, at which time the capitalized costs are reclassified to mineral properties under development. To the extent that the expenditures are spent to establish ore reserves within the rights to explore, the Company will consider those costs as intangible assets in nature.

The depreciation of a capital asset in connection with exploring or evaluating a property of this nature will be included in the cost of the intangible asset.

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

Management reviews the facts and circumstances suggesting if the carrying amount of the exploration and evaluation assets exceeds their recoverable amount on a regular basis. If the facts and circumstances suggest the carrying value exceeds the recoverable amount, the Company will perform an impairment test on the property in accordance with the provisions of IAS 36.

Exploration stage assets and development stage assets are considered separate CGUs for impairment testing purposes.

The amount shown for mineral properties does not necessarily represent present or future values. Recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

#### **i) Foreign currency translation**

In preparing the consolidated financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period end foreign exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction. Non-monetary assets and liabilities that are stated at fair value are translated using the historical rate on the date that the fair value was determined. All gains and losses on translation of these foreign currency transactions are included in the consolidated income statement.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
For the Nine Months Ended June 30, 2018 and 2017  
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### **2. Significant Accounting Policies – continued**

#### **j) Cash and Cash Equivalents**

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid investments with remaining maturities at point of purchase of 90 days or less.

#### **k) Reclamation Deposit**

Cash and other short-term deposits which are required as a part of ownership of legal rights to explore a property are classified separately as reclamation deposits.

#### **l) Income Taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the income statement. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)  
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### **2. Significant Accounting Policies – continued**

#### **m) Equipment**

Equipment is recorded at cost less accumulated impairment losses.

Where an item of plant and equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Directly attributable expenses incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate portion of normal overheads.

The costs of day-to-day servicing are recognized in profit or loss as incurred. These costs are more commonly referred to as “maintenance and repairs.”

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the weighted average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

The Company depreciates its assets as follows:

Category	Methods	Rate/Useful life
Computer equipment and software	Declining balance	30 – 100%
Office equipment and furniture	Declining balance	20%
Field equipment	Straight-line	5 years
Vehicles	Straight-line	5 years

The depreciation method, rates, useful life and residual values are assessed annually.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – continued**

#### **m) Equipment**

##### *Subsequent Costs*

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

##### *Impairment*

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

##### *Reversal of Impairment*

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

#### **n) Decommissioning and restoration provisions**

The Company records a liability based on the best estimates of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate. Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows required to discharge the liability discounted at a risk-free rate. The restoration provision is adjusted at each reporting period for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the risk-free discount rate.

## **GEM INTERNATIONAL RESOURCES INC.**

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

For the Nine Months Ended June 30, 2018 and 2017

(Expressed in Canadian Dollars)

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### **2. Significant Accounting Policies – continued**

#### **n) Decommissioning and restoration provisions – continued**

The restoration provision is also accreted to full value over time through periodic charges to profit or loss. The amount of the restoration provision initially recognized is capitalized as part of the related asset's carrying value and amortized to profit or loss. The method of amortization follows that of the underlying asset. The costs related to a restoration provision are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. A revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the related asset.

#### **o) Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, and it is probably that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

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 risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

#### **p) Earnings (Loss) per Share**

Basic earnings (loss) per share is computed by dividing the net earnings (loss) attributable to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings 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. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

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### **2. Significant Accounting Policies – continued**

#### **q) Financial Assets**

##### **(i) Classification and measurement of financial assets and liabilities**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below:

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification. The Company's financial assets which consist primarily of cash and cash equivalents, and amounts receivable are classified at amortized cost.

##### **(ii) Impairment of financial assets**

An 'expected credit loss' (ECL) model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to ECL model include cash and cash equivalents, and amounts receivable.

The adoption of the ECL impairment model had no impact on the carrying amounts of the Company's financial assets on the transition date given the amounts receivable are substantially all current and there has been minimal historical customer default. Moreover, cash and cash equivalents have not been subject to historical credit risk.

