# PROVENANCE GOLD CORP.

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2018

DeVISSER GRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

401-905 West Pender St
Vancouver BC V6C 1L6
t 604.687.5447
f 604.687.6737

# Independent Auditor's Report

**To the Shareholders Provenance Gold Corp.**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of Provenance Gold Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity (deficiency) and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has no source of revenue, has incurred operating losses, has a deficit of $919,879 as at December 31, 2018 and is dependent upon the future receipt of equity financing to maintain its operations. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis", but does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

De Visser Gray LLP

**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC, Canada
April 29, 2019

# PROVENANCE GOLD CORP.
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## AS AT DECEMBER 31, 2018 and 2017

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | $ | 42,963 | $ | 66,628 |
| Amounts receivable | | 2,567 | | 32,007 |
| | | 45,530 | | 98,635 |
| **Exploration and evaluation assets** (note 4) | | 1,302,192 | | 713,513 |
| | $ | 1,347,722 | $ | 812,148 |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | $ | 73,590 | $ | 92,849 |
| Share subscriptions advanced | | - | | 406,398 |
| | | 73,590 | | 499,247 |
| **Loan payable** (note 3) | | - | | 209,467 |
| | | 73,590 | | 708,714 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (note 5) | | 1,780,136 | | 722,136 |
| Settlement receipts (note 8) | | 400,000 | | - |
| Reserves (note 5) | | 13,875 | | - |
| Deficit | | (919,879) | | (618,702) |
| | | 1,274,132 | | 103,434 |
| | $ | 1,347,722 | $ | 812,148 |

Nature and continuance of operations (note 1)
Subsequent events (note 13)

Approved on behalf of the Board:

Director *"Rauno Perttu"*
**Rauno Perttu**

Director *"Robert Clark"*
**Robert Clark**

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

**PROVENANCE GOLD CORP.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**YEARS ENDED DECEMBER 31, 2018 and 2017**

| | 2018 | 2017 |
|---|---|---|
| **EXPENSES** | | |
| Consulting and management fees (note 9) | $ 184,819 | $ 193,800 |
| General and administrative | 26,894 | 14,733 |
| Interest | - | 1,408 |
| Professional fees | 36,097 | 80,445 |
| Regulatory and transfer agent fees | 20,032 | 33,098 |
| Share-based payments (note 5) | 13,875 | - |
| Travel | 19,460 | 4,727 |
| **Net and comprehensive loss** | $ (301,177) | $ (328,211) |
| **Basic and diluted loss per share** (note 10) | $ (0.01) | $ (0.01) |
| **Weighted average number of common shares outstanding** | 30,900,987 | 25,049,621 |

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

# PROVENANCE GOLD CORP.
## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
## YEARS ENDED DECEMBER 31, 2018 and 2017

| | Number of Shares | Share Capital | Settlement Receipts | Reserves | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2017** | 13,111,431 | $ 52,500 | $ - | $ - | $ (290,491) | $ (237,991) |
| Shares issued under Securities Purchase Agreement (note 5) | 11,000,000 | 269,624 | - | - | - | 269,624 |
| Shares issued in private placement (note 5) | 2,937,733 | 409,160 | - | - | - | 409,160 |
| Share issuance costs | 40,000 | (9,148) | - | - | - | (9,148) |
| Net and comprehensive loss | - | - | - | - | (328,211) | (328,211) |
| **Balance at December 31, 2017** | 27,089,164 | 722,136 | - | - | (618,702) | 103,434 |
| Shares issued in private placement (note 5) | 2,066,000 | 516,500 | - | - | - | 516,500 |
| Shares issued for cash on exercise of share purchase warrants (note 5) | 5,114,670 | 556,468 | - | - | - | 556,468 |
| Share issuance costs | 59,300 | (14,968) | - | - | - | (14,968) |
| Debt settled pursuant to a settlement agreement (note 8) | - | - | 400,000 | - | - | 400,000 |
| Share-based payments | - | - | - | 13,875 | - | 13,875 |
| Net and comprehensive loss | - | - | - | - | (301,177) | (301,177) |
| **Balance at December 31, 2018** | 34,329,134 | $ 1,780,136 | $ 400,000 | $ 13,875 | $ (919,879) | $ 1,274,132 |

