SAN MARCO RESOURCES

# CONSOLIDATED FINANCIAL STATEMENTS

**NOVEMBER 30, 2017 AND 2016**

**(Expressed in Canadian Dollars)**

**AUDITORS' REPORT**

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of San Marco Resources Inc.

We have audited the accompanying financial statements of San Marco Resources Inc., which comprise the consolidated statement of financial position as at November 30, 2017, and the consolidated statements of comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 San Marco Resources Inc. as at November 30, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about San Marco Resources Inc.'s ability to continue as a going concern.

**Other Matter**

The consolidated financial statements of San Marco Resources Inc. for the year ended November 30, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on February 28, 2017.

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP**
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
March 29, 2018

An independent firm associated with Moore Stephens International Limited
MOORE STEPHENS

## SAN MARCO RESOURCES INC.
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

| | November 30, 2017 | November 30, 2016 |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash | 1,579,424 | 520,207 |
| Marketable securities (Note 4) | 2,480 | 3,055 |
| Receivables | 22,468 | 33,398 |
| Prepaid expenses | 38,607 | 3,976 |
| | 1,642,979 | 560,636 |
| **Non-current assets** | | |
| Reclamation deposit | 2,000 | 2,000 |
| Equipment | 11,411 | 2,182 |
| Exploration advances | 2,282 | 3,477 |
| Mineral properties (Note 5) | 79,165 | 79,165 |
| | **1,737,837** | **647,460** |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 6) | 39,638 | 85,974 |
| | 39,638 | 85,974 |
| **Shareholders' equity** | | |
| Share capital (Note 7) | 13,126,754 | 10,976,378 |
| Equity reserves (Note 7) | 2,106,005 | 1,704,443 |
| Deficit | (13,534,560) | (12,119,335) |
| | 1,689,199 | 561,486 |
| | **1,737,837** | **647,460** |

**Nature of operations and going concern (Note 1)**
**Subsequent events (Note 13)**

**APPROVED AND AUTHORIZED BY THE DIRECTORS ON MARCH 29, 2018:**

*" C. PRENTER "*, Director

*" R. STUART ANGUS "*, Director

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

## SAN MARCO RESOURCES INC.
### CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
### (Expressed in Canadian Dollars)

| | For the years ended November 30, 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **EXPENSES** | | |
| Accounting and audit fees | 92,006 | 81,930 |
| Depreciation | 1,510 | 2,343 |
| Exploration and evaluation (Note 5) | 931,053 | 210,641 |
| Insurance | 8,433 | 8,583 |
| Investor relations | 56,699 | 22,689 |
| Legal and professional fees | 59,495 | 49,268 |
| Management fees (Note 6) | 65,088 | 51,700 |
| Office and administration expenses (Note 7) | 43,277 | 24,348 |
| Property investigation (Notes 5 & 6) | 41,230 | 289,215 |
| Share-based payments (Note 7) | 327,759 | 181,121 |
| Transfer agent and filing fees | 31,934 | 20,470 |
| Travel | 27,411 | 6,540 |
| **Total Expenses** | 1,685,895 | 948,848 |
| | | |
| **OTHER ITEMS** | | |
| Foreign exchange loss | (32,781) | (10,511) |
| Gain on sale of mineral property (Note 5) | 300,037 | - |
| Interest income | 3,989 | 1,575 |
| Unrealized loss on marketable securities (Note 4) | (575) | (2,778) |
| **Total Other Items** | 270,670 | (11,714) |
| | | |
| **NET AND COMPREHENSIVE LOSS FOR THE YEAR** | **(1,415,225)** | **(960,562)** |
| | | |
| **Basic and diluted loss per common share** | (0.03) | (0.03) |
| | | |
| **Weighted average number of common shares outstanding – basic and diluted** | 55,096,277 | 35,656,171 |

