



AZTEC MINERALS CORP.

Consolidated Financial Statements

(stated in Canadian dollars)

Years ended December 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF AZTEC MINERALS CORP.

We have audited the accompanying consolidated financial statements of Aztec Minerals Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aztec Minerals Corp. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 27, 2018

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Stated in Canadian dollars)

	Notes	December 31,	
		2017	2016
ASSETS			
Current Assets			
Cash		\$ 2,571,660	\$ 582,142
Receivables and prepaids		77,183	2,450
Total Current Assets		2,648,843	584,592
Non-Current Assets			
Mineral property interests	6, 8(b), 10	1,108,152	452,915
Equipment	7	8,803	-
Total Non-Current Assets		1,116,955	452,915
Total Assets		\$ 3,765,798	\$ 1,037,507
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 92,683	\$ 90,342
Shareholders' Equity			
Share capital	8(b)	4,789,318	1,264,304
Reserve for share-based payments		668,876	-
Deficit		(1,785,079)	(317,139)
Total Shareholders' Equity		3,673,115	947,165
Total Liabilities and Shareholders' Equity		\$ 3,765,798	\$ 1,037,507

Refer to the accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

/s/ *Bradford Cooke*

Director

/s/ *Patricio Varas*

Director

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss

(Stated in Canadian dollars)

	Notes	Years ended December 31,	
		2017	2016
Expenses:			
Accounting and audit		\$ 59,570	\$ 24,016
Amortization	7	1,036	-
Employee remuneration	10	298,482	82,660
Legal		120,508	40,830
Office and sundry	9	66,353	16,158
Property investigation	9, 10	133,148	50,356
Regulatory		102,284	111
Shareholder relations		148,452	762
Share-based payments	8(c), 10	522,481	-
Loss before the undernoted		(1,452,314)	(214,893)
Interest income		18,711	-
Foreign exchange loss		(19,337)	(2,246)
Write-down of value added tax		(15,000)	-
Write-off of investment in former parent	10	-	(100,000)
Net loss and comprehensive loss for the year		\$ (1,467,940)	\$ (317,139)
Basic and diluted loss per share		\$ (0.06)	\$ (0.08)
Weighted average number of common shares outstanding		24,081,086	3,818,703

Refer to the accompanying notes to the consolidated financial statements.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Consolidated Statements of Changes in Shareholders' Equity

(Stated in Canadian dollars)

	Notes	Share Capital		Reserve for		Total
		Number of Shares	Amount	Share-Based Payments	Deficit	
Balance, December 31, 2015		100	\$ 1	\$ -	\$ -	\$ 1
Property acquisition	8(b)(ii)	11,216,941	279,914	-	-	279,914
Private placement, net of share issue costs	8(b)(ii)	5,150,000	984,389	-	-	984,389
Net loss for the year		-	-	-	(317,139)	(317,139)
Balance, December 31, 2016		16,367,041	1,264,304	-	(317,139)	947,165
Initial public offering, net of share issue costs	8(b)(i)	11,500,000	3,630,360	-	-	3,630,360
Property acquisition	8(b)(i)	100,000	35,000	-	-	35,000
Fair value of compensation warrants	8(b)(i)	-	(146,455)	146,455	-	-
Exercise of compensation warrants	8(b)(i)	225	172	(60)	-	112
Exercise of warrants	8(b)(i)	23,750	5,937	-	-	5,937
Share-based payments		-	-	522,481	-	522,481
Net loss for the year		-	-	-	(1,467,940)	(1,467,940)
Balance, December 31, 2017		27,991,016	\$ 4,789,318	\$ 668,876	\$ (1,785,079)	\$ 3,673,115

Refer to the accompanying notes to the consolidated financial statements.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

		Years ended December 31,	
	Notes	2017	2016
Cash provided from (used by):			
Operations:			
Loss for the year		\$ (1,467,940)	\$ (317,139)
Items not involving cash:			
Amortization		1,036	-
Share-based payments		522,481	-
Unrealized foreign exchange loss		3,657	-
Write-down of value added tax		15,000	-
Write-off of investment in former parent	10	-	100,000
		(925,766)	(217,139)
Changes in non-cash working capital items:			
Receivables and prepaids		(89,733)	(2,449)
Accounts payable and accrued liabilities		12,687	54,597
Cash used by operating activities		(1,002,812)	(164,991)
Financing:			
Proceeds from initial public offering, net of transaction costs	8(b)(i)	3,630,360	-
Issuance of share capital, net of share issue expenses		-	984,389
Exercise of warrants		6,049	-
Cash provided from financing activities		3,636,409	984,389
Investing:			
Mineral property interests, net of recoveries		(630,583)	(137,256)
Equipment		(9,839)	-
Investment in former parent	10	-	(100,000)
Cash used by investing activities		(640,422)	(237,256)
Foreign exchange loss on cash held in foreign currency		(3,657)	-
Increase in cash		1,989,518	582,142
Cash, beginning of year		582,142	-
Cash, end of year		\$ 2,571,660	\$ 582,142

Refer to the accompanying notes to the consolidated financial statements.