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

# PROVENANCE GOLD CORP.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED DECEMBER 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Cash provided by (used for):** | | |
| **Operating activities** | | |
| Net and comprehensive loss | $ (301,177) | $ (328,211) |
| Add items not involving cash: | | |
| Share-based payments | 13,875 | - |
| Change in non-cash working capital: | | |
| Amounts receivable | 29,440 | (31,847) |
| Accounts payable and accrued liabilities (note 8) | (19,259) | 57,632 |
| **Cash used in operating activities** | (277,121) | (302,426) |
| **Investing activities** | | |
| Cash acquired under Securities Purchase Agreement (note 5) | - | 166,955 |
| Exploration and evaluation assets acquired | (188,678) | (605,035) |
| **Cash used in investing activities** | (188,678) | (438,080) |
| **Financing activities** | | |
| Proceeds from issuance of shares | 110,102 | 403,160 |
| Proceeds from share purchase warrants exercised | 347,000 | - |
| Share issuance costs | (14,968) | (3,148) |
| Share subscriptions advanced | - | 406,398 |
| **Cash provided by financing activities** | 442,134 | 806,410 |
| **Change in cash during the year** | (23,665) | 65,904 |
| **Cash, beginning of the year** | 66,628 | 724 |
| **Cash, end of the year** | $ 42,963 | $ 66,628 |

**Supplementary cash flow information (note 12)**

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Provenance Gold Corp. (formerly Sparx Energy Corp.) ("Provenance" or the "Company") was incorporated in the Province of British Columbia on October 5, 2012. For the period October 5, 2012 to May 31, 2013, the Company was a wholly-owned subsidiary of Aldever Resources Inc. (formerly Glenmark Capital Corp.) ("Aldever"), which is a junior exploration company engaged in the business of identification, acquisition and exploration of mineral interests.

During October 2012, Aldever's board of directors approved a plan of arrangement (the "Arrangement") between Aldever and its four wholly-owned subsidiaries, including Provenance. As a result of the completion of the Arrangement on May 31, 2013, Aldever ceased to be a shareholder of Provenance and the Company became a reporting issuer in its own right. Provenance is a junior exploration company engaged in the business of identification, acquisition and exploration of mineral interests.

On January 16, 2017, the Company changed its name to Provenance Gold Corp.

The Company's principal office and registered and records office is located at 2200-885 West Georgia Street, Vancouver, BC V6C 3E8.

These consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and settlement of liabilities in the normal course of operations in the foreseeable future. The Company has no source of operating revenue, has incurred operating losses and at December 31, 2018 had a deficit of $919,879 (2017 - $618,702). 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.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Further discussion of liquidity risk is included in notes 6 and 7.

These financial statements were authorized for issue on April 29, 2019 by the directors of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The presentation and functional currency of the Company is the Canadian dollar. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

### Use of estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments applying to the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the assessment of indications of impairment of each mineral property and related determinations of the net realizable value and write-down of those properties where applicable.

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and 1084160 B.C. Ltd., formerly Provenance Gold Corp. ("PGC"), its wholly-owned subsidiary in which the Company has control, where control is defined as the power to govern the financial operating policies of an enterprise so as to obtain benefits from its activities.

All intercompany balances and transactions have been eliminated on consolidation.

Details of the Company's subsidiary are as follows:

| Name | Place of incorporation | Interest % | Principal activity |
|---|---|---|---|
| 1084160 B.C. Ltd. | British Columbia, Canada | 100% | Holding company |

### Foreign currency transactions

The functional currency is the currency of the primary economic environment in which the entity operates. The functional currency for the Company is the Canadian dollar.

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 rate of exchange at the statement of financial position date while non-monetary assets and liabilities that are measured at historical costs are translated at historical costs 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 statements of loss and comprehensive loss.

### Financial instruments

The Company recognizes financial assets and liabilities on the statement of financial position when it becomes a party to the contractual provisions of the instrument.

#### *Financial assets*

Cash is classified as subsequently measured at amortized cost (formerly fair value though profit or loss under IAS 39).

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

***Financial liabilities***

Trade payables are non-interest bearing if paid when due and are recognized at the face amount, except when fair value is materially different. Trade payables are subsequently measured at amortized cost.

Also see '*New accounting standards effective January 1, 2018'* below.