# SAN MARCO RESOURCES INC.
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Expressed in Canadian Dollars)**

| | For the years ended November 30, 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **OPERATING ACTIVITIES** | | |
| Net and comprehensive loss for the year | (1,415,225) | (960,562) |
| Items not affecting cash: | | |
| Depreciation | 1,510 | 2,343 |
| Share-based payments | 327,759 | 181,121 |
| Unrealized loss on marketable securities | 575 | 2,778 |
| Non-cash generative exploration expense | - | 90,000 |
| Foreign exchange | 1,195 | 485 |
| Changes in non-cash working capital items: | | |
| Receivables | 10,930 | (22,074) |
| Prepaid expenses | (34,631) | (803) |
| Exploration advances | - | (1,312) |
| Accounts payable and accrued liabilities | (46,336) | 40,010 |
| Net cash used in operating activities | (1,154,223) | (668,014) |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (10,739) | (2,424) |
| Mineral properties | - | (54,511) |
| Net cash used in investing activities | (10,739) | (56,935) |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares | 1,519,920 | 439,550 |
| Share issuance costs | (70,816) | (14,585) |
| Proceeds from exercise of warrants and options | 775,075 | 693,900 |
| Net cash provided by financing activities | 2,224,179 | 1,118,865 |
| INCREASE IN CASH | 1,059,217 | 393,916 |
| CASH, BEGINNING OF THE YEAR | 520,207 | 126,291 |
| **CASH, END OF THE YEAR** | **1,579,424** | **520,207** |
| **Supplemental Disclosures:** | | |
| Cash paid for interest | - | - |
| Cash paid for income taxes | - | - |

Supplemental disclosures with respect to cash flows (Note 11)

# SAN MARCO RESOURCES INC.
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Expressed in Canadian Dollars)**

| | Share Capital Common Shares | | Equity Reserves | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | # | $ | $ | $ | $ |
| Balance at November 30, 2015 | 27,852,712 | 9,732,162 | 1,558,673 | (11,158,773) | 132,062 |
| Private placement | 8,791,000 | 439,550 | - | - | 439,550 |
| Fair value of finders' fee - Shares | 391,370 | 23,482 | - | - | 23,482 |
| Issuance costs | - | (38,067) | - | - | (38,067) |
| Exercise of warrants | 8,746,000 | 729,251 | (35,351) | - | 693,900 |
| Shares issued for property investigation rights | 1,000,000 | 90,000 | - | - | 90,000 |
| Share-based payments | - | - | 181,121 | - | 181,121 |
| Net and comprehensive loss for the year | - | - | - | (960,562) | (960,562) |
| Balance at November 30, 2016 | 46,781,082 | 10,976,378 | 1,704,443 | (12,119,335) | 561,486 |
| Private placement | 8,444,000 | 1,435,480 | 84,440 | - | 1,519,920 |
| Issuance costs | - | (70,816) | - | - | (70,816) |
| Share-based payments | - | - | 327,759 | - | 327,759 |
| Exercise of warrants | 9,340,750 | 762,686 | (2,611) | - | 760,075 |
| Exercise of stock options | 150,000 | 23,026 | (8,026) | - | 15,000 |
| Net and comprehensive loss for the year | - | - | - | (1,415,225) | (1,415,225) |
| **Balance at November 30, 2017** | **64,715,832** | **13,126,754** | **2,106,005** | **(13,534,560)** | **1,689,199** |

## 1. NATURE OF OPERATIONS AND GOING CONCERN

San Marco Resources Inc. ("the Company") was incorporated on September 27, 2005 under the *Business Corporations Act* of British Columbia. The Company's mailing address is 11th Floor – 1050 West Pender Street, Vancouver, BC, V6E 3S7. The registered and records office address is Suite 704 – 595 Howe Street, Vancouver, BC, V6C 2T5.

The Company is engaged in the acquisition, exploration and development of precious metal properties in Mexico and Canada.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain resources that are economically recoverable. The realization of amounts shown for mineral properties and related deferred costs is dependent upon the discovery and exploitation of economically recoverable resources, the ability of the Company to obtain necessary financing to complete development, and attaining future profitable production or proceeds from the disposition of such properties.

These consolidated financial statements have been prepared by management on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At November 30, 2017, the Company had not yet achieved profitable operations and has an accumulated deficit of $13,534,560 since its inception. A number of alternatives including, but not limited to selling an interest in one or more of its properties or completing a financing, are being evaluated with the objective of funding ongoing activities and obtaining additional working capital. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future and repay its liabilities arising from normal business operations as they become due. These material uncertainties may cast significant doubt on the entity's ability to continue as a going concern. 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.

## 2. BASIS OF PRESENTATION

### Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The policies presented in Note 3 were consistently applied to all periods presented.

### Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments classified as financial instruments at fair value through profit and loss, which are stated at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information. All dollar amounts presented are in Canadian dollars unless otherwise specified.