AZTEC MINERALS CORP.

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Consolidated Statements of Cash Flows

(Stated in Canadian dollars)

		Years ended December 31,	
	Notes	2017	2016
Non-cash financing and investing activities:			
Accrual for mineral property interests		\$ 25,399	\$ 35,745
Issuance of common shares:			
Property acquisition	6(a), 8(b)	35,000	279,914
Fair values from:			
Issuance of compensation warrants	8(b)(i) and (d)	146,455	-
Exercise of compensation warrants		60	-
Interest paid		-	-
Income taxes paid		-	-

Refer to the accompanying notes to the consolidated financial statements.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

1. Nature of Operations and Continuance of Operations

Aztec Minerals Corp. (the “Company”) was incorporated on July 6, 2007 under the laws of British Columbia, Canada. The address of the Company’s registered office is #910 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6 and its principal place of business is #1130 – 609 Granville Street, Vancouver, BC, Canada, V7Y 1G5.

From its date of incorporation in July 2007 to fiscal 2015, the Company was a dormant, wholly owned subsidiary of Aztec Metals Corp., which share common directors with the Company, (“AzMet”). On October 13, 2016, AzMet issued all its 11,017,041 shares in the Company to AzMet shareholders on a pro rata basis by way of a reduction of AzMet’s paid up share capital on the basis of one (1) share of the Company for every two (2) shares held of AzMet, pursuant to Section 74 of the *Business Corporations Act* (British Columbia), after which the Company was no longer a subsidiary of AzMet.

The common shares of the Company were listed for trading on the TSX Venture Exchange (the “TSX-V”) on May 4, 2017 (the “Listing Date”), after completing its initial public offering (the “IPO”). (Note 8(b)(i)).

The Company is in the mineral exploration business and has not yet determined whether its mineral property interests contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the ability of the Company to arrange appropriate financing as needed, the discovery of reserves, the development of its properties, confirmation and maintenance of the Company’s interest in the underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has no operating revenues, has incurred a significant net loss of \$1.5 million for the year ended December 31, 2017 (2016 - \$317,139), and has a deficit of \$1.8 million as at December 31, 2017 (2016 - \$317,139). These consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned business objectives. There can be no assurance that management’s plans will be successful. These consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. Basis of Presentation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

(b) Approval of consolidated financial statements:

These consolidated financial statements were approved by the Company’s Board of Directors on April 27, 2018.

AZTEC MINERALS CORP.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(c) Basis of presentation:

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as disclosed in Note 5. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Functional currency and presentation currency:

The functional and presentation currencies of the Company and its subsidiaries are the Canadian dollar. Amounts recorded in a foreign currency are translated into Canadian dollars as follows:

- monetary assets and liabilities at the exchange rate at the consolidated statement of financial position date;
- non-monetary assets and liabilities at historical exchange rates, unless such items are carried at fair value, in which case they are translated at the exchange rate in effect on the date which the fair value was determined; and
- revenue and expense items at the rate of exchange in effect on the transaction date.

Exchange gains and losses are recorded in profit or loss in the period in which they occur.

(e) Critical accounting estimates and judgments:

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues, if any, and expenses during the period. Actual results may differ from these estimates and, as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to the determination of accrued liabilities; accrued site remediation; the variables used in the determination of the fair value of stock options granted and compensation warrants issued; and the valuation of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future financial performance and cash flows.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(e) Critical accounting estimates and judgments: (continued)

The Company applies judgment in assessing whether material uncertainties exist that would cast significant doubt as to whether the Company could continue as a going concern.

The Company applies judgment in assessing the functional currency of each entity consolidated in these consolidated financial statements. The functional currency of the Company and its subsidiaries is determined using the currency of the primary economic environment in which that entity operates.