### Exploration and evaluation expenditures

Once a license to explore an area has been secured, expenditures on mineral properties are capitalized to exploration and evaluation assets and classified as a non-current asset.

Exploration and evaluation expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration and evaluation expenditures are not expected to be recovered they are charged to operations.

### Asset retirement obligations

The fair value of a liability for an asset retirement or environmental obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement or environmental obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement or environmental cost is charged to operations using a systematic and rational method and the resulting liability is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flow. As of December 31, 2018, the Company did not have any asset retirement or environmental obligations.

### Income taxes

Income tax 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 or other comprehensive income, in which case the income is also recognized directly in equity or other comprehensive income.

Current tax is expected tax payable on the taxable income for the period, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the common shares are issued.

### Related party transactions

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

### New accounting standards adopted effective January 1, 2018

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") – The Company adopted IFRS 15 effective January 1, 2018. The adoption of this standard did not have any impact on the Company's consolidated financial statements as the Company does not have any revenue.

IFRS 9, *Financial Instruments:* ("IFRS 9") – The Company adopted IFRS 9 effective January 1, 2018, retrospectively, and without restatement of prior year consolidated financial statements. IFRS 9 replaces the provisions of IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39") that relate to the recognition, classification, and measurements of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value. The approach in IFRS 9 is based on how the company manages its financial instruments and the contractual cashflow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of the financial liabilities were carried forward in IFRS 9. The application of IFRS 9 did not significantly impact the Company's classification and measurement of financial assets and liabilities, and there was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

### New accounting standards issued but not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee ("IFRIC") but are not yet effective as at December 31, 2018. The Company intends to adopt these standards and interpretations when they become effective. The Company does not expect these standards to have an impact on its financial statements.

| Standard | Title | Applicable for financial years beginning on/after |
|---|---|---|
| IFRS 16 | Leases | January 1, 2019 |

## 3. LOAN PAYABLE

This loan represents funds advanced by investors who were assisting in the implementation of the Company's business plan. The funds received provided the working capital required to prepare financial statements and for corporate registrations. On March 1, 2016, these investors assigned their loans ($157,205) plus accrued interest ($40,656) to a private company that became a related party as a result of the Securities Purchase Agreement (note 5) executed on January 16, 2017. Subsequent to March 1, 2016, the private company advanced $11,606 to the Company.

On January 31, 2017, the Company executed a Debt Settlement Agreement ("the Agreement") to settle debt totaling $209,467 ($168,811 principal plus $40,656 accrued interest). Pursuant to the Agreement, the debt was settled by issuing a non-interest bearing promissory note in the amount of $209,467.

On June 13, 2018, the promissory note was assigned and on the same date the balance payable to the assignee was applied against the exercise price for 2,094,670 warrants at $0.10 per share resulting in 2,094,670 common shares being issued to the assignee (see note 5).

## 4. EXPLORATION AND EVALUATION ASSETS

### 2K Gold Property, Yukon, Canada

On June 10, 2016, the Company's CEO entered into the Moosehorn Range Property Option Agreement (the "MRPOA") pursuant to which he was granted the option to purchase a 100% interest in 149 quartz claims located in the Moosehorn Range in Yukon, Canada and the exclusive right to conduct mineral exploration and feasibility study work on the property during the period of the option. On August 4, 2016, the Company and the Company's CEO entered into an assignment agreement whereby the MRPOA was assigned to the Company. Pursuant to the MRPOA, payments totaling $3,610,000 are required to be made and exploration expenditures totaling $1,700,000 are required to be incurred as follows:

Payments

- $50,000 within 60 days of the signing of the agreement *(paid)*;
- $50,000 by June 10, 2017 *(paid)*;
- $130,000 by June 10, 2018 *(paid);*
- $130,000 by June 10, 2019;
- $250,000 by June 10, 2020; and
- $3,000,000 by June 10, 2021

These payments will be credited towards the exploration expenditure requirements.

Exploration Expenditures

- $200,000 by June 10, 2017 (completed);
- Cumulative $500,000 by June 10, 2018 (completed);
- Cumulative $850,000 by June 10, 2019 (completed);
- Cumulative $1,200,000 by June 10, 2020; and
- Cumulative $1,700,000 by June 10, 2021.