### Comparative figures

Certain comparative figures may have been reclassified to conform with the current year's presentation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Consolidation**

These consolidated financial statements incorporate the financial statements of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The principal subsidiaries of the Company, their activities, and their geographic locations as at November 30, 2017 were as follows:

| Name of Subsidiary | Country of Incorporation | Ownership Interest | Principal Activity |
|---|---|---|---|
| San Marco Resources Mexico S.A. de C.V. | Mexico | 100% | Mineral Exploration |
| 841432 B.C. Limited | Canada | 100% | Holding Company |

The transactions among the entities in the group pertain to the transfer of funds and payment of third party costs. All inter-group transactions and balances have been eliminated upon consolidation.

**Significant accounting estimates and judgments**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical accounting judgments, estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year are, but are not limited to, the following:

*Critical accounting judgments*

(i) Impairment of mineral properties: The net carrying value of each mineral property and its related concessions is reviewed regularly for conditions that are indicators of impairment. This review requires judgment as the Company does not have proven and probable reserves that enable future cash flows to be compared to the carrying values. Factors considered in assessment of asset impairment include, but are not limited to, accessibility, title, environmental or political factors that could affect the properties' values, whether there has been any accumulation of costs significantly in excess of the amounts originally expected for the properties' acquisition, development, or cost of holding, whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future, and whether the Company has necessary funds to be able to maintain or continue acquiring interests in mineral properties.

(ii) Income taxes: Judgment is required in determining whether deferred tax assets are recognized on the statement of financial position. The recognition of deferred tax assets requires management to assess the likelihood that the Company will generate taxable income in future periods to utilize the deferred tax assets. Due to a history of losses, deferred tax assets have not been recognized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Going concern: The preparation of these financial statements requires management to make judgements regarding the going concern of the Company as previously discussed in Note 1.

(iv) Functional currencies: The functional currency of an entity is the currency of the primary economic environment in which an entity operates. The determination of an entity's functional currency requires judgment based on analysis of relevant criteria. The Company conducted an analysis of the factors identified in IAS 21, *The Effect of Changes in Foreign Exchange Rates* ("IAS 21") and determined the functional currencies of the Company and its subsidiaries to be the Canadian dollar.

*Critical accounting estimates*

(i) Equity-settled transactions: The cost of equity-settled transactions, such as stock options or warrants, is determined by calculating the fair value at the date when the equity award is granted or issued using the Black-Scholes Option Pricing Model. The inputs to the Black-Scholes Option Pricing Model require significant estimation. Expected volatility is estimated based on historical stock price observations of the Company's common shares. The risk-free interest rate for the expected term of the award is based on the yields of government bond. The Company uses historic data to estimate the timing of option exercises and forfeiture rates, which may not be representative of future results. Changes in these assumptions, especially the volatility and the expected life determination, could have a material impact on the statement of comprehensive loss.

**Foreign exchange**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and each of its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of comprehensive loss.

**Financial instruments**

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in the statement of comprehensive loss. Financial assets available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive loss/income, net of tax. Financial assets and liabilities held-to-maturity, loans and receivables, and other financial liabilities are subsequently measured at amortized cost using the effective interest method.

The Company has classified its cash and marketable securities as financial assets at FVTPL, its receivables as loans and receivables, and its reclamation deposit as financial asset held-to-maturity. All of the Company's current liabilities are classified as other financial liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of Financial Assets

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets. If such evidence exists, the Company recognizes an impairment loss as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive income/loss that is reclassified to the statement of comprehensive loss.

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. Impairment losses on available-for-sale financial assets are not reversed.

### Exploration and evaluation expenditures

Costs directly related to the acquisition of mineral properties are capitalized. Option payments are considered acquisition costs if the Company has the intention of exercising the underlying option.

Exploration, evaluation and property maintenance costs incurred on sites without an existing mine and on areas outside the boundary of a known mineral deposit which contains proven and probable reserves are expensed as incurred up to the date of establishing that property costs are economically recoverable and that the project is technically feasible.

### Impairment of non-financial assets

At the end of each reporting period, the Company's non-financial assets, other than deferred tax assets, are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

In the case of the amount capitalized as acquisition costs of mineral properties, if no economically viable ore body is discovered, such costs are expensed in the period that the property is determined to be uneconomical or abandoned.

### Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the straight-line method at the following annual rates:

| | |
|---|---|
| Computer equipment | 20% |
| Computer software | 100% |
| Furniture and equipment | 20% |
| Vehicles | 20% |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Subsequent expenditures relating to an item of equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

### Provision for environmental rehabilitation

The Company recognizes liabilities for legal or constructive obligations associated with the retirement of mineral properties and equipment. The net present value of future rehabilitation costs is capitalized to the related asset 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 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 the related assets with a corresponding entry to the rehabilitation provision. The Company does not have any significant rehabilitation obligations.

