**MERYLLION RESOURCES CORP.**
**Annual Financial Statements**
**September 30, 2018 and 2017**
(Expressed in Canadian Dollars)

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# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Meryllion Resources Corp.

We have audited the accompanying financial statements of Meryllion Resources Corp., which comprise the statements of financial position as at September 30, 2018 and 2017, and the statements of loss and comprehensive loss, statements of changes in equity (deficiency) and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements present fairly, in all material respects, the financial position of Meryllion Resources Corp. as at September 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates that Meryllion Resources Corp. had continuing losses during the year ended September 30, 2018 and a working capital deficiency and a cumulative deficit as at September 30, 2018. These conditions along with other matters set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the ability of Meryllion Resources Corp. to continue as a going concern.

UHY McGovern Hurley LLP

UHY McGovern Hurley LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
January 28, 2019

**MERYLLION RESOURCES CORP.**
**Annual Statements of Financial Position**
*(In Canadian Dollars)*
As at September 30,

| | NOTES | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | **$ 5,740** | $ 29,770 |
| Amounts receivable | | **9,792** | 3,155 |
| Prepaid expenses and deposits | | **1,312** | 864 |
| **TOTAL ASSETS** | | **$ 16,844** | $ 33,789 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 8 | **$ 67,038** | $ 67,265 |
| Loan payable | 8 | **6,500** | 6,500 |
| **TOTAL LIABILITIES** | | **73,538** | 73,765 |
| | | | |
| **DEFICIENCY** | | | |
| Share capital | 7(b) | **15,433,934** | 15,314,834 |
| Warrants reserve | 7(b) | **31,981** | 36,081 |
| Share-option reserve | 7(d) | **348,908** | 348,908 |
| Accumulated deficit | | **(15,871,517)** | (15,739,799) |
| **TOTAL DEFICIENCY** | | **(56,694)** | (39,976) |
| | | | |
| **TOTAL LIABILITIES AND DEFICIENCY** | | **$ 16,844** | $ 33,789 |

**Going concern (Note 1)**
**Subsequent events (Note 10)**

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

**APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:**

*"John Fognani"*
Director

*"Ben Gelfand"*
Director

**MERYLLION RESOURCES CORP.**
**Annual Statements of Loss and Comprehensive Loss**
*(In Canadian Dollars)*
For the years ended September 30,

| | NOTES | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **ADMINISTRATIVE EXPENSES** | | | | | |
| Directors fees | 8 | **$** | **60,000** | $ | 157,500 |
| Office and administration | | | **33,529** | | 84,028 |
| Professional fees | | | **13,791** | | 14,782 |
| Regulatory and filing fees | | | **18,428** | | 13,756 |
| Insurance | | | **5,188** | | 10,543 |
| Travel | | | **-** | | 3,083 |
| Investor relations | | | **785** | | 818 |
| TOTAL ADMINISTRATIVE EXPENSES | | | **131,721** | | 284,510 |
| | | | | | |
| **OTHER (INCOME)** | | | | | |
| Foreign exchange (gain) | | | **(3)** | | (133) |
| Gain on debt settlement | 7(b) | | **-** | | (24,965) |
| TOTAL OTHER (INCOME) | | | **(3)** | | (25,098) |
| | | | | | |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR** | | **$** | **131,718** | **$** | **259,412** |
| | | | | | |
| **LOSS PER SHARE** | | | | | |
| Basic and diluted | | **$** | **0.00** | $ | 0.01 |
| | | | | | |
| **WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING** | | | | | |
| Basic and diluted | | | **51,793,352** | | 37,814,173 |

