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**MONTEGO RESOURCES INC.**

**FINANCIAL STATEMENTS**

**AS AT**

**JUNE 30, 2019 AND 2018**

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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders and Directors of Montego Resources Inc.

### **Opinion**

We have audited the financial statements of Montego Resources Inc. (the "Company") which comprise the statements of financial position as at June 30, 2019 and 2018, and the statements of comprehensive loss, changes in equity and cash flows for the periods ended June 30, 2019 and 2018, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its cash flows for the periods then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the financial statements in Canada, and we have fulfilled our other 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 of the accompanying financial statements, which indicates that the Company had a loss of \$3,511,916 for the year ended June 30, 2019 and, as of that date, the Company had an accumulated deficit of \$9,824,489. 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, which comprises the information included in the Company's Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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 audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on this other information, 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 Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, 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.

In preparing the 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.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements.

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 with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Fernando Costa.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS  
Vancouver, British Columbia  
October 28, 2019



**MONTEGO RESOURCES INC.**  
**STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
**EXPRESSED IN CANADIAN DOLLARS**

|   | Note | 2019               | 2018               |
|---|------|--------------------|--------------------|
|   |      | \$                 | \$                 |
| <b>EXPENSES</b>   |      |                    |                    |
| Automobile  |      | 2,255              | 13,530             |
| Consulting fees   | 10   | 305,131            | 1,778,199          |
| Depreciation  | 7    | 910                | 1,129              |
| Interest expense  | 8    | 105,285            | 85,576             |
| Insurance   |      | 8,013              | 3,125              |
| Management fees   | 10   | 70,294             | 251,737            |
| Office and miscellaneous                                    |      | 35,109             | 68,975             |
| Professional fees   |      | 276,948            | 28,862             |
| Rent  |      | 60,000             | 75,000             |
| Transfer agent and filing fees                              |      | 16,563             | 36,578             |
| Travel and promotion  |      | 360,118            | 797,702            |
|   |      | (1,240,626)        | (3,140,413)        |
| <b>OTHER ITEMS</b>  |      |                    |                    |
| Loss on sale of property                                    | 6    | (5,305)            | (291,400)          |
| Foreign exchange loss                                       |      | (3,815)            | (5,291)            |
| Impairment on exploration and evaluation assets             | 6    | (2,277,170)        | -                  |
| Unrealized gain (loss) on investments                       | 13   | 15,000             | (75,000)           |
| <b>NET LOSS AND COMPREHENSIVE LOSS</b>                      |      | <b>(3,511,916)</b> | <b>(3,512,104)</b> |
| <b>LOSS PER SHARE - basic and diluted</b>                   |      | <b>(0.08)</b>      | <b>(0.11)</b>      |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b> |      |                    |                    |
|   |      | 45,151,570         | 31,796,541         |

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

**MONTEGO RESOURCES INC.  
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018  
EXPRESSED IN CANADIAN DOLLARS**

|   | <u>Common Shares</u> |                  |                        |                             | Equity<br>Component<br>of |                    |                  |
|---|----------------------|------------------|------------------------|-----------------------------|---------------------------|--------------------|------------------|
|   | Number of<br>Shares  | Amount           | Contributed<br>Surplus | Subscriptions<br>Receivable | Convertible<br>Debentures | Deficit            | Total            |
|   |                      | \$               | \$                     | \$                          | \$                        | \$                 | \$               |
| <b>Balance, June 30, 2017</b>                       | <b>15,857,883</b>    | <b>4,316,630</b> | <b>628,760</b>         | -                           | -                         | <b>(2,800,469)</b> | <b>2,144,921</b> |
| Shares issued from private placement                | 28,292,387           | 5,226,943        | -                      | -                           | -                         | -                  | 5,226,943        |
| Share issuance costs                                | -                    | (994,025)        | 279,125                | -                           | -                         | -                  | (714,900)        |
| Shares issued for exploration and evaluation assets | 700,000              | 131,500          | -                      | -                           | -                         | -                  | 131,500          |
| Equity component of convertible debentures          | -                    | -                | -                      | -                           | 60,870                    | -                  | 60,870           |
| Exercise of warrants                                | 308,000              | 49,280           | -                      | -                           | -                         | -                  | 49,280           |
| Subscriptions receivable                            | -                    | -                | -                      | (50,000)                    | -                         | -                  | (50,000)         |
| Cancellation of shares                              | (6,700)              | -                | -                      | -                           | -                         | -                  | -                |
| Net loss for the year                               | -                    | -                | -                      | -                           | -                         | (3,512,104)        | (3,512,104)      |
| <b>Balance, June 30, 2018</b>                       | <b>45,151,570</b>    | <b>8,730,328</b> | <b>907,885</b>         | <b>(50,000)</b>             | <b>60,870</b>             | <b>(6,312,573)</b> | <b>3,336,510</b> |
| Net loss for the year                               | -                    | -                | -                      | -                           | -                         | (3,511,916)        | (3,511,916)      |
| <b>Balance, June 30, 2019</b>                       | <b>45,151,570</b>    | <b>8,730,328</b> | <b>907,885</b>         | <b>(50,000)</b>             | <b>60,870</b>             | <b>(9,824,489)</b> | <b>(175,406)</b> |