At the end of each reporting period, the Company assesses each of its mineral property interests to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of mineral property interests are budgeted or planned; and results of exploration and evaluation activities.

(f) New accounting standards and recent pronouncements:

The standards listed below include only those which the Company reasonably expects may be applicable to the Company in the current period and at a future date. The Company is currently assessing the impact of these future standards on the consolidated financial statements.

AZTEC MINERALS CORP.

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Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

The following standards will become effective in future periods:

(i) **IFRS 16 Leases**

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in 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*.

Applicable to the Company's annual period beginning January 1, 2019.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) Annual Improvements to IFRS Standards 2014–2016 Cycle

The following standards have been revised to incorporate amendments issued by the IASB in December 2016:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – The amendments remove some short-term exemptions for first-time adopters.
- IFRS 12 *Disclosure of Interests in Other Entities* – The amendments clarify that the disclosure requirements in the standard apply to interests in entities within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
- IAS 28 *Investments in Associates and Joint Ventures* – The amendments clarify that the election available to some types of investment entities to measure investees at fair value through profit or loss at initial recognition is applied on an investment-by-investment basis. The amendments also clarify that an entity that is not an investment entity decides on an investment-by-investment basis whether to retain the fair value measurements applied by its associates and joint ventures that are investment entities.

Applicable to the Company's annual period beginning January 1, 2018.

(iii) Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2 *Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Applicable to the Company's annual period beginning January 1, 2018.

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(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(iv) **IFRS 9 *Financial Instruments***

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- *Classification and measurement of financial liabilities:*
When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- *Impairment of financial assets:*
An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- *Hedge accounting:*
Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

Applicable to the Company's annual period beginning January 1, 2018.

AZTEC MINERALS CORP.

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(Stated in Canadian dollars)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Minera Azteca Dorada S.A. de C.V. and Aztec Minerals America Corp.

All significant intercompany transactions and balances have been eliminated.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or had rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(b) Financial instruments:

(i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity ("HTM") and available-for-sale ("AFS"). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at FVTPL

Financial assets at FVTPL include derivative financial asset, and are initially recognized at fair value with changes in fair value recorded through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. Loans and receivables are carried at amortized cost less any impairment.

Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(i) Financial assets: (continued)

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS financial assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

(ii) Financial liabilities:

The Company classifies its financial liabilities in the following categories: FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include derivative financial liabilities, and are initially recognized at fair value with changes in fair value recorded through profit or loss.

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

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Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

(iv) Impairment of financial assets:

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is “significant” or “prolonged” based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(v) Derecognition of financial assets and liabilities:

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized in profit or loss.

(c) Impairment of non-financial assets:

The carrying amounts of non-current assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount and is recorded as an expense in profit or loss.

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Notes to the Consolidated Financial Statements

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(Stated in Canadian dollars)

3. Significant Accounting Policies (continued)

(c) Impairment of non-financial assets: (continued)

The recoverable amount is the higher of an asset's "fair value less costs to sell" for the asset's highest and best use, and "value-in-use". Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the cash-generating unit to which the asset belongs is determined. "Fair value less costs to sell" is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. For mining assets this would generally be determined based on the present value of the estimated future cash flows arising from the continued development, use or eventual disposal of the asset. In assessing these cash flows and discounting them to the present value, assumptions used are those that an independent market participant would consider appropriate. In assessing "value-in-use", the estimated future cash flows expected to arise from the continuing use of the assets in their present form and from their disposal are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For the purposes of impairment testing, mineral property interests are allocated to cash-generating units to which the exploration or development activity relates. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(d) Mineral property interests:

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition or staking costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the property interests are abandoned or the claims are allowed to lapse.

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Notes to the Consolidated Financial Statements

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3. Significant Accounting Policies (continued)

(d) Mineral property interests: (continued)

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of a property option agreement. As the property options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable in the future are not recorded. Property option payments are recorded as property costs or recoveries when the payments are made or received, respectively. When the amount of recoveries exceeds the total amount of capitalized costs of the property, the amount in excess of costs is credited to profit or loss.

(e) Equipment:

Equipment is amortized on a double declining basis, using annual rates of 20% and 30%.

(f) Proceeds on unit offerings:

Proceeds received on the issuance of units, consisting of common shares and warrants, are first allocated to share capital based on the fair value of the common shares with any residual value then allocated to warrants. Upon expiry, the recorded fair value of the warrants is transferred from the reserve for share-based payments to deficit.