### Share-based payments

The Company has a plan for granting stock options to directors, employees and consultants as described in Note 7. The fair value of stock options granted to employees is recognized as share-based payments over the vesting period and credited to equity reserves. Stock options granted to non-employees are measured at their fair value on the vesting date. Prior to the vesting date, the then-current fair value of stock options granted to non-employees is recognized as share-based payments from the date of grant to the reporting date and credited to equity reserves. Upon the exercise of stock options, consideration paid and the fair value amounts previously credited to equity reserves are recorded as share capital. The Company uses the Black-Scholes Option Pricing Model to estimate the fair value of stock options granted.

### 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 mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are assigned value based on the residual value method. The value, if any, is allocated to equity reserves. Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share-based payments.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on 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 is recorded for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

### Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

### Recent accounting pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC. During the year ended November 30, 2017, the Company did not adopt any new standards or amendments which had a significant impact on the Company's financial statements.

The following have not yet been adopted by the Company.

- IFRS 9 *Financial Instruments*: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.
- IFRS 15 *Revenue from contracts with customers*: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue – Barter Transactions involving Advertising Service*, effective for annual periods beginning on or after January 1, 2018.
- IFRS 16 *Leases*: New standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model, effective for annual periods beginning on or after January 1, 2019.

The Company does not expect the impact of such changes on the financial statements to be material.

(Expressed in Canadian Dollars)

## 4. MARKETABLE SECURITIES

The Company holds 17,500 common shares of Rise Resources Inc.

| | November 30, 2017 | | November 30, 2016 | |
|---|---|---|---|---|
| | # of Shares | Amount | # of Shares | Amount |
| | | $ | | $ |
| Opening balance | 17,500 | 3,055 | 17,500 | 5,833 |
| Mark-to-Market valuation | - | (575) | - | (2,778) |
| | **17,500** | **2,480** | **17,500** | **3,055** |

## 5. MINERAL PROPERTIES

A summary of capitalized acquisition costs is as follows:

| | CUATRO DE MAYO PROJECT |
|---|---|
| | $ |
| Balance at November 30, 2015 | 24,654 |
| Cash payments | 54,511 |
| **Balance at November 30, 2016 and November 30, 2017** | **79,165** |

Exploration and evaluation costs incurred during the year ended November 30, 2017 and 2016 are as follows:

| | CHUNIBAS | 1068 | MARIANA | OTHER PROJECTS | TOTAL MINERAL PROPERTIES |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Field supplies and on-site expenses | 58,977 | 32,396 | 5,674 | 20,191 | 117,237 |
| Geological consulting | 146,263 | 72,708 | 28,438 | 90,059 | 337,469 |
| Geophysics, topographic, mapping | 296 | 3,861 | - | - | 4,157 |
| Mineral rights | 9,823 | 13,701 | - | 119,955 | 143,479 |
| Sampling, prospecting, study | 228,310 | 31,063 | 20,722 | 9,163 | 289,257 |
| Travel expenses | 11,689 | 10,181 | 4,027 | 13,557 | 39,453 |
| **Expenses for the year ended November 30, 2017** | **455,358** | **163,910** | **58,861** | **252,925** | **931,053** |
| | | | | | |
| Field supplies and on-site expenses | 5,617 | 582 | - | 3,479 | 9,678 |
| Geological consulting | 75,739 | 19,279 | - | 34,621 | 129,639 |
| Mineral rights | 17,714 | 1,974 | - | 10,780 | 30,468 |
| Sampling, prospecting, study | 1,857 | 1,763 | - | 4,394 | 8,014 |
| Travel expenses | 17,254 | 5,627 | - | 9,961 | 32,842 |
| **Expenses for the year ended November 30, 2016** | **118,181** | **29,225** | **-** | **63,235** | **210,641** |

## 5. MINERAL PROPERTIES (continued)

### Chunibas

On January 22, 2015, the Company signed an option agreement with Argonaut Gold Inc. ("Argonaut") to acquire a concession in the El Chunibas area of the Cuatro de Mayo District in northern Mexico, for cash payments of US$50,000 over two years. The Company paid $12,250 (US$10,000) during fiscal 2015 and the remaining $54,511 (US$40,000) during the year ended November 30, 2016. Argonaut retains a 1% net smelter return ("NSR") royalty on any future production, one half of which can be purchased by the Company for US$100,000.