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

**MONTEGO RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
**EXPRESSED IN CANADIAN DOLLARS**

|   | <b>2019</b> | <b>2018</b> |
|---|-------------|-------------|
|   | \$          | \$          |
| <b>CASH PROVIDED BY (USED IN):</b>                  |             |             |
| <b>OPERATING ACTIVITIES</b>                         |             |             |
| Net loss for the year                               | (3,511,916) | (3,512,104) |
| Items not involving cash:                           |             |             |
| Depreciation  | 911         | 1,129       |
| Impairment on exploration and evaluation asset      | 2,277,170   | -           |
| Interest on convertible debt                        | 105,267     | 85,576      |
| Loss on sale of property                            | -           | 291,400     |
| Unrealized loss (gain) on investments               | (15,000)    | 75,000      |
|   | (1,143,568) | (3,058,999) |
| Changes in non-cash working capital balances:       |             |             |
| Tax recoverable                                     | (28,105)    | (112,393)   |
| Prepaid and deposit                                 | 209,837     | 97,109      |
| Accounts payable and accrued liabilities            | 498,443     | 165,493     |
| Cash used in operating activities                   | (463,393)   | (2,908,790) |
| <b>INVESTING ACTIVITIES</b>                         |             |             |
| Acquisition of exploration and evaluation assets    | (176,343)   | (818,197)   |
| Acquisition of equipment                            | -           | (6,037)     |
| Cash used in investing activities                   | (176,343)   | (824,234)   |
| <b>FINANCING ACTIVITIES</b>                         |             |             |
| Shares issued for cash, net                         | -           | 4,511,323   |
| Issuance of convertible debentures                  | -           | 1,000,000   |
| Change in restricted cash balance                   | (1,115,991) | -           |
| Cash provided by (used in) financing activities     | (1,115,991) | 5,511,323   |
| INCREASE (DECREASE) IN CASH                         | (1,785,755) | 1,778,299   |
| CASH, BEGINNING OF YEAR                             | 1,942,077   | 163,778     |
| CASH, END OF YEAR                                   | 186,350     | 1,942,077   |
| <b>NON-CASH TRANSACTIONS</b>                        |             |             |
| Shares issued for exploration and evaluation assets | -           | 131,500     |
| Share issuance costs - agents warrants              | -           | 279,125     |
| Shares received from sale of property               | -           | 210,000     |

The Company did not pay any interest or income taxes in cash during the years ended June 30, 2019 and 2018.

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

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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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1. NATURE OF OPERATIONS

Montego Resources Inc. (“the Company”) was incorporated on July 20, 2012 under the laws of British Columbia. The address of the Company’s corporate office and its principal place of business is 400-837 West Hastings, Vancouver, British Columbia, V6C 3N6, Canada.

The Company’s principal business activities include the acquisition and exploration of mineral property assets. As at June 30, 2019, the Company had not yet determined whether the Company’s mineral property asset contains ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development of and the future profitable production from the properties or realizing proceeds from their disposition. The outcome of these matters cannot be predicted at this time, which indicates the existence of a material uncertainty that may cast significant doubt upon the Company’s ability to continue as a going concern.