(g) Non-monetary transactions:

Common shares issued for consideration other than cash are valued at their fair value at the date of issuance.

(h) Share-based payments:

The Company has a stock option plan that is described in Note 8(c). Share-based payments to employees are measured on the grant date using the Black-Scholes option pricing model and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to the reserve for share-based payments. Consideration received on the exercise of stock options is recorded as share capital and the related reserve for share-based payments is transferred to share capital. Upon expiry, the recorded fair value is transferred from the reserve for share-based payments to deficit.

(i) Environmental rehabilitation:

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of mineral property interests and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mining assets along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

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3. Significant Accounting Policies (continued)

(i) Environmental rehabilitation: (continued)

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of rehabilitation projects that were included in the rehabilitation provision are recorded against the provision as incurred. The cost of ongoing current programs to prevent and control pollution is charged against profit and loss as incurred. The Company does not have any significant environmental rehabilitation liabilities.

(j) Loss per share:

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. The treasury stock method is used to calculate diluted loss per common share amounts. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of the diluted per common share amount assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. In the Company's case, diluted loss per common share presented is the same as basic loss per common share as the effect of outstanding share options and warrants would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of weighted average number of shares outstanding. Cancelled escrow shares are deducted from the total number of outstanding common shares. No value is assigned to escrow shares upon cancellation.

(k) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the consolidated statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

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3. Significant Accounting Policies (continued)

(1) Income taxes:

The Company follows the asset and liability method for accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and losses carried forward. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that recovery is considered probable.

4. Management of Capital

The Company is an exploration stage company and its activities involve a high degree of risk. The Company has not yet determined whether its mineral property interests contain reserves and currently has not earned any revenues from its mineral property interests and does not generate cash flows from operations. The Company's primary sources of funds are from debt capital and the issuance of share capital.

The Company defines its capital as debt and share capital. Capital requirements are driven by the Company's exploration activities on its mineral property interests. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses on all exploration projects and overhead to manage its costs, commitments and exploration activities.

The Company invests its excess capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Management reviews the capital availability and needs on a regular basis to ensure the above-noted objectives are met. There have been no changes to the Company's approach to capital management during the year ended December 31, 2017.

Although the Company has raised funds in the past from the issuance of share capital, it is uncertain whether it would be able to continue this financing in the future. The Company will continue to rely on debt and equity financings to meet its commitments as they become due, to continue exploration work on its mineral property interests, and to meet its administrative overhead costs for the coming periods.

As at December 31, 2017, the Company was not subject to any externally imposed capital requirements.

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5. Financial Instruments and Management of Financial Risk

The Company has classified its cash as FVTPL; receivables as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash is measured at fair value using Level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are as follows.

(a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual taxes receivables from government agencies are not considered financial instruments.

Management has reviewed the items comprising the accounts receivable balance, and determined that the accounts are collectible.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise debt and equity financings. As at December 31, 2017, the Company had a working capital of \$2.6 million (2016 - \$494,250). The Company will require significant additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2018.

Accounts payable and accrued liabilities are due in less than 90 days.

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5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

The Company has certain cash and accounts payable stated in United States dollars and Mexican pesos, mineral property interests which are in the USA and Mexico, and a portion of its operations are in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the United States dollar and Mexican peso would impact the losses of the Company and the values of its assets and liabilities as the Company's functional and presentation currencies are the Canadian dollar. The Canadian dollar fluctuates with the United States dollar and Mexican peso.

At December 31, 2017, the Company was exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Stated in Canadian Dollars		
	Held in		Total
	United States Dollars	Mexican Pesos	
Cash	\$ 76,018	\$ 10,799	\$ 86,817
Accounts payable and accrued liabilities	(32,385)	(14,560)	(46,945)
Net financial assets (liabilities), December 31, 2017	\$ 43,633	\$ (3,761)	\$ 39,872
Cash	\$ 4,912	\$ -	\$ 4,912
Accounts payable and accrued liabilities	(18,508)	-	(18,508)
Net financial assets (liabilities), December 31, 2016	\$ (13,596)	\$ -	\$ (13,596)

Based upon the above net exposure as at December 31, 2017 and assuming all other variables remain constant, a 15% (2016 – 15%) depreciation or appreciation of the Canadian dollar relative to the United States dollar could result in a decrease/increase of approximately \$6,000 (2016 - \$2,000) in the Company's net losses.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk: (continued)

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. Interest rate risk is not significant to the Company as it has no cash equivalents at period-end.