Expenditures incurred in excess of the amount required will be applied against any remaining expenditures. As of December 31, 2018, the Company has incurred $1,025,231 in exploration expenditures.

Pursuant to the MRPOA, the optionee will also pay a 2% net smelter royalty ("NSR") by December 31st of each year that lode gold is recovered from the property. This NSR can be bought out at any time by paying $2,000,000.

## 4. EXPLORATION AND EVALUATION ASSETS *(continued)*

### 2K Gold Property, Yukon, Canada *(continued)*

The final payment of $3,000,000 may be made at any time between June 10, 2016 and June 10, 2021, in which case any remaining payments will no longer be payable (except the NSR unless it has been bought out) and no further exploration expenditures will be required.

If, during the term of the MRPOA, either party acquires any interest in quartz claim fractions within a five kilometer perimeter of the property's claim blocks, these claims will become subject to the terms and conditions of the MRPOA.

### Silver Bow Property, Nevada U.S.A.

On August 29, 2018, the Company entered into the Silver Bow Nevada Property Option Agreement (the "SB Agreement") to acquire a 100% interest in 73 mineral claims referred to as the Silver Bow property and 10 claims referred to as Golden Ridge Property located in Nevada, USA. Pursuant to a trust agreement entered into between the Company and the CEO of the company on September 20, 2018, the CEO is holding the 10 Golden Ridge Property claims in trust for the Company until such time as the Company wishes to have them transferred to its name.

Payments totaling US $1,500,000 over a seven year period are required to be made and exploration expenditures are required to be incurred as follows (all amounts are in US dollars):

<u>Payments</u>

- $2,300 for claim and re-staking fees within 60 days of the signing of the agreement *(paid)*;
- $10,000 by July 18, 2019;
- $20,000 by July 18, 2020;
- $40,000 by July 18, 2021;
- $50,000 by July 18, 2022;
- $50,000 by July 18, 2023;
- $100,000 by July 18, 2024;
- Balance of $1,500,000 less all option payments received prior to July 18, 2025.

These payments will be credited towards the exploration expenditure requirements.

<u>Exploration Expenditures</u>

- $50,000 by July 18, 2020;
- $75,000 between July 18, 2020 and June 18, 2021;
- $100,000 between July 18, 2021 and June 18, 2022;
- $100,000 between July 18, 2022 and June 18, 2023;
- $150,000 between July 18, 2023 and June 18, 2024.

Year 7 and beyond - $250,000 minimum holding cost to be paid by the seventh anniversary of signing (June 18, 2025) and each subsequent anniversary thereafter until the cumulative $1,500,000 is complete to purchase the option outright.

Pursuant to the SB Agreement, the Company will also pay a 2% net smelter royalty ("NSR") in every year that lode gold or silver is recovered from the property. This NSR can be bought out at any time by paying $1,000,000.

## 4. EXPLORATION AND EVALUATION ASSETS *(continued)*

| | Canada | USA | |
|---|---|---|---|
| **December 31, 2018** | **2K Gold** | **Silver Bow** | **Total** |
| **Acquisition Costs** | | | |
| *Balance,December 31, 2017* | $ 100,000 | $ - | $ 100,000 |
| Additions | 130,000 | 3,070 | 133,070 |
| Impairment | - | - | - |
| ***Acquisition costs, December 31, 2018*** | **230,000** | **3,070** | **233,070** |
| **Exploration Costs** | | | |
| *Balance,December 31, 2017* | 613,513 | - | 613,513 |
| Additions | 411,718 | 43,891 | 455,609 |
| Impairment | - | - | - |
| ***Exploration costs, December 31, 2018*** | 1,025,231 | 43,891 | 1,069,122 |
| **Balance, December 31, 2018** | **1,255,231** | **46,961** | **1,302,192** |
| **December 31, 2017** | | | |
| **Acquisition Costs** | | | |
| *Balance,December 31, 2016* | - | - | - |
| Additions | 50,000 | - | 50,000 |
| Assets acquired under Securities Purchase Agreement (note 5) | 50,000 | - | 50,000 |
| Impairment | - | - | - |
| ***Acquisition costs, December 31, 2017*** | **100,000** | **-** | **100,000** |
| **Exploration Costs** | | | |
| *Balance,December 31, 2016* | - | - | - |
| Additions | 555,035 | - | 555,035 |
| Assets acquired under Securities Purchase Agreement (note 5) | 58,478 | - | 58,478 |
| Impairment | - | - | - |
| ***Exploration costs, December 31, 2017*** | 613,513 | - | 613,513 |
| **Balance, December 31, 2017** | **$ 713,513** | **$ -** | **$ 713,513** |

## 5. SHARE CAPITAL AND RESERVES

**Authorized**

Unlimited number of common shares, without par value.
Unlimited number of preferred shares, without par value.