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

**MERYLLION RESOURCES CORP.**
**Annual Statements of Changes in Equity (Deficiency)**
*(In Canadian Dollars)*

| | NOTES | Number of shares | Share Capital | Share-option Reserve | Warrants | Accumulated deficit | Total |
|---|---|---|---|---|---|---|---|
| Balances as at September 30, 2017 | | **50,388,420** | **$ 15,314,834** | **$ 348,908** | **$ 36,081** | **$ (15,739,799)** | **$ (39,976)** |
| Shares issued for debt | 7(b) | **3,600,000** | **90,000** | - | - | - | 90,000 |
| Shares issued from exercise of warrants | 7(b) | **500,000** | **29,100** | - | **(4,100)** | - | 25,000 |
| Share issue costs | | - | - | - | - | - | - |
| Net loss and comprehensive loss for the year | | - | - | - | - | (131,718) | (131,718) |
| **Balances as at September 30, 2018** | | **54,488,420** | **$ 15,433,934** | **$ 348,908** | **$ 31,981** | **$ (15,871,517)** | **$ (56,694)** |
| | | | | | | | |
| Balances as at September 30, 2016 | | 35,488,420 | $ 15,027,571 | $ 348,908 | $ - | $ (15,480,387) | $ (103,908) |
| Units issued for cash | 7(b) | 8,800,000 | 183,919 | - | 36,081 | - | 220,000 |
| Share issue costs | | - | (24,191) | - | - | - | (24,191) |
| Shares issued for debt | 7(b) | 6,100,000 | 127,535 | - | - | - | 127,535 |
| Net loss and comprehensive loss for the year | | - | - | - | - | (259,412) | (259,412) |
| Balances as at September 30, 2017 | | 50,388,420 | $ 15,314,834 | $ 348,908 | $ 36,081 | $ (15,739,799) | $ (39,976) |

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

**MERYLLION RESOURCES CORP.**
**Annual Statements of Cash Flows**
*(In Canadian Dollars)*
For the years ended September 30,

| | NOTES | | 2018 | | 2017 |
|---|---|---|---|---|---|
| **OPERATING ACTIVITIES** | | | | | |
| Net loss for the year | | **$** | **(131,718)** | $ | (259,412) |
| Items not involving cash: | | | | | |
| Gain on debt settlement | 7(b) | | **-** | | (24,965) |
| Changes in non-cash working capital: | | | | | |
| Amounts receivable | | | **(6,637)** | | (995) |
| Prepaid expenses and deposits | | | **(448)** | | 2,274 |
| Accounts payable and accrued liabilities | | | **89,773** | | 154,144 |
| **Cash used in operating activities** | | | **(49,030)** | | (128,954) |
| | | | | | |
| **FINANCING ACTIVITIES** | | | | | |
| Warrant exercises | 7(b) | | **25,000** | | - |
| Private placement proceeds | | | **-** | | 220,000 |
| Share issue costs | | | **-** | | (24,191) |
| Loan advances | | | **-** | | 46,500 |
| Loan repayment | 8 | | **-** | | (159,500) |
| **Cash provided by financing activities** | | | **25,000** | | 82,809 |
| | | | | | |
| **Net decrease in cash** | | | **(24,030)** | | (46,145) |
| Cash, beginning of year | | | **29,770** | | 75,915 |
| **Cash, end of year** | | **$** | **5,740** | $ | 29,770 |
| | | | | | |
| **Comprised of:** | | | | | |
| Cash | | **$** | **5,740** | $ | 29,770 |
| Cash equivalents | | | **-** | | - |
| **Total Cash and cash equivalents** | | **$** | **5,740** | $ | 29,770 |
| | | | | | |
| **Supplemental cash flow information** | | | | | |
| Interest paid | | **$** | **-** | $ | - |
| Shares issued for debt | | | **90,000** | | 127,535 |

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Meryllion Resources Corp. ("Company") was incorporated on July 25, 2013 under the laws of British Columbia as a wholly-owned subsidiary of Kaizen Discovery Inc., formerly Concordia Resource Corp. ("Concordia"). On December 4, 2013, a Plan of Arrangement (the "Arrangement") was approved by the shareholders of Concordia whereby Concordia distributed 100% of its interest in the Company to its shareholders. Concurrently with the completion of the Arrangement, Meryllion Resources Corp. together with its subsidiaries (collectively known as the "Company" or "Meryllion") obtained approval to list its common shares on the TSX Venture Exchange ("TSX-V") and began trading under the ticker symbol MYR on December 6, 2013. On May 13, 2015 the Company received approval to list its common shares on the Canadian Securities Exchange ("CSE"), and voluntarily delisted its common shares from the TSX-V.