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company currently does not have any financial instruments which fluctuate with market prices.

6. Mineral Property Interests

	December 31, 2017		
	Mexico	USA	Total
	Cervantes	Tombstone	
Acquisition Costs:			
Balance, December 31, 2016	\$ 282,994	\$ -	\$ 282,994
Acquisition	72,772	10,000	82,772
Balance, December 31, 2017	355,766	10,000	365,766
Deferred Exploration Expenditures:			
Balance, December 31, 2016	169,921	-	169,921
Aerial and mapping	137	-	137
Assays	20,538	-	20,538
Equipment and systems	25,578	-	25,578
Drilling	123,156	-	123,156
Environmental	793	-	793
Field, camp, supplies	30,528	-	30,528
General, administrative, legal, sundry	95,614	773	96,387
Geology	54,583	-	54,583
Geophysics	6,785	-	6,785
Salaries and local labour	129,533	-	129,533
Surface taxes	42,405	-	42,405
Surveying	16,108	-	16,108
Transportation and travel	25,934	-	25,934
Balance, December 31, 2017	741,613	773	742,386
Mineral Property Interests:			
December 31, 2016	\$ 452,915	\$ -	\$ 452,915
December 31, 2017	\$ 1,097,379	\$ 10,773	\$ 1,108,152

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6. Mineral Property Interests (continued)

	December 31, 2016	
	Mexico	Total
	Cervantes	
Acquisition Costs:		
Balance, December 31, 2015	\$ -	\$ -
Acquisition	282,994	282,994
Balance, December 31, 2016	282,994	282,994
Deferred Exploration Expenditures:		
Balance, December 31, 2015	-	-
Geology	23,204	23,204
Geophysics	101,266	101,266
Sundry	32,176	32,176
Salaries	12,488	12,488
Transportation and travel	787	787
Balance, December 31, 2016	169,921	169,921
Mineral Property Interests:		
December 31, 2015	\$ -	\$ -
December 31, 2016	\$ 452,915	\$ 452,915

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6. Mineral Property Interests (continued)

(a) Cervantes property (Mexico):

On September 30, 2016, the Company entered into the Option Amendment and Assignment Agreement for the Cervantes Property (“Option Assignment Agreement”) for the Cervantes Property with AzMet and Kootenay Silver Inc. (“Kootenay”), whereby AzMet assigned to the Company all of its rights and interests in the Property Option Agreement dated July 25, 2015 between AzMet and Kootenay (the “Option Agreement”). All obligations of AzMet under the property option agreement were transferred to the Company. Pursuant to the Option Assignment Agreement, the Company issued 200,000 of its common shares to Kootenay at a value of \$0.02495 per share.

The Company can earn a 65% interest in the Cervantes Property by:

- the issuance of 800,000 common shares,
- cash payments totalling US\$120,000, and
- exploration expenditures of US\$1.2 million over the next 3 years.

Upon earning a 65% interest, the Company can earn an additional 35% interest for a total of 100% interest in the Cervantes Property by:

- completing a preliminary economic assessment by July 25, 2020,
- paying an amount equal to the estimated recoverable equivalent gold ounces of contained metal in resources multiplied by US\$5 per equivalent gold ounce which amount shall be payable in combination of cash and/or shares, and
- granting a 2.5% net smelter return (“NSR”) to Kootenay which can be reduced to 2% NSR for a cash payment of US\$500,000.

If the Company elects not to earn the additional 35% interest in the Cervantes Property, or fails to fulfill the requirements to earn such 35% interest, then a joint venture will be formed between the Company and Kootenay with the Company acting as the operator.

On September 30, 2016, the Company entered into the Transfer Agreement with AzMet whereby the Company issued 11,016,941 of its common shares to AzMet to acquire AzMet’s interest in the Cervantes Property. Note 8(b)(ii) provides further details.

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Notes to the Consolidated Financial Statements

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6. Mineral Property Interests (continued)

(b) Tombstone property (USA):

On November 30, 2017, as amended on February 28, 2018, the Company entered into a Purchase Option Agreement for the Tombstone property (the "Option Agreement") with Baroyeca Gold & Silver Inc. and its two wholly owned U.S. subsidiaries (collectively, "Baroyeca"). The Company can earn a 75% interest by making cash payments of \$100,000, incurring exploration expenditures of \$1 million and issuing 1 million common shares over a three year period starting from March 2018. The Option Agreement was subject to certain conditions precedent including the approval of the TSX-V which approval was received on March 23, 2018. The Company made the initial cash payment of \$10,000 in December 2017.