#### **r) Financial liabilities and equity**

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

### **2. Significant Accounting Policies – continued**

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### **r) Financial liabilities and equity – continued**

#### ***Other financial liabilities***

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

#### ***De-recognition of financial liabilities***

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

### **s) Share Capital**

(i) Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares and share purchase warrants are classified as equity instruments.

(ii) Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

(iii) The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing price on the measurement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded in contributed surplus.

### **t) Flow-Through Shares**

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. Flow-through common shares are recognized in equity based on the quoted price of the existing shares on the date of the issue. The difference between the amounts recognized in common shares and the amount the investor pays for the shares is recognized as another liability which is reversed into earnings as eligible expenditures are incurred. The deferred tax impact is recorded prospectively upon renunciation of the related tax benefits, provided it is expected the Company will incur the required eligible expenditures.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, are recognized as a recovery of deferred income taxes in net income.

### **u) Share-based Payments**

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as share-based payments with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

## **2. Significant Accounting Policies - continued**

## **GEM INTERNATIONAL RESOURCES INC.**

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### **u) Share-based Payments - *continued***

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of the goods or services received.

### **Warrants issued in equity financing transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction.

The Company uses the residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the share issuance date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as reserves.

From time to time in connection with private placements, the Company issues compensatory warrants to agents (“Agent Warrants”) as commission for services. Awards of Agent Warrants are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to reserves when Agent Warrants are issued. Any consideration received upon exercise of Agent Warrants is credited to share capital. The application of the fair value based method requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility in the price of the underlying stock, and expected life of the Agent Warrants.

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### 2. Significant Accounting Policies - *continued*

#### v) Changes in Accounting Standards Not Yet Effective

Certain pronouncements were issued by the IASB are mandatory for accounting periods after December 31, 2017 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded from the discussion below. The following has not yet been adopted and is being evaluated to determine its impact on the Company.

In January 2016, the International Accounting Standards Board (IASB) issued a new International Financial Reporting Standard (IFRS) on lease accounting which was incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in June 2016. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single lessee accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Lease assets and liabilities are initially recognized on a present value basis and subsequently, similarly to other non-financial assets and financial liabilities, respectively. The lessor accounting requirements are substantially unchanged and, accordingly, continue to require classification and measurement as either operating or finance leases. The new standard also introduces detailed disclosure requirements for both the lessee and lessor. The new standard is effective for annual periods beginning on or after January 1, 2019.

### 3. Other Receivables

	<b>June 30, 2018</b>	June 30, 2017
GST receivable	<u>\$ 3,049</u>	<u>\$ 957</u>

### 4. Reclamation bond

	<b>June 30, 2018</b>	June 30, 2017
Reclamation bond <sup>(1)</sup>	<u>\$ -</u>	<u>\$ 1,000</u>

<sup>(1)</sup> A term deposit in the amount of \$1,000 is being held in trust as a reclamation bond for the Department of Mines of British Columbia.

During the year ended September 30, 2017, the Company decided to write off the reclamation bond.

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### **5. Deposit on Options**

#### **The Dala Option**

On September 23, 2015, the Company entered into a binding letter agreement with Global Gems International Limited (“Global Gems”) for an option to acquire 50% of the issued and outstanding shares of Global Gems (the “Option”) and thereby attain 50% of a 45% interest in the Dala project, which 50% interest shall be held by Global Gems on behalf of the Company. The Dala project is located south of Saurimo, the capital of the Lunda Sul Province in Angola. In exchange for the Option, the Company has agreed to, over a two-year period, raise an aggregate cash of US\$800,000, issue an aggregate 2,750,000 common shares of the Company to the vendors and contribute an aggregate US\$5,000,000 towards the exploration expenditures.

