

# **ZANZIBAR GOLD INC.**

## **FINANCIAL STATEMENTS**

(Expressed in Canadian dollars)

For the years ended August 31, 2019 and 2018



DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Zanzibar Gold Inc.

### Opinion

We have audited the financial statements of Zanzibar Gold Inc. (the "Company"), which comprise the statements of financial position as at August 31, 2019 and 2018, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our 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 to the financial statements, which indicates that as at August 31, 2019, the Company had a working capital deficiency of \$231,529 and had an accumulated deficit of \$1,092,819. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

In connection with our audit of the 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, 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, 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.

## **Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 auditor's 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance 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 auditor's report is Rakesh Patel.

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**DALE MATHESON CARR-HILTON LABONTE LLP**  
**CHARTERED PROFESSIONAL ACCOUNTANTS**  
Vancouver, BC

December 30, 2019

 **MOORE**  
An independent firm  
associated with Moore  
Global Network Limited

**ZANZIBAR GOLD INC.**  
**Statements of Financial Position**  
(Expressed in Canadian dollars)

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	Note	August 31, 2019	August 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 221,301	\$ 117,561
Amounts receivable		8,765	3,640
<b>Total current assets</b>		<u>230,066</u>	<u>121,201</u>
<b>Non-current assets</b>			
Exploration and evaluation assets	5	868,745	392,510
Exploration advances	5	57,286	26,286
<b>Total non-current assets</b>		<u>926,031</u>	<u>418,796</u>
<b>TOTAL ASSETS</b>		<u>\$ 1,156,097</u>	<u>\$ 539,997</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 51,506	\$ 82,919
Due to related parties	7	331,256	209,125
Loan payable	7	78,833	200,336
<b>Total current liabilities</b>		<u>461,595</u>	<u>492,380</u>
<b>SHAREHOLDERS' EQUITY</b>			
Capital stock	6	1,598,398	532,298
Reserves	6	188,923	126,031
Deficit		<u>(1,092,819)</u>	<u>(610,712)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<u>694,502</u>	<u>47,617</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>\$ 1,156,097</u>	<u>\$ 539,997</u>

**Nature and continuance of operations** (Note 1)

**Subsequent events** (Note 12)

*"Souhail (Abby) Farrage"*  
Chief Executive Officer & Director

*"Michael Mulberry"*  
Director

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

**ZANZIBAR GOLD INC.**  
**Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian dollars)

	<b>Note</b>	<b>Year ended August 31, 2019</b>	<b>Year ended August 31, 2018</b>
<b>EXPENSES</b>			
Consulting	7	\$ 79,672	\$ 31,500
Marketing		13,000	-
Office and administration		6,138	8,724
Professional fees		78,215	53,298
Property investigation costs		44,500	26,023
Rent	7	42,000	-
Stock based compensation	6,7	186,886	73,024
Transfer agent and filing fees		31,696	18,233
<b>Loss and comprehensive loss for the year</b>		<b>\$ (482,107)</b>	<b>\$ (210,802)</b>
<b>Basic and diluted loss per share</b>		<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of shares outstanding - basic and diluted</b>		<b>14,331,613</b>	<b>8,028,989</b>

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

**ZANZIBAR GOLD INC.**  
**Statements of Cash Flows**  
(Expressed in Canadian dollars)

	<b>Year ended August 31, 2019</b>	<b>Year ended August 31, 2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (482,107)	\$ (210,802)
Item not involving cash:		
Stock based compensation	186,886	73,024
Changes in non-cash working capital:		
Amounts receivable	(5,125)	2,623
Accounts payable and accrued liabilities	(34,141)	15,825
Due to/from related parties	127,128	22,000
<b>Net cash used in operating activities</b>	<b>(207,359)</b>	<b>(97,330)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration advances	(31,000)	(6,500)
Exploration and evaluation assets	(283,507)	(161,373)
<b>Net cash used in investing activities</b>	<b>(314,507)</b>	<b>(167,873)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of common shares for cash	-	400,000
Share issuance costs	-	(74,846)
Exercise of warrants	637,106	-
Exercise of stock options	115,000	-
Repayment of loan from related party	(126,500)	-
Loan from related party	-	57,476
<b>Net cash provided by financing activities</b>	<b>625,606</b>	<b>382,630</b>
Change in cash	103,740	117,427
Cash, beginning of year	117,561	134
<b>Cash, end of year</b>	<b>\$ 221,301</b>	<b>\$ 117,561</b>