The Company's head office is located at 8 King Street East, Suite 1005, Toronto, Ontario, Canada, M5C 1B5.

These annual financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. At September 30, 2018, the Company had an accumulated deficit of $15,871,517 (2017 - $15,739,799) and a working capital deficiency of $56,694 (2017 – a working capital deficiency of $39,976). The Company incurred losses of $131,718 during the year ended September 30, 2018 (2017 - $259,412). The Company's ability to continue as a going concern is dependent upon its ability to raise adequate financing and generate profitable operations in the future. These conditions indicate the existence of material uncertainties which cast significant doubt about the Company's ability to continue as a going concern.

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These annual financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") effective September 30, 2018.

### (b) Basis of presentation

These annual financial statements are expressed in Canadian Dollars, the Company's presentation and functional currency and have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value. These annual financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out in Note 3 have been applied consistently to all periods presented in these annual financial statements as if the policies have always been in effect.

These annual financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on January 25, 2019.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Critical accounting estimates and judgements

The preparation of these annual financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the annual financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These annual financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the annual financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

***Critical accounting estimates***
Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the determination of environmental obligations, the recoverability of mineral interests, and the assumptions used in the determination of the fair value of share-based compensation.

**Income, value added, withholding and other taxes**
The Company is subject to income, value added, withholding and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**Share-based payments**
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (a) Critical accounting estimates and judgements (continued)

**Going concern risk assessment**
The assessment of the Company's ability to continue as a going concern involves significant judgement. Refer to our discussion in Note 1.

### (b) Provisions

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

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. The Company does not have any significant legal or constructive obligations as at September 30, 2018 and 2017.

### (c) Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period if dilutive. The Company uses the treasury stock method of calculating fully diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the year. Diluted loss per share has not been presented separately as the outstanding options and warrants are anti-dilutive for each period presented.

### (d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances, deposits held at call and certificates of deposits and money market instruments, including cashable guaranteed investment certificates with an original term to maturity of three months or less at date of purchase, and are carried at amortized cost.

### (e) 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***
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.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Income taxes (continued)**

***Deferred tax***

Deferred tax is accounted for using the liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their respective tax bases.

A deferred tax liability is recognized for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

A deferred income tax asset is recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and losses can be utilized, except where the deferred income tax asset related to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax is measured on an undiscounted basis using the tax rates that are expected to apply in the period when the liability is settled or the asset is realized, based on tax rates and tax laws enacted or substantively enacted at the statement of financial position date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**(f) Share-based compensation**

The Company grants share-based awards to certain officers, employees, directors and other eligible persons. For equity-settled awards, the fair value is charged to profit or loss and credited to the related reserve account, on a straight-line basis over the vesting period, after adjusting for the estimated number of awards that are expected to vest.

The fair value of the equity-settled awards is determined at the date of the grant. In calculating fair value, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company. The fair value is determined by using the Black-Scholes option pricing model.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (f) Share-based compensation (continued)

At each reporting date, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognised in profit or loss with a corresponding entry against the related reserve. No expense is recognised for awards that do not ultimately vest.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in profit or loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

### (g) Share capital

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

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

### (h) Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

All of the Company's financial instruments are classified into one of two categories: loans-and receivables and other-financial-liabilities. All financial instruments are initially measured in the annual statement of financial position at fair value. Subsequent measurement and changes in fair value will depend on their initial classification. Loans-and-receivables and other-financial-liabilities are measured at amortized cost.

The Company does not use derivative instruments or hedges to manage risks. Transaction costs related to the Company's financial instruments will be added to their carrying amounts.