On March 29, 2016, the Company's letter agreement with Global Gems International Ltd. (“Global Gems”) for an option to acquire 50 per cent of the issued and outstanding shares of Global Gems has been terminated. Concurrently, the company has entered into a new agreement with Global Gems for an option to acquire 91.5 per cent of the issued and outstanding shares of Global Gems and thereby attain 91.5 per cent of a 45-per-cent interest in the Dala project. The terms of the agreement were amended to the following terms:

- Make total cash option payment of \$800,000 (USD) due as follows:
  - USD \$300,000 to be paid no later than August 31, 2016 (\$300,000 USD [\$390,100 CAD] payment made prior to August 31, 2016 during year ended September 30, 2016).
  - US \$250,000 to be paid upon the Company receiving approval from the TSX Venture Exchange and which payment shall signify that the Company exercises the Option and that the Agreement has become final (the Company has not yet obtained approval from the TSX Venture Exchange);
  - US \$250,000 to be paid on or before the 2<sup>nd</sup> anniversary of the execution of the letter of intent.
- Issue an aggregate of 5,000,000 common shares of the Company to the vendors upon receiving approval from the TSX Venture Exchange;
- Contribute an aggregate US\$4,700,000 towards the exploration expenses.

Subject to regulatory approval, on January 23, 2017, the Company entered into an agreement (the “Amendment Agreement”) with Global Gems International Limited (“Global Gems”) to amend its existing arrangement for the earn-in of an interest in the Dala diamond exploration Project in the Lunda Sul Province in Angola.

Under the Amendment Agreement the Company may acquire 88% of Global Gems’s 45% interest in the restructured Dala Project by paying to Global Gems the amounts of US\$300,000 on or before each of the 3<sup>rd</sup> and 4<sup>th</sup> anniversaries of TSX Venture approval and US\$400,000 on or before the 5<sup>th</sup> anniversary of such approval. The Company has paid a total sum of \$800,000 to the end of the nine months ended June 30, 2017. The Company would also be required to incur US\$13,000,000 in exploration and development expenditures over 5 years (US\$3,000,000 for each of year 1 (which must be raised and paid by May 31, 2017) and year 2, US\$2,000,000 for year 3, and US\$2,500,000 for each of years 4 and 5). The US\$300,000 already provided to Global Gems as start-up capital would be credited against year 1 expenditures. The Company shall be entitled to a share of any revenues generated from saleable products, if any, from the property prorated to the proportion of expenditures spent to the total expenditures to be spent under the Amendment Agreement.

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### **5. Deposit on Options – continued**

#### **The Dala Option – continued**

The Company will also be required issue to the principals of Global Gems 30,000,000 shares (10,000,000 shares on each of the 3<sup>rd</sup>, 4<sup>th</sup> and 5<sup>th</sup> anniversaries of TSX Venture approval). After completing the private placement of not less than CDN\$500,000, the Company paid to Global Gems the amount of US\$150,000 (\$202,305 CAD) which also will be credited against year 1 expenditures.

On July 13, 2017, the Company announced the Dala Option agreement was terminated due to a lack of funding. The Company has decided to write-off the Option agreement in the amount of \$753,830 to operations.

#### **The Ruby Option – Nangimali**

Subject to regulatory approval, on February 23, 2017, the Company has entered into an option agreement with Pak-Kashmir Mineral Resources (private) Limited whereby the Company acquired a 35% equity interest in all of the issued and outstanding shares of Newco representing an indirect 35% interest in the Nangimali Ruby Deposit, for the consideration of \$225,000 USD (\$298,350 CAD). The Option Agreement stipulates a requirement by the company for a work program expenditure of \$2,000,000 as follows: USD \$1,000,000 on or before the first anniversary of the signing of purchase agreement; and a further USD \$1,000,000 on or before the second anniversary.

There is no record of this transaction having been approved by the Board of Directors during the year. Because the Company has not received approval by the regulatory authorities, the USD \$225,000 deposit on the Option agreement has been written-off to operations.

### **6. Loans Payable**

#### **MOSMAND OIL AND GAS**

Pursuant to a Loan Agreement dated March 28, 2018 between the Company (“the Borrower”) and Mosman Oil and Gas Limited (“the Lender”), a related company founded by the new director and interim CEO, will provide an advance up to \$100,000 in Australian dollars (“AUD”) to the Borrower which bears interest at 5% per annum, payable on the last day of each month with a repayment date of December 31, 2018. An establishment fee of \$10,000 in Australian dollars will be charged and repaid on December 31, 2018. As at June 30, 2018, the advance under the loan was \$100,000CAD (AUD: \$101,673) (see Note 9 - Related Party Transactions).