On January 27, 2015, the Company acquired 100% ownership of an additional claim in the El Chunibas area of the Cuatro de Mayo District in northern Mexico for $12,404 (US$10,000). There is no retained interest or future royalty payable to the counterparty to the acquisition agreement, a private Mexican citizen.

### Other Projects

During the year ended November 30, 2017, the Company incurred $41,230 (2016 - $289,215) in property investigation costs.

On May 3, 2016, the Company entered into an Exploration Alliance Agreement with GlobeTrotters Resources Group Inc. ("GlobeTrotters") to generate and acquire new high potential mineral targets primarily in the state of Sonora, Mexico. The Company was granted an exclusive three-year license to use the data generated from GlobeTrotters' analysis, filtering and initial target selection through the imagery and data files which GlobeTrotters acquired from the state of Sonora. The data from GlobTrotters has resulted in identification of various properties, such as La Caridad Este, La Pithaya, Aqua Zarca, Ofelia, and Suzanne.

Pursuant to the Exploration Alliance Agreement, the Company will hold all interest in properties acquired as part of the collaborative effort with GlobeTrotters entitled to a 2% NSR royalty on all properties in which the Company acquires a 100% interest. For properties in which the Company acquires less than 100% interest, it will pay GlobeTrotters 20% of all future consideration received in respect of the property, reducing to 10% after the commencement of commercial production. As consideration for the acquisition of the license, the Company issued 1,000,000 common shares to GlobeTrotters on May 20, 2016, valued at $90,000, which was recognized as property investigation costs within exploration and evaluation expenses.

During the year ended November 30, 2017, the Company completed the sale of its La Pinta 06 concession located in Zacatecas, Mexico to a subsidiary of Goldcorp Inc. for gross proceeds of US$225,000 (CAD$300,037) and a 1% net smelter return royalty on future production from the concession. As all previous costs incurred for the La Pinta 06 concession were recorded in the statement of comprehensive loss, the Company recorded a gain on the sale of mineral property for the gross proceeds received.

## 6. RELATED PARTY TRANSACTIONS

### Compensation of key management personnel

Key management personnel include persons having the authority and responsibility for planning, directing, and controlling the activities of the Company as a whole.

**(Expressed in Canadian Dollars)**

## 6. RELATED PARTY TRANSACTIONS (continued)

The remuneration of the directors and the chief executive officer for the years ended November 30, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Management fees (i) | 128,100 | 118,400 |
| Share based payments | 284,091 | 130,695 |
| **Total** | **412,191** | **249,095** |

(i) Management fees includes $56,700 (2016 – $51,700) in management fees, $9,800 in property investigation (2016 - $49,700) and $61,600 in exploration and evaluation costs (2016 - $17,000) in fees paid to related parties.

**Transactions with other related parties**

Certain of the Company's officers render services to the Company through companies in which they are an officer, director, or partner.

The Company incurred the following fees and expenses during the years ended November 30, 2017 and 2016 with these related parties as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Accounting fees | 76,950 | 53,500 |
| Legal fees | 39,180 | 30,903 |
| Legal fees related to share issuance costs | 15,925 | 11,540 |
| **Total** | **132,055** | **95,943** |

At November 30, 2017, there was $7,750 (2016 - $10,480) included in accounts payable and accrued liabilities that was owing to related parties for accounting and legal fees.

## 7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized

Unlimited number of common shares without par value

b) Issued

<u>During the year ended November 30, 2017:</u>

1) On October 31, 2017, the Company completed a private placement of 8,444,000 units at $0.18 per unit for total proceeds of $1,519,920. Each unit consisted of one common share and one-half non-transferable warrant, each full warrant exercisable to purchase a further share for 18 months at $0.35 per share. In connection with the private placement, the Company paid finders' fees of $52,283 and incurred other share issuance costs of $18,533. Three insiders of the Company purchased a total of 1,190,000 units in the private placement.

**(Expressed in Canadian Dollars)**

## 7. SHARE CAPITAL AND EQUITY RESERVES (continued)

The Company allocated a fair value of $84,440 to warrants granted as part of the private placement, which represents the difference between the unit price and the fair value of the Company's common shares.

2) The Company issued 150,000 common shares for gross proceeds of $15,000 pursuant to the exercise of stock options and 9,340,750 common shares for gross proceeds of $760,075 pursuant to the exercise of share purchase warrants.