(c) Expenditure options:

As at December 31, 2017, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionor as follows:

	Cash Payments (US\$)	Exploration Expenditures (US\$)	Number of Shares	Net Smelter Return
Cervantes Project:				
Stage One (to earn a 65% interest):				
July 25, 2018	\$ 40,000	\$ 19,392	200,000	-
July 25, 2019	50,000	750,000	250,000	-
September 23, 2019	-	-	250,000	-
Stage Two (to earn additional 35% interest, for total interest of 100% interest):				
July 25, 2020 ⁽¹⁾	-	-	-	2.50%
	\$ 90,000	\$ 769,392	700,000	2.50%

(1) The Company can earn an additional 35% interest for a total of 100% interest in the Cervantes Property by completing a preliminary economic assessment by July 25, 2020, paying an amount equal to the estimated recoverable equivalent gold ounces of contained metal in resources multiplied by US\$5 per equivalent gold ounce which amount shall be payable in combination of cash and/or shares, and granting a 2.5% NSR to Kootenay which can be reduced to 2% NSR for a cash payment of US\$500,000. Note 6(a) provides further details.

These amounts may be reduced in the future as the Company determines which mineral property interests to continue to explore and which to abandon.

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6. Mineral Property Interests (continued)

(d) Title to mineral property interests:

The Company has investigated rights of ownership of all of its mineral properties/concessions and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties/concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

(e) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

(f) Environmental matters:

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former mineral property interests that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation of the Company's operation may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

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7. Equipment

	Office Furnishings	Office Equipment	Total
Cost:			
Balance, December 31, 2015 and 2016	\$ -	\$ -	\$ -
Add: Acquisitions	2,153	7,686	9,839
Balance, December 31, 2017	2,153	7,686	9,839
Accumulated amortization:			
Balance, December 31, 2015 and 2016	-	-	-
Add: Amortization	94	942	1,036
Balance, December 31, 2017	94	942	1,036
Net book value:			
Balance, December 31, 2016	\$ -	\$ -	\$ -
Balance, December 31, 2017	\$ 2,059	\$ 6,744	\$ 8,803

8. Share Capital

(a) Authorized:

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

(b) Issued:

- (i) On May 2, 2017, the Company closed its IPO for 11.5 million units at \$0.35 per unit for gross proceeds of \$4.03 million. Each unit was comprised of one common share and one-half of a whole share purchase warrant. Each warrant is exercisable to purchase one common share at an exercise price of \$0.50 per share and has an expiry date of May 2, 2019.

The Company paid to the agent a cash commission of \$194,250, corporate finance fee of \$75,000, and expenses of \$47,500 for legal and out-of-pocket expenses related to the IPO. The Company also issued 555,000 compensation warrants with a fair value of \$146,455 related to the IPO of which 549,360 compensation warrants were issued to the agent; each compensation warrant is exercisable to acquire one common share at an exercise of \$0.50 and has an expiry date of May 2, 2019.

In June 2017, 225 compensation warrants with a fair value of \$60 and exercise price of \$0.50 and 23,750 warrants with exercise price of \$0.25 were exercised for proceeds of \$6,049.

On July 20, 2017, the Company issued 100,000 common shares at a fair value of \$0.35 per share to Kootenay (Note 6(a)).

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8. Share Capital (continued)

(b) Issued: (continued)

(i) (continued)

Pursuant to the escrow agreement dated April 19, 2017, 4,571,123 shares of the Company were held in escrow (the “Escrowed Shares”). The Escrowed Shares will be released under the following schedule:

On the Listing Date	1/10 of the Escrow Shares
6 months after the Listing Date	1/6 of the remaining Escrow Shares
12 months after the Listing Date	1/5 of the remaining Escrow Shares
18 months after the Listing Date	1/4 of the remaining Escrow Shares
24 months after the Listing Date	1/3 of the remaining Escrow Shares
30 months after the Listing Date	1/2 of the remaining Escrow Shares
36 months after the Listing Date	the remaining Escrow Shares

On December 31, 2017, 3.4 million common shares were held in escrow.

(ii) On September 30, 2016, the Company issued 200,000 common shares to Kootenay at a fair value of \$0.02495 per share pursuant to the Option Assignment Agreement for the Cervantes Property. Note 6(a) provides further details.