#### **CLARIDEN CAPITAL PTY LTD.**

Pursuant to a Loan Agreement dated April 24, 2018, the Company (the “Borrower”) and Clariden Capital Pty Ltd. (the “Lender”), a related company founded by the new director, will provide an advance of up to \$50,000 in Australian dollars (“AUD”) to the Borrower which bears interest at 5% per annum payable on the last day of each month with a repayment date of December 31, 2018. An establishment fee of \$10,000 in Australian dollars will be charged and repaid on December 31, 2018. As at June 30, 2018, the advance under the loan was \$24,572 CAD (AUD: \$26,560) (see Note 9 – Related Party Transactions).

## GEM INTERNATIONAL RESOURCES INC.

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### 7. Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

There were no share activities during the nine months ended June 30, 2018 and 2017.

c) Share purchase warrants

Share purchase warrants activities for the nine months ended June 30, 2018 and 2017 were as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining in Years
<b>Balance, September 30, 2016</b>	<b>42,120,000</b>	<b>\$0.15</b>	<b>1.42</b>
Issued	-	-	-
<b>Balance, June 30, 2017</b>	<b>42,120,000</b>	<b>\$0.15</b>	<b>1.51</b>
Issued	-	-	-
<b>Balance, September 30, 2017</b>	<b>42,120,000</b>	<b>\$0.15</b>	<b>0.96</b>
Issued	-	-	-
Expired	(16,120,000)	\$0.15	-
<b>Balance, June 30, 2018</b>	<b>42,120,000</b>	<b>\$0.15</b>	<b>0.51</b>

As at June 30, 2018, the following share purchase warrants were outstanding and exercisable:

Number of Warrants	Exercise Price	Expiring
8,000,000	\$0.15	July 22, 2018
18,000,000	\$0.15	February 23, 2019
<b>26,000,000</b>		

d) Stock Options

The Company has a stock option plan under which it is authorized to grant options to executive officers, directors, employees and consultants. The Company has implemented a rolling plan to reserve 10% of issued shares for issuance. Under the plan, the exercise price of each option is set on the date of grant at no less than the Discount Market Price of the Company's stock as determined per the TSX Venture Exchange policy. Options granted under the plan have a term not to exceed ten years and are subject to vesting provisions as determined by the board of directors.

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**7. Share Capital – continued**d) Stock Options – *continued*

On February 24, 2017, the Company granted 2,320,000 incentive stock options to certain former directors, officers and consultants. These options are exercisable for up to three years at a price of \$0.10 per share. The Company recognized a stock-based compensation of \$92,473 (2016 - \$nil) for the stock options vested.

On July 27, 2016, the Company granted a total of 2,100,000 stock options to certain former director and consultants. These options are exercisable for up to three years at a price of \$0.15 per share. The company recognized a stock-based compensation of \$96,313 (2015 - \$138,244) for the stock options vested.

The Company used the Black-Scholes option pricing model to determine the fair value of the options with the following assumptions:

	Granted February 24, 2017
Number of options	2,320,000
Dividend rate	0%
Risk-free interest rate	0.59
Expected life	3 Years
Expected volatility	102.20%
Exercise price	\$0.10
Expiry date	February 24, 2020
Fair value per option	\$0.0399
Share-based compensation	\$92,473

An Annual & Special Meeting of Shareholders was held on February 9, 2018, the Shareholders voted not to re-approve the Company's 10% rolling stock option plan. Therefore, effective that date and as at nine months ended June 30, 2018, there were no stock options outstanding and exercisable.

As at June 30, 2017, the following stock options were outstanding and exercisable:

Number of Options	Exercise Price	Expiring
1,000,000	\$0.15	March 9, 2018
2,100,000	\$0.15	July 27, 2019
2,320,000	\$0.10	February 24, 2020
5,420,000		

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### **8. Financial Instruments and Risk Management**

The Company's financial instruments include cash, accounts payable and accrued liabilities and due to related parties. The carrying values of these financial instruments approximate their fair value due to their short-term maturity. Cash is the only financial asset that is measured at fair value subsequent to initial recognition, which is measured based on level 1 input of the fair value hierarchy.