<u>During the year ended November 30, 2016:</u>

1) On April 22, 2016, the Company completed a private placement of 8,791,000 units at $0.05 per unit for total proceeds of $439,550. Each unit consisted of one common share and one non-transferable warrant, each warrant exercisable to purchase a further share for three years at $0.05 per share in the first year, $0.10 per share in the second year and $0.15 per share in the third year. After the four-month restricted resale period expired on August 22, 2016, the expiry of the warrants may be accelerated if the closing price of the Company's shares equals or exceeds, for 15 consecutive trading days, $0.10 per share in the first year, $0.20 per share in the second year or $0.30 per share in the third year. A total of 391,370 shares with fair value of $23,482 were issued as fees to qualified finders in respect of a portion of the units sold. Three insiders of the Company purchased a total of 900,000 units in the placement.

2) The Company issued 8,746,000 common shares for gross proceeds of $693,900 pursuant to the exercise of share purchase warrants.

3) On May 20, 2016, the Company issued 1,000,000 common shares with a fair value on the date of issuance of $90,000 to GlobeTrotters pursuant to the formal Alliance Agreement (Note 5).

c) Stock options

The Company's stock option transactions are as follows:

| | **Number of Shares issuable under Options** | **Weighted Average Exercise Price** |
|---|---|---|
| | | $ |
| Shares issuable under Options outstanding at November 30, 2015 | 1,345,000 | 0.64 |
| Granted | 2,150,000 | 0.11 |
| Forfeited | (100,000) | 0.10 |
| Expired | (185,000) | 1.51 |
| **Shares issuable under Options outstanding at November 30, 2016** | **3,210,000** | **0.26** |
| Granted | 1,900,000 | 0.19 |
| Exercised | (150,000) | 0.10 |
| Cancelled | (100,000) | 0.10 |
| Expired | (580,000) | 0.65 |
| **Shares issuable under Options outstanding at November 30, 2017** | **4,280,000** | **$0.18** |
| **Shares issuable under Options exercisable at November 30, 2017** | **3,230,000** | **$0.26** |

(Expressed in Canadian Dollars)

## 7. SHARE CAPITAL AND EQUITY RESERVES (continued)

As at November 30, 2017, the following stock options were outstanding:

| Number of Shares issuable under Options Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| | $ | |
| 380,000 | 0.50 | December 8, 2018 |
| 1,650,000 | 0.10 | June 6, 2021 |
| 250,000 | 0.20 | August 15, 2021 |
| 100,000 | 0.20 | November 16, 2021 |
| 1,700,000 | 0.19 | June 2, 2022 |
| 200,000 | 0.18 | October 2, 2022 |
| **4,280,000** | | |

As at November 30, 2017, the stock options outstanding have a weighted average outstanding life of 3.77 years.

The Company has a 10% rolling stock option plan whereby the Company may from time to time, in accordance with the TSX Venture Exchange ("Exchange") requirements, grant to directors, officers, employees and consultants options to purchase common shares of the Company. The options can be granted for a maximum of 5 years, the vesting provisions are determined by the Board of Directors and, the exercise price of each option is required to be no less than the market price of the Company's stock as calculated immediately preceding the day of the grant and shall not be less than $0.10 per share.

On June 2, 2017, the Company granted stock options to directors, officers and consultants of the Company to purchase a total of 1,700,000 common shares. The options are exercisable for five years from the date of grant at a price of $0.19 per share, and vest, as to 25% each, on the date of grant, and every three months thereafter.

On October 2, 2017, the Company granted stock options to a consultant of the Company to purchase a total of 200,000 common shares. The options are exercisable for five years from the date of grant at a price of $0.18 per share, and vest, as to 25% each, on the three, six, nine and twelve months after the date of grant.

On June 6, 2016, the Company granted options to directors, officers and consultants to purchase a total of 1,800,000 shares at a price of $0.10 per share for five years. On August 15, 2016, the Company granted an option to a consultant to purchase a total of 250,000 shares at a price of $0.20 per share for five years. The options vest, as to 25% each, on granting and on the next three, six and nine months. On November 16, 2016, the Company granted an option to a consultant to purchase a total of 100,000 shares at a price of $0.20 per share for five years. The options vest, as to 25% each, on granting and on the next three, six and nine months.