Financial assets and liabilities are offset and the net amount reported in the annual statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Financial instruments

**Impairment of financial assets**

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset is impaired. Objective evidence of impairment could include the following:

• Significant financial difficulty of the issuer or counterparty; or
• Default or delinquency in interest or principal payments; or
• It has become probable that the borrower will enter bankruptcy or financial reorganization.

Where impairment has occurred, the cumulative loss is recognized in profit or loss.

## 4. FUTURE ACCOUNTING POLICIES AND ACCOUNTING CHANGES

During 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements to existing standards. These included IAS 7. These new changes did not have any material impact on the Company's financial statements.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after October 1, 2018. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

**IAS 1 – Presentation of Financial Statements** ("IAS 1") and **IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** ("IAS 8") were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

**IFRS 2 – Share-based payments** ("IFRS 2") was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payments transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018.

## 4. FUTURE ACCOUNTING POLICIES AND ACCOUNTING CHANGES (Continued)

**IFRS 9 – Financial Instruments** ("IFRS 9") was issued by the IASB as a complete standard in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual period beginning on or after January 1, 2018.

**IFRIC 23 – Uncertainty Over Income Tax Treatments** ("IFRIC 23") was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. Earlier adoption is permitted.

## 5. FINANCIAL INSTRUMENTS

### (a) Designation and valuation of financial instruments

The Company has designated its cash and accounts receivable as loans-and-receivables and accounts payable and accrued liabilities and loan payable as other-financial-liabilities.

The carrying values of cash, amounts receivable, accounts payable and accrued liabilities, and loan payable approximate their fair values because of the short-term maturity of these financial instruments.

The Company's financial instruments are measured subsequent to initial recognition at fair value are grouped into Level 1 to 3 based on the degree to which the inputs used to determine the fair value are observable:

- Level 1 of the fair value hierarchy includes unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 of the hierarchy includes inputs that are observable for the asset or liability, either directly or indirectly; and
- Level 3 includes inputs for the asset or liability that are not based on observable market data.

As at September 30, 2018 and 2017, the Company does not have any financial instruments carried at fair value to classify in the fair value hierarchy.

*(In Canadian Dollars)*

## 5. FINANCIAL INSTRUMENTS (Continued)

### (a) Designation and valuation of financial instruments (continued)

The Company's financial instruments are as follows:

| | As at | | | |
|---|---|---|---|---|
| | **September 30, 2018** | | **September 30, 2017** | |
| **Financial assets** | | | | |
| Loans-and-receivables | | | | |
| Cash | **$** | **5,740** | $ | 29,770 |
| Amounts receivable | | **-** | | - |
| **Total financial assets** | **$** | **5,740** | $ | 29,770 |
| **Financial liabilities** | | | | |
| Other-financial-liabilities | | | | |
| Accounts payable and accrued liabilities | **$** | **67,038** | $ | 67,265 |
| Loan payable | | **6,500** | | 6,500 |
| **Total financial liabilities** | **$** | **73,538** | $ | 73,765 |

### (b) Financial risks

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

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

The Company is exposed to credit risk with respect to its cash. The Company's maximum exposure to credit risk is the amounts disclosed in the annual statement of financial position. Credit risk associated with cash is minimized by placing these instruments with major Canadian financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

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

At September 30, 2018, the Company had a cash balance of $5,740 (September 30, 2017 - $29,770) to settle current liabilities of $73,538 (September 30, 2017 - $73,765). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

During the year ended September 30, 2018, the Company settled debt in the aggregate principal amount of $90,000 by the issuance of 3,600,000 common shares in the capital of the Company, having a value of $0.025 per common share (September 30, 2017 – settled $152,500 by the issuance of 6,100,000 common shares in the capital of the Company) (See Note 7(b)).

## 5. FINANCIAL INSTRUMENTS (Continued)

### (b) Financial risks (continued)

The Company intends to finance future requirements from share issuances, the exercise of options, debt or other sources. There can be no certainty of the Company's ability to raise additional financing through these means.

***Market risk***
Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market factors. Market risk comprises three types of risk: price risk, interest rate risk and currency risk.