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

#### *a) Credit Risk*

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's cash is held in a major Canadian financial institution which is considered to have high creditability. The Company's amounts receivable are from a government agency thus the collection is considered assured. Management believes that the Company have no significant credit risk.

#### *b) Liquidity Risk*

Liquidity risk is the risk that the Company will encounter difficulties in meeting its financial obligations associated with its financial liabilities as they fall due. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short-term business requirements for a minimum of twelve months. The Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures.

As of June 30, 2018, the Company does not have sufficient cash and highly liquid investments on hand to meet current liabilities and its expected administrative requirements for the coming year. As at June 30, 2018, the Company had cash of \$1,750 (June 30, 2017: \$9,807) and total liabilities of \$449,317 (June 30, 2017: \$88,160).

The liabilities mature as follow:

- Accounts payable and accrued liabilities of \$324,715 due within three months;
- Loan payable of \$124,572 due on December 31, 2018.

To execute its planned exploration program for the next twelve months, the Company will need to raise additional funds through the issuance of equity or debt instruments or the sale of assets. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and cash equivalents, short term investments and expected exercise of stock options and share purchase warrants.

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### **8. Financial Instruments and Risk Management - continued**

#### *c) Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency and other price risk.

#### *i - Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balance and periodically short term investments. Due to the short-term nature of these financial instruments, Management believes that risks related to interest rates are not significant to the Company at this time.

#### *ii - Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has mineral property interests in Tanzania and is exposed to foreign currency risk to the extent it will incur mineral exploration expenditures and certain operating costs in US dollars. The Company does not presently manage currency risks through hedging or other currency management tools.

### **9. Related Party Transactions**

The following is a summary of related party transactions that occurred during the nine months ended June 30, 2018:

- a) Office rent of \$6,000 (2017 - \$13,500) and accounting fees of \$12,000,000 (2017 - \$27,000) were incurred by the Company and as at June 30, 2018, \$33,075 (2017 - \$4,725) remained payable to a company related to a former director of the Company;
- b) Incurred consulting fees of \$18,000 (2017 - \$45,000) and as at June 30, 2018, \$75,000 (2017 - \$10,800) remained payable to a company owned by a former director of the Company;
- c) Incurred consulting fees of \$20,000 (2017 - \$45,000); and as at June 30, 2018, \$29,600 (2017 - \$5,000) remained payable to a company owned by a former director & CEO of the Company;
- d) Incurred consulting fees of \$Nil (2017 - \$4,500) and as at June 30, 2018, \$3,500 (2017 - \$2,000) remained payable to a former director of the Company;
- e) Incurred consulting fees of \$Nil (2017 - \$Nil) and as at June 30, 2018, \$6,000 (2017 - \$6,000) remained payable to a former director of the Company;
- f) Accrued accounting fees of \$11,000 (2017 - \$7,500) for accounting services provided by an officer of the Company and as at June 30, 2018, \$4,250 (2017- \$2,500) remained payable.
- g) Incurred consulting fees of \$32,924 (2017 - Nil) and as at June 30, 2018, \$27,500 (2017 - Nil) remained payable to a company owned by the interim CEO of the Company;
- h) Of the 2,320,000 incentive stock options granted on February 24, 2017; 1,200,000 (2016 -1,250,000) stock options, exercisable at \$0.10 per share were granted to the former directors. See Note 7 d) for cancellation of stock options.

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### 9. Related Party Transactions - *continued*

Pursuant to a Loan Agreement dated March 28, 2018 between the Company (“the Borrower”) and Mosman Oil and Gas Limited (“the Lender”), a related company founded by the new director and interim CEO, will provide an advance up to \$100,000 in Australian dollars (“AUD”) to the Borrower which bears interest at 5% per annum, payable on the last day of each month with a repayment date of December 31, 2018. An establishment fee of \$10,000 in Australian dollars will be charged and repaid on December 31, 2018. As at June 30, 2018, the advance under the loan was \$100,000 CAD (AUD: \$101,673).