The Company had a loss of \$3,511,916 for the period ended June 30, 2019 and, as of that date, the Company had an accumulated deficit of \$ 9,824,489, which has been funded mainly by the issuance of equity. The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

These financial statements were authorized for issue in accordance with a resolution from the Board of Directors on October 28, 2019.

b) Basis of presentation

The financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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



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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Cash and cash equivalents

Cash in the statements of financial position is comprised of cash in banks and on hand, and short-term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

d) Exploration and evaluation assets

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against projected income using the units-of-production method over estimated recoverable reserves.

Management annually assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if the property has been abandoned, there are unfavourable changes in the property economics, there are restrictions on development, or when there has been an undue delay in development, which exceeds three years. In the event that estimated discounted cash flows expected from its use or eventual disposition is determined by management to be insufficient to recover the carrying value of the property, the carrying value is written-down to the estimated recoverable amount.

The recoverability of mineral properties and exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

e) Flow-through shares

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. On issuance, the premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability. As expenditures are incurred, the liability associated with the renounced tax deductions is recognized through profit and loss with a pro-rata portion of the deferred premium.

To the extent that the Company has deferred tax assets in the form of tax loss carry-forwards and other unused tax credits as at the reporting date, the Company may use them to reduce its deferred tax liability relating to tax benefits transferred through flow-through shares.

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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Foreign currency

Transactions and balances in currencies other than the Canadian dollar, the currency of the primary economic environment in which the Company operates (“the functional currency”), are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at exchange prevailing on the statement of financial position date are recognized in the statement of net loss and comprehensive loss.

g) Decommissioning, restoration and similar liabilities

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the units-of-production or the straight-line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss.

Decommissioning costs are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalized cost, except where a reduction in costs is greater than the unamortized capitalized cost of the related assets, in which case the capitalized cost is reduced to Nil and the remaining adjustment is recognized in profit or loss.

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company are not predictable.

The Company has no material restoration, rehabilitation and environmental obligations as the disturbance to date is immaterial.

h) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

j) Convertible debentures

Convertible debentures, where applicable, are separated into their liability and equity components using the effective interest rate method. The fair value of the liability component at the time of issue was determined based on an estimated interest rate of the debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value and the fair value of the liability component.

k) Changes in accounting policies

A. Financial Instruments

The Company has adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") as of July 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost.

The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI.

**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Changes in accounting policies (continued)

A. Financial Instruments (continued)

(i) Classification (continued)

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at July 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| <b>Financial assets/liabilities</b> | <b>Original classification<br/>IAS 39</b> | <b>New classification<br/>IFRS 9</b> |
|-------------------------------------|---|--------------------------------------|
| Cash                                | FVTPL                                     | FVTPL                                |
| Investments                         | FVTPL                                     | FVTPL                                |
| Accounts payable                    | Other financial liabilities               | Amortized cost                       |
| Convertible debentures              | Other financial liabilities               | Amortized cost                       |

There was also no impact to the carrying value of any of the Company's financial assets or liabilities on the date of transition.

(ii) Measurement

Financial assets at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of net income (loss). Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are recorded in the statements of net income (loss) in the period in which they arise.

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss). The Company has not designated any financial assets at FVOCI.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Changes in accounting policies (continued)

A. Financial Instruments (continued)

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset's credit risk has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of net income (loss), as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the statements of net income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the statements of net income (loss).

B. Revenue from Contracts with Customers

The Company adopted all of the requirements of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") as of July 1, 2018. IFRS 15 utilizes a methodical framework for entities to follow in order to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The change did not impact the cumulated revenue recognized or the related assets and liabilities on the transition date.

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**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**  
(Expressed in Canadian dollars)

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Changes in accounting policies (continued)

C. Share-based Payments

The Company adopted all of the requirements of IFRS 2 *Share-based Payments* ("IFRS 2") as of July 1, 2018. The amendment provide guidance on the accounting for i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations and iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The adoption of IFRS 2 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive loss on July 1, 2018.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, 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 following:

- i. the assessment of indications of impairment of the mineral property and related determination of the net realizable value and write-down of the mineral property where applicable;
- ii. decommissioning liabilities relating to the Company's mineral property;
- iii. the measurement of deferred income tax assets and liabilities;
- iv. the inputs used in accounting for share-based payments in profit or loss; and
- v. discount rate used to determine the fair value of the liability component of convertible debentures.