On September 30, 2016, the Company entered into the Transfer Agreement with AzMet whereby the Company issued 11,016,941 common shares at a fair value of \$0.02495 per share to AzMet to acquire AzMet’s property option interest in the Cervantes Property. Note 6(a) provides further details.

On October 21, 2016, the Company closed a private placement for 5,150,000 units at \$0.20 per unit for total proceeds of \$1.03 million. Each unit was comprised of one common share and one-half of a whole common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of \$0.25 and has an expiry date of October 21, 2018. Finders fee of \$42,700 were paid in cash.

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Notes to the Consolidated Financial Statements

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8. Share Capital (continued)

(c) Stock option plan:

In January 20, 2017, the Company adopted a stock option plan that allows it to grant stock options to its directors, officers, employees and consultants, provided that the aggregate number of stock options granted shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company. The exercise price of each stock option shall be based on the market price of the Company's shares as traded on the TSX-V at the time of grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of stock options is made at the discretion of the Board at the time the stock options are granted.

The continuity of stock options for the years ended December 31, 2017 and 2016 is as follows:

	2017		2016	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Outstanding balance, beginning of year	-	n/a	n/a	n/a
Granted	2,600,000	\$0.35	n/a	n/a
Outstanding balance, end of year	2,600,000	\$0.35	n/a	n/a

The following table summarizes information about stock options outstanding and exercisable at December 31, 2017:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at Dec 31, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at Dec 31, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
\$0.35	2,000,000	4.34	\$0.35	800,000	4.34	\$0.35
\$0.35	600,000	4.70	\$0.35	120,000	4.70	\$0.35
	2,600,000	4.42	\$0.35	920,000	4.39	\$0.35

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8. Share Capital (continued)

(c) Stock option plan: (continued)

On January 20, 2017, the Company granted stock options for 2,000,000 common shares with an exercise price of \$0.35 and expiry date of May 4, 2022. The stock options are subject to vesting provisions in which 20% vested on the date of the Company's listing of its common shares on the TSX- V on May 4, 2017 and 20% vest every 6 months thereafter.

On September 11, 2017, the Company granted stock options for 600,000 common shares with an exercise price of \$0.35 and expiry date of September 11, 2022. The stock options are subject to vesting provisions in which 20% vested on grant date and 20% vest every 6 months thereafter.

During the year ended December 31, 2017, the Company recognized share-based payments of \$522,481 (2016 - \$Nil), net of forfeitures, based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

	December 31,	
	2017	2016
Directors and officers	\$ 485,379	\$ -
Consultants	25,831	-
Employees	11,271	-
	<u>\$ 522,481</u>	<u>\$ -</u>

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model as follows:

	December 31,	
	2017	2016
Number of stock options granted	2,600,000	Nil
Fair value of stock options granted	\$0.33	n/a
Market price of shares on grant date	\$0.33	n/a
Pre-vest forfeiture rate	0.00%	n/a
Risk-free interest rate	1.27%	n/a
Expected dividend yield	0%	n/a
Expected stock price volatility	169.52%	n/a
Expected option life in years	5.00	n/a

Expected stock price volatility is based on the historical price volatility of companies which are comparable to the profile of the Company.

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8. Share Capital (continued)

(d) Warrants:

At December 31, 2017, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2016	Issued	Exercised	Expired	Outstanding at December 31, 2017
\$0.25	October 21, 2018	2,575,000	-	(23,750)	-	2,551,250
\$0.50	May 2, 2019	-	5,750,000	-	-	5,750,000
\$0.50	May 2, 2019 ⁽¹⁾	-	555,000	(225)	-	554,775
		2,575,000	6,305,000	(23,975)	-	8,856,025

⁽¹⁾ As these warrants are compensation options, a fair value of \$146,455 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 178%, risk-free rate 0.67%, expected life 2 years, and expected dividend yield 0%.

Warrants for 6.3 million common shares were issued upon the closing of the Company's IPO on May 2, 2017. Note 8(b)(ii) provides further details.