Pursuant to a Loan Agreement dated April 24, 2018, the Company (the “Borrower”) and Clariden Capital Pty Ltd. (the “Lender”), a related company founded by a new director, will provide an advance of up to \$50,000 in Australian dollars (“AUD”) to the Borrower which bears interest at 5% per annum payable on the last day of each month with a repayment date of December 31, 2018. An establishment fee of \$10,000 in Australian dollars will be charged and repaid on December 31, 2018. As at June 30, 2018, the advance under the loan was \$24,572 CAD (AUD: \$26,560).

During the year ended September 30, 2017, a company owned by a former director of the Company had advanced a sum of \$40,000 without specific terms of repayment. The Company was repaid \$34,200 during the same year resulting in a balance of \$5,800.

The above transactions with related parties, occurring in the normal course of operations, were measured at the fair value.

Amounts due to related parties are unsecured with no specific terms for repayment and do not bear interest.

An Annual & Special Meeting of Shareholders was held on February 9, 2018, the Shareholders approved a new Board of Directors and Officer appointments,

#### Key Management Compensation

Key management personnel are persons responsible for planning, directing and controlling the activities of an entity, and include executive and non-executive directors. Key management personnel compensation disclosed above comprised the follow:

	<b>June 30, 2018</b>	June 30, 2017
Key management personnel:		
Interim CEO	\$ 32,924	\$ -
Former CEO	20,000	45,000
CFO	11,000	7,500
Former directors	20,000	49,500
	<b>\$ 83,924</b>	<b>\$ 102,000</b>

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**10. Income Taxes**

A reconciliation of income tax provision at statutory rates to the reported income tax provision is as follows:

	2017			2016
	Canada	Tanzania	Consolidated	Consolidated
Loss for the year	\$ (1,796,196)	\$ -	\$ (594,446)	\$ (594,446)
Income tax (recovery at statutory rates):				
(2017 – 26.0%; 2016 – 26.0%)	(467,010)	-	(154,555)	(154,555)
Deductibles expenses, net	292,907	-	19,443	19,443
Unrecognized benefits of non-capital losses	174,103	-	135,112	135,112
Total income taxes	\$ -	\$ -	\$ -	\$ -

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	2017			2016
	Canada	Tanzania	Consolidated	Consolidated
Non-capital losses carried forward	\$ 1,536,000	\$ -	\$ 1,536,000	\$ 1,362,000
Mineral properties	3,647,000	-	3,647,000	3,373,000
Equipment	23,000	-	23,000	23,000
	5,206,000	-	5,206,000	4,758,000
Valuation allowance	(5,206,000)	-	(5,206,000)	(4,758,000)
Net deferred income tax assets	\$ -	\$ -	\$ -	\$ -

Deferred tax benefits, which may arise as a result of these losses and other tax assets, have not been recognized in these consolidated financial statements due to the uncertainty of their realization.

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### 10. Income Taxes – *continued*

At September 30, 2017, the Company had approximately \$5,908,000 of accumulated non-capital losses which can be applied to reduce future taxable income. Unless utilized, these losses will expire between tax years 2026 and 2037. In addition, the Company has discretionary deduction pools for resource related expenditures and equipment balances with a tax basis exceeding net book value. The possible future benefit to the Company of utilizing these losses and deductions has not been recognized in these consolidated financial statements. The non-capital losses expire as follows:

<u>Year of Expiry</u>		<u>Amount</u>
2026	\$	410,000
2027		778,000
2028		516,000
2029		492,000
2030		622,000
2031		646,000
2032		411,000
2033		229,000
2034		208,000
2035		407,000
2036		520,000
2037		669,000
		<u>\$ 5,908,000</u>

### 11. Capital Disclosures

The Company's objectives when managing capital are to raise the necessary equity financing to fund its exploration projects and to manage the equity funds raised which best optimizes its exploration programs and the interests of its equity shareholders at an acceptable risk.

In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may raise additional equity funds and acquire new exploration properties as circumstances dictate.

There were no changes in the Company's approach to capital management during the period ended June 30, 2018. The Company is not subject to externally imposed capital requirements.