## (Expressed in Canadian Dollars)

### 7. SHARE CAPITAL AND EQUITY RESERVES (continued)

During the year ended November 30, 2017, the Company recorded share-based payments of $327,759 (2016 - $181,121) in connection with the stock options granted and vested during the year. The fair value of the stock options granted was estimated as at the date of the grant using the Black-Scholes Option Pricing Model and the following weighted average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk free interest rate | 1.04% | 0.60% |
| Expected life of options | 4.60 years | 2.5 years |
| Expected dividend yield | 0% | 0% |
| Expected stock price volatility | 197% | 231% |
| Exercise price | $0.19 | $0.11 |
| Stock price | $0.19 | $0.11 |
| **Weighted average fair value per option** | **$0.18** | **$0.09** |

d) Warrants

The Company's warrant transactions are as follows:

| | **Number of Shares issuable under Warrants** | **Weighted Average Exercise Price** |
|---|---|---|
| | | **$** |
| Shares issuable under Warrants outstanding at November 30, 2015 | 15,766,000 | 0.05 |
| Issued | 8,791,000 | 0.05 |
| Exercised | (8,746,000) | 0.08 |
| Shares issuable under Warrants outstanding at November 30, 2016 | 15,811,000 | 0.08 |
| Issued | 4,222,000 | 0.35 |
| Exercised | (9,340,750) | 0.08 |
| **Shares issuable under Warrants outstanding at November 30, 2017** | **10,692,250** | **0.08** |

As at November 30, 2017, the following share purchase warrants were outstanding:

| **Number of Shares issuable under Warrants** | **Exercise Price** | **Expiry Date** |
|---|---|---|
| | $ | |
| 2,540,250 | 0.15 | January 28, 2018 |
| 1,430,000 | 0.05 | October 16, 2018 |
| 2,500,000 | 0.10[1] | April 22, 2019 |
| 4,222,000 | 0.35 | April 30, 2019 |
| **10,692,250** | | |

[1] Each warrant is exercisable to purchase one common share of the Company for $0.10 until April 22, 2018 and $0.15 until April 22, 2019.

As at November 30, 2017, the warrants outstanding have a weighted average outstanding life of 1.04 years.

**(Expressed in Canadian Dollars)**

## 8. SEGMENTED INFORMATION

The Company currently conducts substantially all of its operations in Canada and Mexico in one business segment being the exploration and development of mineral properties. Geographical information for the Company's significant non-current assets is as follows:

| **November 30, 2017** | **Canada** | **Mexico** |
|---|---|---|
| | $ | $ |
| Reclamation deposit | 2,000 | - |
| Equipment | 1,746 | 9,667 |
| Exploration advances | - | 2,282 |
| Mineral properties | - | 79,165 |
| | **3,746** | **91,114** |

| **November 30, 2016** | **Canada** | **Mexico** |
|---|---|---|
| | $ | $ |
| Reclamation deposit | 2,000 | - |
| Equipment | 2,182 | - |
| Exploration advances | - | 3,477 |
| Mineral properties | - | 79,165 |
| | **4,182** | **82,642** |

## 9. CAPITAL MANAGEMENT

The objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide adequate returns to shareholders, benefits to other stakeholders and to have sufficient funds on hand to meet the Company's exploration plans to ensure the on-going growth of the business.

The Company considers the items in the shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. In order to maintain or adjust capital structure, the Company may issue new shares through private placements, sell assets, incur debt, or return capital to shareholders. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

## 10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

As at November 30, 2017, the carrying values of the reclamation deposit, receivables, and accounts payable approximate their fair values due to the short-term nature of these instruments. Cash and marketable securities are measured at fair value.

The Company is exposed to various financial instrument risks and assesses the impact and likelihood of this exposure. These risks include liquidity risk, credit risk, foreign currency risk, interest rate risk and price risk. Where material, these risks are reviewed and monitored by the Board of Directors.

## 10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)

(i) Liquidity risk

Liquidity risk is managed by the Company by maintaining sufficient cash balances to meet current working capital requirements. The Company is considered to be in the exploration stage and is dependent on obtaining regular funding in order to continue its exploration programs. Despite success with previous financings, there is no guarantee of obtaining future funding. The Company's cash is invested in business accounts with qualified institutions in Canada and are available on demand for the Company's programs. The Company is not invested in any asset backed commercial paper or auction rate securities.

(ii) Credit risk

The Company's credit risk is primarily attributable to its liquid financial assets and would arise from the non-performance by counterparties of contractual financial obligations. The Company limits its exposure to credit risk on liquid assets by maintaining its cash and reclamation deposit with high-credit quality financial institutions. Receivables are mainly due from government agencies in Canada and Mexico.