*Significant accounting judgments*

- i. the determination of categories of financial assets and financial liabilities; and
- ii. the evaluation of the Company's ability to continue as a going concern.

**MONTEGO RESOURCES INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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4. FUTURE ACCOUNTING PRONOUCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Standard is effective for annual periods beginning on or after January 1, 2019:

IFRS 16 *Leases* - In June 2016, the IASB issued IFRS 16 - *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The Company does not expect the adoption of these standards and interpretations to have significant impact on the financial statements.

5. PREPAID EXPENSES

The Company had the following prepaid expenses:

|                  | 2019          | 2018           |
|------------------|---------------|----------------|
|                  | \$            | \$             |
| Consulting fees  | 3,000         | 221,731        |
| Lease payment    | -             | 2,255          |
| Insurance        | 7,625         | 3,125          |
| Exploration fees | 6,649         | -              |
|                  | <u>17,274</u> | <u>227,111</u> |

6. EXPLORATION AND EVALUATION ASSETS

|   | Acquisition<br>Costs | Exploration<br>Costs | Total       |
|---|----------------------|----------------------|-------------|
|   | \$                   | \$                   | \$          |
| Balance, June 30, 2017                          | 1,652,531            | -                    | 1,652,531   |
| Disposal - sale of property                     | (291,400)            | -                    | (291,400)   |
| Acquisition costs - cash paid                   | 660,485              | -                    | 660,485     |
| Acquisition costs - common shares issued        | 131,500              | -                    | 131,500     |
| Property acquisition and staking costs          | -                    | 157,712              | 157,712     |
| Property option and cost recoveries received    | (210,000)            | -                    | (210,000)   |
| Balance, June 30, 2018                          | 1,943,116            | 157,712              | 2,100,828   |
| Acquisition costs - cash paid                   | 64,875               | -                    | 64,875      |
| Property acquisition and expenditures           | -                    | 111,468              | 111,468     |
| Impairment of exploration and evaluation assets | (2,007,990)          | (269,180)            | (2,277,170) |
| Balance, June 30, 2019                          | <u>1</u>             | <u>-</u>             | <u>1</u>    |

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6. EXPLORATION AND EVALUATION ASSETS (continued)

**Kiyuk Lake Property**

On August 29, 2016, the Company entered into a purchase and sale agreement with Northern Empire Resources Corp. ("Northern Empire") to acquire the Kiyuk Lake Property (the "Property", "Kiyuk"), located in Nunavut, Canada. As consideration, the Company issued 668,000 common shares with a fair value of \$701,400 to Northern Empire. In connection with the purchase and sale agreement, the Company also entered into a services agreement whereby Northern Empire will provide various services on the Property to the Company.

Kiyuk consists of 57 mineral claims, aggregating 491 square kilometers in southern Nunavut, Canada. As part of the Agreement, the Company is subject to 2% net smelter royalty to be paid to the original vendor of Kiyuk.

On February 28, 2017, the Company entered into an option agreement with Cache Exploration Inc. ("Cache") whereby Cache can earn 100% interest in Kiyuk. To earn the 100% interest, Cache would pay the Company an aggregate amount of \$500,000, of which \$200,000 was received and had been recorded as a reduction of acquisition costs during the year ended June 30, 2017. Cache made the remaining payments of \$300,000 by issuing 3,000,000 common shares with fair value of \$210,000 of Cache to the Company during the year ended June 30, 2018. The Company incurred a loss of \$291,400 on the disposal of this Property.

During the year ended June 30, 2019, the Company paid \$5,305 in exploration costs related to Kiyuk which was recorded as loss on sale of property in the statement of net loss and comprehensive loss.

**Black Dog Gold Property**

On March 9, 2017, the Company entered into an option agreement with Caprock Ventures Ltd. ("Caprock") to acquire the 100% interest in the Black Dog Gold Project ("Black Dog"), located in the Northern Quebec area, which is approximately 60 kilometers north of Nemiscau, Quebec. The 1,400-hectare Black Dog Project consists of a block of 27 mineral claims.