Non-cash investing and financing activities during the year ended August 31, 2019:

- Transferred a fair value of \$102,434 to share capital on the exercise of stock options;
- Transferred a fair value of \$21,560 to share capital on the exercise of broker's warrants;
- Issued 1,000,000 shares at a fair value of \$190,000 for an exploration and evaluation asset;
- \$2,728 was included in exploration and evaluation assets which relates to accounts payable and accrued liabilities.

There were no non-cash investing and financing activities during the year ended August 31, 2018.

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

**ZANZIBAR GOLD INC.**

## Statements of Changes in Shareholders' Equity

(Expressed in Canadian dollars)

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	<b>Number of Shares</b>	<b>Capital Stock</b>	<b>Reserves</b>	<b>Deficit</b>	<b>Total</b>
<b>Balance as at August 31, 2017</b>	7,557,755	\$ 290,408	\$ 29,410	\$ (399,910)	\$ (80,092)
Shares issued for cash	4,000,000	400,000	-	-	400,000
Share issuance costs	-	(158,110)	23,597	-	(134,513)
Stock based compensation	-	-	73,024	-	73,024
Loss for the year	-	-	-	(210,802)	(210,802)
<b>Balance as at August 31, 2018</b>	11,557,755	532,298	126,031	(610,712)	47,617
Exercise of stock options	1,150,000	217,434	(102,434)	-	115,000
Exercise of warrants	4,247,375	658,666	(21,560)	-	637,106
Shares issued for exploration and evaluation asset	1,000,000	190,000	-	-	190,000
Stock based compensation	-	-	186,886	-	186,886
Loss for the year	-	-	-	(482,107)	(482,107)
<b>Balance as at August 31, 2019</b>	17,955,130	\$ 1,598,398	\$ 188,923	\$ (1,092,819)	\$ 694,502

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

## **ZANZIBAR GOLD INC.**

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### **1. NATURE AND CONTINUANCE OF OPERATIONS**

Zanzibar Gold Inc. (the “Company”) was incorporated on August 21, 2014 under the Business Corporations Act of British Columbia. The head office of the Company is 5623 145a Street, Surrey, British Columbia, V3S 8E3. The registered and records office is Suite 1780, 400 Burrard Street, Vancouver, British Columbia, V6C 3A6. The common shares of the Company are listed on the Canadian Securities Exchange (“CSE”), and trade under the symbol “ZBR”.

The Company is in the business of the exploration and development of natural resource properties in Tanzania and Canada.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at August 31, 2019 the Company has not generated any revenues from operations, has a working capital deficiency of \$231,529 and accumulated deficit of \$1,092,819.

The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management assesses that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

If the going concern assumption is not appropriate for these financial statements, then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses, and the classifications used could be material.

These financial statements were authorized for issue on December 30, 2019 by the directors of the Company.

#### **2. BASIS OF PREPARATION**

These financial statements have been prepared using accounting policies with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The significant accounting policies applied in these financial statements are based on the IFRS issued and effective as of August 31, 2019.

These financial statements have been prepared on a historical cost basis, modified where applicable. In addition, these financial statements have been prepared using the accrual basis of accounting.

The financial statements are presented in Canadian Dollars, which is also the Company's functional currency, unless otherwise indicated.



## **ZANZIBAR GOLD INC.**

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

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

#### a) Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty and the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses.

#### b) Significant estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets and provisions for restoration and environmental obligations.