**Issued**

At December 31, 2018, there were 34,329,134 issued and fully paid common shares outstanding.

Pursuant to an agreement entered into on October 3, 2017 under National Policy 46-201 *Escrow for Initial Public Offering* as an emerging issuer 6,500,000 of these common shares were deposited into escrow. As at December 31, 2018, 3,900,000 common shares are being held in escrow and will be released in instalments of 975,000 18, 24, 30 and 36 months after the listing date.

***2017***

On January 16, 2017, the Company closed a Securities Purchase Agreement ("the Agreement") with the shareholders of Provenance Gold Corp. ("PGC"). PGC is the beneficial owner of the right to earn up to a 100% interest in and to a series of quartz claims located in the Moosehorn Range in the Yukon Territory. This interest is subject to certain royalty rights pursuant to a property option agreement dated June 10, 2016. Pursuant to the Agreement, the Company acquired all of the outstanding share capital of PGC by issuing 11,000,000 common shares and 3,500,000 common share purchase warrants to the shareholders of PGC. Each warrant is exercisable to acquire an additional common share of the Company at a price of $0.15 per share until October 19, 2018. In connection with the closing of the Agreement, the Company changed its name to "Provenance Gold Corp." and PGC continued as a wholly-owned subsidiary of the Company.

The net assets acquired under the Agreement consisted of the following: cash of $166,955; interest in mineral property – Y2K Gold of $108,478; accrued expenses ($5,809).

On January 31, 2017, the Company completed a private placement of 750,000 units at $0.10 per unit for gross proceeds of $75,000. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.15 until January 31, 2019. On January 18, 2019, the expiry date of these warrants was extended to January 31, 2020.

On September 7, 2017, the Company completed a private placement of 2,187,733 units at $0.15 per unit for gross proceeds of $328,160. Each unit is comprised of one common share of the Company and one-half of one common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.30 per share until September 7, 2019. The Company issued 40,000 common shares valued at $6,000 as a finder's fee and paid $3,148 in share issue costs.

***2018***

On May 8, 2018, the Company completed a private placement of 2,066,000 units at a price of $0.25 per unit for gross proceeds of $516,500. As of December 31, 2017, $406,398 in advances had been received from subscribers in respect of this private placement. Each unit consists of one common share of the Company and one half of one common share purchase warrant. Each full warrant entitles the holder to purchase an additional common share at a price of $0.40 per share until May 8, 2020. The Company issued 59,300 common shares valued at $5,396 as finders' fees and incurred additional share issue costs of $14,968.

## 5. SHARE CAPITAL AND RESERVES *(continued)*

During the year ended December 31, 2018, the Company issued 5,114,670 common shares for the exercise of warrants. Of this amount, 3,020,000 common shares were issued for $347,000 in cash and 2,094,670 common shares were issued to settle the loan payable (see note 3).

**Warrants**

Details of common share purchase warrants outstanding at December 31, 2018 are as follows:

| | 2018 Outstanding Warrants | Exercise price | Expiry date |
|---|---|---|---|
| Share purchase warrants | | | |
| Issued in private placement* | 750,000 | $ 0.15 | January 31, 2019 |
| Issued in private placement | 1,093,867 | $ 0.30 | September 7, 2019 |
| Issued in private placement | 1,033,000 | $ 0.40 | May 8, 2020 |
| | 2,876,867 | $ 0.30 | |

* On January 18, 2019, the expiry date of these warrants was extended to January 31, 2020 (see note 13).