To earn the 100% interest in Black Dog, the Company is required to make cash payments of \$1,900,000, issue 2,000,000 common shares of the Company and incur an aggregate exploration expenditure of \$1,400,000 as follows:

|  | Number of<br>Common<br>Shares | Cash             | Exploration<br>Expenditures |
|--|-------------------------------|------------------|-----------------------------|
|  |                               | \$               | \$                          |
| Upon closing of the agreement (issued and paid)  | 2,000,000                     | 50,000           | -                           |
| Within 60 days of the closing of the agreement (paid)                                  | -                             | 50,000           | -                           |
| On or before the 1 <sup>st</sup> anniversary date of the agreement (paid and incurred) | -                             | 100,000          | 100,000                     |
| On or before the 2 <sup>nd</sup> anniversary date of the agreement (paid)              | -                             | 200,000          | 200,000                     |
| On or before the 3 <sup>rd</sup> anniversary date of the agreement                     | -                             | 500,000          | 500,000                     |
| On or before the 4 <sup>th</sup> anniversary date of the agreement                     | -                             | 1,000,000        | 600,000                     |
| <b>Total</b>   | <b>2,000,000</b>              | <b>1,900,000</b> | <b>1,400,000</b>            |



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6. EXPLORATION AND EVALUATION ASSETS (continued)

**Black Dog Gold Property** (continued)

The property is subject to a 2% net smelter return royalty to the Optionor.

As of June 30, 2019, the Company has paid \$441,481 and issued 2,000,000 common shares with a fair value of \$510,000 to the Optionor.

During the year ended June 30, 2019, the Company recognized an impairment loss of \$951,481.

**Taylor Silver Property**

On March 28, 2017, the Company entered into an option agreement with Silver Predator Corp. ("Silver") to acquire 100% interest in the mining claims of the Taylor Silver Property ("Taylor"), located in White Pine County in the state of Nevada, USA.

To earn the 100% interest in Taylor, the Company is required to make cash payments of US\$1,200,000, issue 2,500,000 common shares of the Company and incur an aggregate exploration expenditure of US\$700,000 as follows:

|  | Number of<br>Common<br>Shares | Cash<br>US\$     | Exploration<br>Expenditures<br>US\$ |
|--|-------------------------------|------------------|-------------------------------------|
| Upon closing of the agreement (issued and paid)                                  | 500,000                       | 200,000          | -                                   |
| On or before 6 months from closing of the agreement (issued and paid)            | 300,000                       | 100,000          | -                                   |
| On or before 12 months from closing of the agreement (issued, paid and incurred) | 400,000                       | 200,000          | 100,000                             |
| On or before 24 months from closing of the agreement                             | 500,000                       | 300,000          | 250,000                             |
| On or before 36 months from closing of the agreement                             | 800,000                       | 400,000          | 350,000                             |
| <b>Total</b>   | <b>2,500,000</b>              | <b>1,200,000</b> | <b>700,000</b>                      |

The property is subject to a 2% net smelter return royalty and 1% net profit royalty to the Optionor.

As of June 30, 2019, the Company has paid \$650,135 (US\$500,000) and issued 1,200,000 common shares with a fair value of \$341,500 to the Optionor. The Company also incurred \$122,961 exploration expenditures during the year ended June 30, 2019.

During the year ended June 30, 2019, the Company recorded an impairment loss \$1,260,814.

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6. EXPLORATION AND EVALUATION ASSETS (continued)

**Orogrande Gold Project**

The Company signed a mineral property acquisition agreement with Altiplano Metals Inc. to acquire a series of mining claims located in Idaho County in the state of Idaho and commonly referred as the Orogrande Gold Project dated September 13, 2018. The claims are subject to 1.5% NSR on commercial production pursuant to a royal agreement with the previous owner dated November 24, 2016. The consideration is the sum of US\$150,000 which shall be satisfied by one-time cash payment of US\$50,000 and issuance of 520,000 common shares.

The Company paid the one-time cash payment of \$64,875 (US\$50,000) during the year ended June 30, 2019 and issued 173,333 common shares subsequent to the year end.

During the year ended June 30, 2019, the Company recognized an impairment loss \$64,875.