*Price risk*
Price risk is the risk that the fair value of future cash flows of the Company's financial instruments will fluctuate because of changes in market prices. The Company is not exposed to price risks.

*Interest rate risk*
Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk to the extent that the cash maintained at financial institutions is subject to a floating rate of interest. The interest rate risk on cash is not considered significant.

*Currency risk*
Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates. The Company is not exposed to significant currency risk.

## 6. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The Company depends on external financing to fund its activities and there can be no guarantee that external financing will be available at terms acceptable to the Company. The Company does not believes its current working capital is sufficient to maintain its core operations for the next twelve months, and additional funding will be required by the Company to complete its strategic objectives and continue as a going concern. There is no certainty that additional financing at terms that are acceptable to the Company will be available. The capital structure of the Company currently consists of common shares, warrants and stock options. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or new shares. Management reviews its capital management approach on a regular basis. There were no changes in the Company's approach to capital management during the years ended September 30, 2018 and 2017 and the Company is not subject to any externally imposed capital requirements.

*(In Canadian Dollars)*

## 7. SHARE CAPITAL

### (a) Authorized

Unlimited Class A common shares without par value.

### (b) Issued and outstanding

At September 30, 2018, the Company had 54,488,420 (September 30, 2017 – 50,388,420) common shares issued and outstanding.

***Year ended September 30, 2018***
During the year ended September 30, 2018, the Company settled debt in the aggregate principal amount of $90,000 owing to the directors of the Company by the issuance of 3,600,000 common shares in the capital of the Company. The shares were valued at $0.025 per share based on the quoted market price of the shares on the date of issuance.

During the year ended September 30, 2018, a director of the Company exercised 500,000 warrants with an exercise price of $0.05 per share. In relation to this exercise, the estimated grant date fair value of 500,000 warrants was reallocated to share capital to the amount of $4,100.

***Year ended September 30, 2017***
During the year ended September 30, 2017, the Company settled debt in the aggregate principal amount of $152,500 owing to directors of the Company by the issuance of 6,100,000 common shares in the capital of the Company. The shares were valued at $0.021 per share based on the quoted market price of the shares on the date of issuance. Accordingly, the Company recognized a gain of $24,965 on the debt settlement.

During the year ended September 30, 2017, the Company completed a private placement for 8,800,000 units for gross proceeds of $220,000 at $0.025 per unit. Each unit comprised of one common share of the Company plus one-half of one common share warrant. Each whole warrant entitles the holder to acquire one common share of the Corporation for $0.05 for a period of 18 months from the closing date. The grant date fair value of the 4,400,000 warrants was estimated as $36,018 using the Black-Scholes option pricing model with the following assumptions: 131% expected volatility; a risk-free interest rate of 1.23%; an expected dividend yield of Nil%; and 18 months expected term. Directors of the Company subscribed 1,400,000 units of this private placement for proceeds of $35,000. The Company incurred share issue costs of $24,191.

### (c) Warrants

The movement in the Company's warrants for the years ended September 30, 2018 and 2017was as follows:

| | **Number of warrants** | **Weighted average exercise price** |
|---|---|---|
| Outstanding, September 30, 2016 | - | - |
| Issued (Note 7(b)) | 4,400,000 | 0.05 |
| Outstanding, September 30, 2017 | 4,400,000 | 0.05 |
| Exercised (Note 7(b)) | (500,000) | (0.05) |
| **Outstanding, September 30, 2018** | **3,900,000** | **0.05** |

*(In Canadian Dollars)*

## 7. SHARE CAPITAL (Continued)

### (c) Warrants (continued)

Subsequent to September 30, 2018, the expiry date of 3,900,000 warrants was extended to February 4, 2020.