Common share purchase warrant transactions during the year ended December 31, 2018 and 2017 are as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Number of Warrants | Weighted average exercise price | Fair Value | Number of Warrants | Weighted average exercise price | Fair Value |
| Outstanding - beginning of year | 17,343,867 | $ 0.125 | $ - | 12,000,000 | $ 0.100 | $ - |
| Expired | (10,385,330) | $ 0.100 | $ - | - | $ - | $ - |
| Exercised | (4,214,670) | $ 0.100 | $ - | - | $ - | $ - |
| Exercised | (900,000) | $ 0.150 | $ - | - | $ - | $ - |
| Issued under Securities Purchase Agreement | - | - | $ - | 3,500,000 | $ 0.150 | $ - |
| Issued in private placement | - | - | $ - | 750,000 | $ 0.150 | $ - |
| Issued in private placement | - | - | $ - | 1,093,867 | $ 0.300 | $ - |
| Issued in private placement | 1,033,000 | $ 0.400 | $ - | - | $ - | $ - |
| Outstanding - end of year | 2,876,867 | $ 0.297 | $ - | 17,343,867 | $ 0.125 | $ - |

The weighted average remaining contractual life of the issued and outstanding warrants as at December 31, 2018 was 1.03 years.

## 5. SHARE CAPITAL AND RESERVES *(continued)*

### Stock Options

The Company has adopted an incentive stock option plan which provides that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable up to five years from the date of grant, unless the Board establishes more restrictive terms. The fair value of each option grant will be estimated on the date of grant using the Black-Scholes option pricing model.

On September 17, 2018, the Company granted 200,000 share purchase options to a consultant of the Company. The share purchase options are exercisable at $0.25 per share for a period of one year, expiring September 17, 2019. The estimated fair value was calculated for the options using the Black-Scholes pricing model based on the following assumptions: risk-free interest rate of 2.12%, expected life of 1 year, no annual dividends and expected volatility of 220%. Total compensation relating to this grant is $24,640. Of this amount, the Company recognized $13,875 in share-based payments during the current year.

Details of stock options outstanding at December 31, 2018 are as follows:

| Expiry Date | Number of Options Outstanding | Number of Options Vested | Number of Options Unvested | Exercise Price | Weighted Average Remaining Life |
|---|---|---|---|---|---|
| September 17, 2019 | 200,000 | 50,000 | Nil | $ 0.25 | 0.71 year |

Because these options were granted to a consultant performing investor relations activities, they vest in stages over a period of 12 months with no more than 25% of the options vesting in any three month period.

### Share-based Payments Reserve

Share-based payment reserve records items recognized as share-based payments expense and other share-based payments until such time as the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

## 6. FINANCIAL INSTRUMENTS

### Fair Values

As at December 31, 2018, the Company's financial instruments consist of cash and accounts payable and accrued liabilities.

In management’s opinion, the Company’s carrying values of cash and accounts payable and accrued liabilities approximate their fair values due to the immediate or short term maturity of these instruments.

The Company classifies the fair value of these financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Cash is classified under Level 1.

Level 2 – Fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices). The Company does not have any financial instruments classified under Level 2.

## 6. FINANCIAL INSTRUMENTS *(continued)*

Level 3 – Valuations in the level are those with inputs for the asset or liability that are not based on observable market data. Accounts payable and accrued liabilities are classified under Level 3.

The Company's financial instruments are exposed to the following market risks:

**Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash is held at a large Canadian financial institution and in lawyers' trust accounts and therefore is not subject to credit risk.

**Interest Rate Risk**

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company had $42,963 in cash as at December 31, 2018, on which it earns no interest, and therefore is not subject to interest rate risk.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. As at December 31, 2018, the Company had a working capital deficit of $28,060. This included a cash balance of $42,963 and a GST receivable balance of $2,567 which are not sufficient to pay its current liabilities of $73,590. In order for the Company to perform an exploration program on its properties, and to continue operations, it will need to renegotiate its debt or obtain additional financing.