7. EQUIPMENT

|                                    |           |              |
|------------------------------------|-----------|--------------|
| <b>Cost</b>                        |           |              |
| Balance as at June 30, 2018        | \$        | 6,037        |
| Additions                          |           | -            |
| Balance as at June 30, 2019        | \$        | 6,037        |
| <b>Depreciation</b>                |           |              |
| Balance as at June 30, 2018        | \$        | (1,129)      |
| Additions                          |           | (911)        |
| Balance as at June 30, 2019        | \$        | (2,040)      |
| <b>Net book value</b>              |           |              |
| Balance as at June 30, 2018        | \$        | 4,908        |
| <b>Balance as at June 30, 2019</b> | <b>\$</b> | <b>3,997</b> |

8. CONVERTIBLE DEBENTURES

On November 14, 2017, the Company closed its non-brokered private placement of secured convertible debentures. The convertible debentures are secured by a general security agreement over the assets of the Company and will be subordinated to all senior indebtedness of the Company. The Company received proceeds of \$1,000,000, and the debentures mature twelve months from the date of issue, accrue interest at a rate of 8% per year and are convertible into units of the Company at \$0.13 per unit. Each unit is comprised of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price \$0.25 expiring twelve months from the date of close of the private placement.

The debt has been secured by the assets of the Company and will be settled by release the garnishing funds.

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8. CONVERTIBLE DEBENTURES (continued)

For accounting purposes, the convertible debentures are separated into their liability and equity components using the effective interest method. The fair value of the liability component at the time of issue was determined based on an estimated rate of 15% for convertible debentures without the conversion feature. The fair value of the equity component was determined as the difference between the face value of the convertible debentures and the fair value of the liability component.

The following table summarizes the outstanding balance and changes in the components of the convertible debentures during the years ended June 30, 2019 and 2018:

|  | 2019         | 2018         |
|--|--------------|--------------|
| <b>Principal</b>                         |              |              |
| Beginning balance                        | \$ 1,000,000 | \$ -         |
| Advanced during the period               | -            | 1,000,000    |
| Equity component                         | (60,870)     | (60,870)     |
| Liability component initially recognized | 939,130      | 939,130      |
| Accumulated accretion expense            | 190,843      | 85,576       |
| Ending balance                           | \$ 1,129,973 | \$ 1,024,706 |

On May 13, 2019, the Company was sued for default of the convertible debentures of \$1,000,000 plus 8% interest. As a result, total cash of \$1,115,991 was garnished by the Supreme Court and is designated as restricted cash as at June 30, 2019. The total principal plus interest totaled \$1,129,973 as at June 30, 2019.

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9. SHARE CAPITAL

a) Authorized:

The Company is authorized to issue an unlimited number of common shares without par value.

b) Issued and Outstanding as at June 30, 2019: 45,151,570 common shares

No shares were issued during the year ended June 30, 2019.

During the year ended June 30, 2018

- (i) The Company issued 300,000 common shares with a fair value of \$55,500 for the acquisition of the Taylor Silver Property (see Note 6).
- (ii) On November 14, 2017, the Company closed a non-brokered private placement of 15,384,615 units at a price of \$0.13 per unit for gross proceeds of \$2,000,000. Each unit is comprised of one common share and one common share purchase warrant of the issuer. Each full common share purchase warrant entitles the holder to acquire one common share of the Company at a price of \$0.25 expiring twelve months from the date of close of the private placement. In connection with the private placement, the Company paid \$530,842 and issued 713,785 finder's warrants with a fair value of \$183,550 as finder's fees. Each finder's warrant entitles the holder to purchase one common shares of the Company, having the same terms as the share purchase warrants.
- (iii) The Company closed a non-brokered private placement of secured convertible debentures. The private placement consisted of proceeds of \$1,000,000, and the debentures are expected to mature twelve months from the date of issue, accrue interest at a rate of 8% per year and are convertible into units of the Company at the same price as the private placement at a per-unit conversion price equal to \$0.13. Each unit comprised of one common share and one common share purchase warrant of the Company. Each warrant entitles the holder to acquire one additional common share of the Company at an exercise price \$0.25 expiring twelve months from the date of close of the private placement.
- (iv) The Company issued 308,000 common shares from warrants exercised for gross proceeds of \$49,280.
- (v) The Company closed a non-brokered private placement of 12,907,772 units at a price of \$0.25 per unit for gross proceeds of \$3,226,943. Each unit is comprised of one common share and one purchase warrant. Each purchase warrant entitles the holder to acquire a common share of the Company at a price of \$0.50 expiring twelve months from the date of close of the private placement. In connection with the private placement, the Company paid \$184,058 and issued 359,716 finder's warrants with a fair value of \$95,575 as finder's fees. Each finder's warrant entitles the holder to purchase one common shares of the Company, having the same terms as the share purchase warrants. As at June 30, 2019, there was a subscription receivable of \$50,000.
- (vi) The Company issued 400,000 common shares with a fair value of \$76,000 pursuant to the option agreement for the Taylor Silver Property (see Note 6).

c) Share Options

There were no stock options outstanding as at June 30, 2019 and 2018.