### (d) Stock options

The Company has implemented a stock option plan whereby the Board of Directors of the Company may grant directors, officers, employees and consultants' stock options to acquire common shares of the Company. Under the stock option plan, options granted are non-assignable and may be granted for a term not exceeding ten years. The plan is administered by the Board of Directors, which determines individual eligibility under the plan, the number of shares reserved underlying the options granted to each individual (not exceeding 10% of issued and outstanding shares to any insider; not exceeding 2% of the issued and outstanding shares to any consultant or persons employed to provide investor relations services) and any vesting period which, pursuant to the stock option plan can be determined and imposed by the Board of Directors. The maximum number of common shares that may be reserved for issuance under the plan is 1,007,768.

The movement in the Company's stock options for the years ended September 30, 2018 and 2017 was as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| **Outstanding, September 30, 2016, 2017 and 2018** | **100,000** | **$ 0.30** |

The Company's outstanding and exercisable stock options as at September 30, 2018 were as follows:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|
| **Exercise price** | **Number outstanding** | **Weighted average remaining life (years)** | **Number exercisable** | **Weighted average remaining life (years)** |
| $0.30 | 100,000 | 0.20 | 100,000 | 0.20 |

There were no stock options granted during the years ended September 30, 2018 and 2017. Subsequent to September 30, 2018, the options expired unexercised.

*(In Canadian Dollars)*

## 8. RELATED PARTY TRANSACTIONS

### (a) Key management compensation

The remuneration of the Company's Directors consists of the following amounts:

| | Years ended September 30, | | | |
|---|---|---|---|---|
| | | **2018** | | **2017** |
| Short-term benefits (1) | **$** | **60,000** | $ | 157,500 |
| **Total directors compensation** | **$** | **60,000** | $ | 157,500 |

*(1) Short term benefits include salaries, bonuses, consulting fees (included in professional fees) and directors fees for all directors.*

As at September 30, 2018, the Company owed $nil (September 30, 2017: $30,000) in directors fees and expenses to the directors and a former director of the Company.

As at September 30, 2018 the Company has loans payable to two shareholders of $6,500 (September 30, 2017: $6,500) which is unsecured, non-interest bearing and payable on demand.

See Note 7(b).

### (b) Other related party transactions

During the year ended September 30, 2018 the Company incurred $30,527 (2017 - $81,586) in fees paid to a management company to provide administration services including services of a Chief Financial Officer and a Corporate Secretary. As at September 30, 2018, $27,503 (September 30, 2017 - $9,540) was payable to this company. This amount is unsecured, non-interest bearing with no fixed terms of repayment.

## 9. INCOME TAXES

The provision for income taxes differs from the amount calculated using the Canadian federal and provincial statutory income tax rates of 26.5% (2017 – 26%) as follows:

| | Year ended September 30, | | | |
|---|---|---|---|---|
| | | 2018 | | 2017 |
| Net loss for the year | $ | (131,718) | $ | (259,412) |
| Statutory income tax rate | | 26.5% | | 26.0% |
| Expected income tax recovery | | (35,000) | | (69,000) |
| Other | | - | | 1,000 |
| Deferred income tax benefit not recognized | | 35,000 | | 68,000 |
| Deferred income tax (expense)/recovery | $ | - | $ | - |

*(In Canadian Dollars)*

## 9. INCOME TAXES (Continued)

The Company recognizes deferred tax assets on losses or other deductible amounts where it is probable that sufficient future taxable profits will be available to realize such assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consist of the following amounts:

| | As at September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Non- capital loss carry forward | $ 2,676,000 | $ 2,553,000 |
| Capital loss carry forward | 9,975,000 | 9,975,000 |
| Share issue costs | 15,000 | 15,000 |
| Unrecognized deferred tax assets | $ 12,666,000 | $ 12,546,000 |

As at September 30, 2018, the Company has Canadian non-capital loss carry-forwards of approximately $2,676,000 (2017 - $2,553,000) that are available to reduce taxable income in Canada. These losses expire between 2034 and 2038.

## 10. SUBSEQUENT EVENTS

See Notes 7(c) and 7(d).

Subsequent to September 30, 2018, the Company issued 13,360,000 common shares to settle $267,200 of debt owing to certain officers, directors and creditors of the Company.