(iii) Foreign currency risk

The Company's mineral properties are located in Mexico and, therefore, a portion of work carried out in exploring and developing these properties is paid in Mexican pesos. Certain administrative costs incurred in Mexico are paid in US dollars.

The operating results and the financial position of the Company are reported in Canadian dollars. The Company's cash, receivables, accounts payable and accrued liabilities are held in different currencies and therefore the fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risk.

At November 30, 2017, the Company is exposed to currency risk through the following assets and liabilities denominated in US dollars and Mexican Pesos:

| | US Dollars | Mexican Peso |
|---|---|---|
| Cash | 882 | 139,695 |
| Marketable securities | 1,925 | - |
| Receivables | - | 243,167 |
| Accounts payable and accrued liabilities | (9,500) | (211,975) |

Based on the above net exposures as at November 30, 2017, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of $125 in the Company's comprehensive loss. Likewise, a 10% depreciation or appreciation of the Canadian dollar against the Mexican Peso would result in a decrease/increase of $3,969 in the Company's comprehensive loss.

(iv) Interest risk

The Company invests its excess cash and reclamation deposit in demand deposits that are redeemable at any time without penalty, thereby reducing its exposure to interest rate fluctuations. Other interest rate risks arising from the Company's operations are not considered material.

## 10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (continued)

(v) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors its marketable securities, stock market movements and commodity prices to determine appropriate actions.

The Company does not typically invest in equity securities and the maximum exposure to the price risk is represented by the changing fair value of such investments. Assuming all variables remain constant, a 10% increase/decrease in the quoted market price of the Company's investments would result in an increase/decrease in the Company's income of approximately $248.

(vi) Fair value hierarchy

The Company classifies its fair value measurements in accordance with the three-level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair values of cash and marketable securities are measured based on level 1 inputs of the fair value hierarchy.

## 11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| Non-cash investing and financing activities | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Share consideration for Alliance Agreement with GlobeTrotters (Note 5) | - | 90,000 |
| Fair market value of warrants and options exercised | 10,637 | 35,351 |

(Expressed in Canadian Dollars)

## 12. INCOME TAXES

Income tax expense differs from the amount that would result from applying the Canadian and Mexican federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | (1,415,225) | (960,562) |
| Combined income tax rates | 28.00% | 26.00% |
| Expected income tax recovery based on the above rates | (396,000) | (250,000) |
| Non-deductible items | 114,000 | 50,000 |
| Change in statutory, foreign tax, foreign exchange rates and other | (12,000) | 297,000 |
| Tax effect of deferred tax assets for which no tax benefit has been recorded | 294,000 | (97,000) |
| Total income tax recovery | - | - |
| Current income tax | - | - |
| Deferred income tax | - | - |
| | - | - |

The composition of the Company's deferred income tax assets is as follows:

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| Non-capital losses | 2,507,000 | 2,294,000 |
| Equipment | 21,000 | 23,000 |
| Exploration and evaluation assets | 448,000 | 376,000 |
| Marketable securities | 43,000 | 46,000 |
| Share issue costs | 24,000 | 13,000 |
| Other | 3,000 | |
| Total deferred income tax assets not recognized | 3,046,000 | 2,752,000 |

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

| | 2017 | Expiry Dates | 2016 | Expiry Dates |
|---|---|---|---|---|
| | $ | | $ | |
| Non-capital losses | 8,802,000 | 2017-2037 | 8,212,000 | 2016-2036 |
| Equipment | 78,000 | Not applicable | 88,000 | Not applicable |
| Exploration and evaluation assets | 1,519,000 | Not applicable | 1,247,000 | Not applicable |
| Marketable securities | 161,000 | Not applicable | 357,000 | Not applicable |
| Share issuance costs | 88,000 | 2017-2020 | 52,000 | 2017-2020 |
| Other | 10,000 | Not applicable | - | Not applicable |
| Unused temporary differences | 10,658,000 | | 9,956,000 | |

The Company has non-capital losses of $4,456,000 and $4,362,000 in each of Canada and Mexico, respectively, which can be used to offset taxable income in future years.

## 13. SUBSEQUENT EVENTS

1) Subsequent to the year-end, the Company issued 1,570,250 common shares pursuant to the exercise of warrants and stock options for gross proceeds of $220,538.

2) Subsequent to the year-end, the Company granted stock options to a consultant of the Company to purchase a total of 300,000 common shares. The options are exercisable for three years from the date of grant at a price of $0.215 per share, and vest, as to 25% each on the date of grant, and every 3 months thereafter.