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9. SHARE CAPITAL (continued)

d) Share Purchase Warrants

On November 14, 2017, the Company issued 713,785 finder's warrants in connection with the private placement of 15,384,615 units (see Note 10b(ii)). The fair value of the finder's warrants was \$183,550 which was estimated using the Black-Scholes pricing model with the assumptions of expected volatility of 234.68%, risk-free rate 1.36%, dividend yield 0% and expected life of one year.

On January 15, 2018, the Company issued 359,716 finder's warrants in connection with the private placement of 12,907,772 units (see Note 10b(v)). The aggregate fair value of the warrants was \$95,575 which was estimated using the Black-Scholes pricing model with the assumptions of expected volatility of 273.26%, risk-free rate 1.72%, dividend yield 0% and expected life of one year.

The changes in share purchase warrants are as follows:

|                        | Warrants     | Weighted Average<br>Exercise Price |
|------------------------|--------------|------------------------------------|
|                        |              | \$                                 |
| Balance, June 30, 2017 | 10,810,425   | 0.22                               |
| Issued                 | 29,365,888   | 0.36                               |
| Exercised              | (308,000)    | (0.16)                             |
| Balance, June 30, 2018 | 39,868,313   | 0.33                               |
| Expired                | (39,868,313) | 0.33                               |
| Balance, June 30, 2019 | -            | -                                  |

During the year ended June 30, 2019, 39,863,313 share purchase warrants expired unexercised.

There were no share purchase warrants outstanding as at June 30, 2019.

10. RELATED PARTY BALANCES AND 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. 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.

The following amounts are due to related parties and have been included in accounts payable and accrued liabilities:

|  | 2019    | 2018   |
|--|---------|--------|
|  | \$      | \$     |
| Accounts payable and accrued liabilities | 416,671 | 13,012 |

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10. RELATED PARTY BALANCES AND TRANSACTIONS (continued)

The amounts are due to current and former directors and companies controlled by current and former directors of the Company. The amounts are non-interest bearing, unsecured and are due upon demand.

The Company had the following related party transactions:

| <b>Years ended June 30,</b> | <b>2019</b> | <b>2018</b> |
|-----------------------------|-------------|-------------|
|                             | \$          | \$          |
| Exploration fees            | 35,102      | 23,826      |
| Management fees             | 70,294      | 251,737     |
| Consulting fees             | 21,000      | 41,240      |
|                             | 126,396     | 316,803     |

Management fees, property expenditures, and consulting fees were paid to current and former directors and companies controlled by current and former directors of the Company.

Key management personnel receive compensation in the form of short-term employee benefits. Key management personnel include current and former officers and the directors of the Company. The remuneration of key management is as follows:

| <b>Years ended June 30,</b> | <b>2019</b> | <b>2018</b> |
|-----------------------------|-------------|-------------|
|                             | \$          | \$          |
| Management fees             | 70,294      | 251,737     |
| Consulting fees             | 21,000      | 41,240      |
|                             | 91,294      | 292,977     |

Management and consulting services were provided by companies owned by current and former officers and directors of the Company.

As at June 30, 2018, \$15,557 was included in prepaid expenses to a director and a company controlled by a director of the Company for exploration fees.

On March 20, 2019, a former officer of the Company brought a claim on behalf of the Company against another officer of the Company in the Supreme Court of British Columbia. On September 3, 2019, the Company and the officer agreed to a settlement of \$1 and reimbursement of legal expenses incurred by the officer for a total of \$248,271.

On June 11, 2019, the Company was served with a notice of civil claim in the Supreme Court of British Columbia by a former officer of the Company. In the claim, the former officer alleged that the Company was responsible for the \$250,000 he advanced to a law firm retained on behalf of the Company for the claim above, any additional amounts advanced for legal work undertaken, as well as his compensation at a rate of \$10,000 per month for every month for which he was an officer of the Company. The Company believes the claim is meritless and will vigorously defend it. At this time, however, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation.