## 7. CAPITAL MANAGEMENT

The Company's capital currently consists of common shares. Its principal source of cash is from the issuance of common shares and funds advanced by investors. The Company's capital management objectives are to safeguard its ability to continue as a going-concern. The Company does not have any externally imposed capital requirements to which it is subject. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

## 8. SETTLEMENT RECEIPTS

On September 26, 2018, the company entered into a debt settlement agreement ("the "Agreement") with an unrelated third party creditor to settle $400,000 in outstanding indebtedness in respect of exploration and evaluation expenditures incurred on the 2K Gold Property. Pursuant to the Agreement, the company issued 1,600,000 settlement receipts (the "receipts") at a deemed price of $0.25 (being the Company's share price on September 24, 2018) per receipt with each receipt automatically converting into one common share of the company on February 26, 2019 and the Company having the option to redeem all or any portion of the receipts by making a cash payment of $0.25 per receipt to the creditor. On February 26, 2019, 1,600,000 common shares were issued to the creditor (see note 13).

Pursuant to IAS 32, *Financial Instruments: Presentation*, these receipts are required to be presented as equity on the statement of financial position because they do not meet the definition of a liability.

## 9. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at their fair value as determined by management. Unless otherwise indicated, the balances are unsecured, non-interest bearing, without specific terms of repayment and have arisen from advances or the provision of services and fees described.

During the year ended December 31, 2018, the Company incurred $184,819 (2017 - $191,000) in consulting fees paid to the Chief Executive Officer (the "CEO") of the Company, a Director and a company controlled by the Chief Financial Officer (the "CFO") of the Company (2017 – CEO of the Company, a former director and a company controlled by the CFO of the Company).

At December 31, 2018, the Company owed the CEO of the Company $27,000 (December 31, 2017 - $21,397) in respect of fees and out of pocket expenses.

At December 31, 2018, the Company owed $Nil (2017 - $209,467) to a company controlled by the CFO of the Company (see note 3).

## 10. LOSS PER SHARE

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. The warrants outstanding as at December 31, 2018 have not been included in the calculation of diluted earnings per share as the effect of their inclusion would be anti-dilutive. Loss per share is calculated as follows:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Net loss for the year | $ | (301,177) | $ | (328,211) |
| Weighted average number of shares outstanding | | 30,900,987 | | 25,049,621 |
| Basic and diluted loss per share | $ | (0.01) | $ | (0.01) |

## 11. INCOME TAX

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

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Net loss for the year | $ | (301,177) | $ | (328,211) |
| Combined federal and provincial income tax rate | | 27.00% | | 26.00% |
| Expected tax recovery | | 81,318 | | 85,335 |
| Net effect of deductible and non-deductible amounts | | 1,421 | | 1,587 |
| Unrecognized benefit of current non-capital loss | | (82,739) | | (86,922) |
| Total income tax recovery | | - | | - |

## 11. INCOME TAX *(continued)*

Unused tax losses and resource pools for which no deferred tax assets have been recognized are attributable to the following:

| | | 2018 | | 2017 |
|---|---|---|---|---|
| Exploration and evaluation assets | $ | 35,000 | $ | 35,000 |
| Non-capital losses carried forward (1) | | 839,000 | | 547,000 |
| Share issue costs | $ | 22,000 | | 7,000 |
| | | 896,000 | | 589,000 |

(1) These losses are available to be utilized as deductions against future years' Canadian taxable income from Canadian operations and capital gains. These non-capital losses, if not utilized, will expire between 2033 and 2038.

## 12. SUPPLEMENTARY DISCLOSURES WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2018, the Company incurred interest expense in the amount of $Nil (2017 - $1,408).

During the year ended December 31, 2018, $406,398 in share subscriptions advanced was transferred to share capital (see note 5).

On June 13, 2018, the loan payable of $209,467 was settled by issuing 2,094,670 common shares of the company (see notes 3 and 5).

On September 26, 2018, accounts payable of $400,000 was settled by issuing 1,600,000 settlement receipts (see note 8 and 13).

On January 31, 2017, the Company settled debt, including accrued interest of $40,656, by issuing a promissory note in the amount of $209,467 (see note 3).

## 13. SUBSEQUENT EVENTS

On January 18, 2019, the Company extended the expiry date of 750,000 outstanding share purchase warrants (see note 5) that are exercisable for common shares of the Company at $0.15. The warrants were issued as part of the private placement which closed on January 31, 2017. The warrants currently expire on January 31, 2019 and the Company extended the expiry date to January 31, 2020. All other terms of the warrants remain unchanged.

On February 6, 2019, the 1,600,000 settlement receipts issued in a debt settlement agreement with a creditor (see note 8) were converted into common shares of the Company on a one-for-one basis.

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.