At December 31, 2016, the Company had outstanding warrants as follows:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2015	Issued	Exercised	Expired	Outstanding at December 31, 2016
\$0.25	October 21, 2018	-	2,575,000	-	-	2,575,000
		-	2,575,000	-	-	2,575,000

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9. Office and Sundry and Property Investigation

	Years ended December 31,	
	2017	2016
Office and Sundry:		
Insurance	\$ 12,913	\$ -
Office and sundry	10,412	4,020
Rent	9,904	1,949
Software and systems	12,010	9,634
Telecommunications	21,114	555
	<u>\$ 66,353</u>	<u>\$ 16,158</u>
Property Investigation:		
Assays and sampling	\$ 2,122	\$ 661
Camp and field supplies	130	90
Legal	49,790	-
Local labour	519	372
Sundry	726	138
Salaries	64,961	38,069
Transportation and travel	14,900	11,026
	<u>\$ 133,148</u>	<u>\$ 50,356</u>

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10. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the consolidated financial statements, the Company had the following transactions with related parties:

	Years ended December 31,		Net balance receivable (payable) as at December 31,	
	2017	2016	2017	2016
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 421,151	\$ 119,411	\$ -	\$ -
Directors fees	6,125	-	-	-
Share-based payments	485,379	-	-	-
Executive salaries and remuneration ⁽¹⁾	<u>\$ 912,655</u>	<u>\$ 119,411</u>	<u>\$ -</u>	<u>\$ -</u>
Net office, sundry, rent and salary allocations recovered from (incurred to) company(ies) sharing certain common director(s) ⁽²⁾	<u>\$ (19,068)</u>	<u>\$ (2,220)</u>	<u>\$ (2,154)</u>	<u>\$ (941)</u>
Write-off of investment in former parent ⁽³⁾	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$ -</u>

⁽¹⁾ Includes key management compensation which is included in mineral property interests, employee remuneration and property investigation.

⁽²⁾ The companies are Canarc Resource Corp. and Endeavour Silver Corp. which shares one common director with the Company.

⁽³⁾ The company is AzMet and was formerly the parent of the Company. In 2016, the Company advanced \$100,000 to AzMet for the subscription in shares of AzMet at a value of \$0.15 per share for 666,667 AzMet shares. On December 31, 2016, the Company wrote off its investment in AzMet due to uncertainty related to its net recoverable value.

Notes (1), 6(a) and 8(b)(ii) provide further details of the acquisition of the Cervantes property from AzMet.

The above related party transactions are incurred in the normal course of business.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Stated in Canadian dollars)

11. Segment Disclosures

The Company has one operating segment, being mineral exploration, with assets located in Canada, Mexico and U.S.A, as follows:

	December 31, 2017				December 31, 2016		
	Canada	Mexico	USA	Total	Canada	Mexico	Total
Mineral property interests	\$ -	\$ 1,097,379	\$ 10,773	\$ 1,108,152	\$ -	\$ 452,915	\$ 452,915
Equipment	8,803	-	-	8,803	-	-	-

12. Deferred Income Taxes

- (a) A reconciliation of income tax provision computed at Canadian statutory rates to the reported income tax provision is provided as follows:

	2017	2016
Loss for the year	\$ (1,467,940)	\$ (317,139)
Canadian statutory tax rate	26.0%	26.0%
Income tax benefit computed at statutory rates	(381,664)	(82,456)
Origination and reversal of temporary differences	-	13,000
Share issuance costs	(128,826)	(2,472)
Unused tax losses and tax offsets not recognized in tax asset	510,490	71,928
	\$ -	\$ -

Effective January 1, 2013, the Canadian federal corporate tax rate is 15% and the British Columbia provincial tax rate is 11% for a total Canadian statutory tax rate of 26%.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

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12. Deferred Income Taxes (continued)

- (b) The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income liabilities at December 31, 2017 and 2016 are presented below:

	December 31,	
	2017	2016
Deferred tax assets		
Non-capital losses carried forward	\$ -	\$ -
Deferred tax liabilities		
Book value over tax value of equipment	-	-
Book value over tax value of mineral property interests	-	-
Deferred tax liabilities	-	-
Net deferred tax assets	\$ -	\$ -

- (c) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable the Company will generate taxable income for the recognition of deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

	December 31,	
	2017	2016
Non-capital losses	\$ 1,266,738	\$ 219,040
Equipment	1,035	-
Share issue costs	321,415	7,604
Available for sale financial assets	50,000	50,000
Unrecognized deferred tax assets	\$ 1,639,188	\$ 276,644

The Company's unrecognized unused non-capital losses have the following expiry dates:

Year	Canada	Mexico	USA	Total
2036	\$ 219,040	\$ -	\$ -	\$ 219,040
2037	1,031,591	15,334	773	1,047,698
	\$ 1,250,631	\$ 15,334	\$ 773	\$ 1,266,738

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