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11. INCOME TAXES

The Company has losses carried forward of approximately \$6,949,000 available to reduce income taxes in the future years which expire between 2034 and 2039.

The Company has not recognized any deferred income tax assets. The Company recognizes deferred income tax assets based on the extent to which it is probable that sufficient taxable income will be realized during the carry forwards periods to utilize all deferred tax assets.

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

|  | 2019      | 2018        |
|--|-----------|-------------|
| Canadian statutory income tax rate           | 27%       | 26.5%       |
|  | \$        | \$          |
| Income tax recovery at statutory rate        | 948,000   | 931,000     |
| Effect of income taxes of:                   |           |             |
| Permanent differences and others             | (77,300)  | 280,000     |
| Change in tax rate                           | -         | 22,000      |
| Change in deferred tax assets not recognized | (870,700) | (1,233,000) |
| Deferred income tax recoverable              | -         | -           |

The temporary differences that give rise to significant portions of the deferred tax assets not recognized are presented below:

|                                    | 2019        | 2018        |
|------------------------------------|-------------|-------------|
|                                    | \$          | \$          |
| Non-capital loss carry-forwards    | 1,875,000   | 1,483,600   |
| Capital assets and other           | 8,600       | 10,400      |
| Convertible loans                  | -           | 6,800       |
| Mineral properties                 | 718,800     | 104,000     |
| Share issuance costs               | 110,000     | 236,900     |
| Deferred tax assets not recognized | (2,712,400) | (1,841,700) |
|                                    | -           | -           |

12. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, contributed surplus and deficit 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 the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

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13. INVESTMENTS

|   | 2019    |            | 2018    |            |
|---|---------|------------|---------|------------|
|   | Cost    | Fair value | Cost    | Fair value |
|   | \$      | \$         | \$      | \$         |
| 3,000,000 (2018 - 3,000,000) common shares of Cache Exploration Inc., received for the disposal of Kiyuk Lake Property (see Note 6) | 210,000 | 150,000    | 210,000 | 135,000    |

During the year ended June 30, 2019, the market value of the investment increased and an unrealized gain of \$15,000 (2018 - \$75,000 loss) was recognized in profit and loss.

14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

a) Categories of financial assets and financial liabilities

Financial instruments are classified into one of the following categories: FVTPL; FVTOCI; or amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

| Financial Instrument   | Category       | 2019 |           | 2018 |           |
|------------------------|----------------|------|-----------|------|-----------|
| Cash                   | FVTPL          | \$   | 186,350   | \$   | 1,942,077 |
| Investments            | FVTPL          |      | 150,000   |      | 135,000   |
| Restricted cash        | FVTPL          |      | 1,115,991 |      | -         |
| Accounts payable       | Amortized cost |      | 723,442   |      | 224,999   |
| Convertible debentures | Amortized cost |      | 1,129,973 |      | 1,024,706 |

b) Fair value of financial instruments

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).



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14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

b) Fair value of financial instruments (continued)

Assets measured at fair value on a recurring basis were presented on the Company's statements of financial position as at June 30, 2019 are as follows:

|                 | Fair Value Measurements Using                                       |   |   | Total     |
|-----------------|---|---|---|-----------|
|                 | Quoted Prices in Active Markets For Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |           |
|                 | \$  | \$  | \$  | \$        |
| Cash            | 186,350   | -   | -   | 186,350   |
| Investments     | 150,000   | -   | -   | 150,000   |
| Restricted cash | 1,115,991   | -   | -   | 1,115,991 |

The fair value of the Company's amounts receivables, accounts payable, loan payable and convertible debentures approximates their carrying value as June 30, 2019 because of the demand nature or short-term maturity of these instruments.

c) Financial risk management objectives and policies

The Company's financial instruments include cash, restricted cash, investments, accounts payable and convertible debentures. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) *Currency risk*

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is limited to one mineral property which is located in Nevada.

The Company does not have any significant foreign currency denominated monetary liabilities. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term.

The Company has not entered into any derivative instruments to manage interest rate fluctuations.

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14. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

c) Financial risk management objectives and policies (continued)

*(iii) Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with a high-quality financial institution.

*(iv) Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.