### **4. SIGNIFICANT ACCOUNTING POLICIES**

#### a) Foreign Currency Translation

The Company's presentation currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency in which funds from financing activities are generated and receipts from operating activities are usually retained.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the currency rate of exchange at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### b) Cash

Cash includes cash on hand, deposits held with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amount of cash and subject to an insignificant risk of change value.

##### c) Exploration and Evaluation Assets

The Company's exploration and evaluation assets consist of mineral rights acquired and exploration and evaluation expenditure capitalized in respect of projects that are at the exploration and evaluation stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets in property, plant and equipment upon the commencement of mine development.

Exploration and evaluation expenditures in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditures related to an area of interest where the Company has tenure are capitalized as intangible assets and are initially recorded at cost less impairment.

Exploration and evaluation expenditures also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

Where the Company has entered into option agreements to acquire interests in mineral properties that require periodic share issuances, amounts un-issued are not recorded as liabilities since they are issuable entirely at the Company's option. Option payments are recorded as mineral property costs when the payments are made and share issuances are recorded as mineral property costs using the fair market value of the Company's common shares at the date of the issuance.

All capitalized exploration and evaluation expenditure is assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The following circumstances indicate that an entity should test exploration and evaluation assets for impairment:

- The period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditures on further exploration and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- Exploration and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.

##### d) Impairment of Non-Financial Assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

##### e) Financial Instruments

The following is the Company's 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 and 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. 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.

###### (ii) Measurement

###### 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.

###### Financial assets and liabilities at FVTPL

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

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Debt investments at FVTOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in Other Comprehensive Income (“OCI”). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss

##### Equity investments at FVTOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

##### (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 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 loss and comprehensive 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.

###### Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains and losses on derecognition are generally recognized in profit or loss.

##### f) Provisions

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

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

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### g) Income Taxes

Income tax on the profit or loss for the periods presented 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, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and 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.

##### h) Stock based compensation

The Company may grant stock options to buy common shares of the Company to directors, officers, employees and consultants. The board of directors grants such options for periods of up to five years, with vesting periods determined at its sole discretion.

The fair value of the options is measured at grant date, using the Black-Scholes Option Pricing Model, and is recognized over the vesting period that the employees earn the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where the terms of a stock option is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

##### i) Earnings (Loss) Per Share

The Company presents basic and diluted earnings/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 period. Diluted earnings/loss per share does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

#### **New standards, interpretations and amendments not yet effective**

A number of new standards, amendments to standards and interpretations are not yet effective as of August 31, 2019 and have not been applied in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Company.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

#### 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### New standard IFRS 16 “Leases”

In January 2016, the IASB issued IFRS 16, Leases which replaces IAS 17, Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not entered into any leases and does not believe the new standard will have a material effect on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s financial statements.

#### 5. EXPLORATION AND EVALUATION ASSETS

	<b>Kwedilima Cheetah, Tanzania</b>	<b>Panther1, Canada</b>	<b>Total</b>
<b>Balance – August 31, 2017</b>	\$ 231,137	\$ -	\$ 231,137
Deferred costs during the year			
<b>Acquisition costs:</b>	1,500	-	1,500
<b>Exploration costs:</b>			
Consulting fees	42,962	-	42,962
Field equipment and supplies	78,049	-	78,049
Other	27,170	-	27,170
Travel and accommodation	11,692	-	11,692
	159,873	-	159,873
<b>Balance – August 31, 2018</b>	392,510	-	392,510
Deferred costs during the year			
<b>Acquisition costs:</b>	-	290,000	290,000
<b>Exploration costs:</b>			
Assays, staking and mapping	-	26,400	26,400
Consulting fees	44,219	22,100	66,319
Field equipment and supplies	25,096	-	25,096
Field work	25,000	-	25,000
Other	11,920	-	11,920
Travel and accommodation	27,500	4,000	31,500
	133,735	52,500	186,235
<b>Balance – August 31, 2019</b>	\$ 526,245	\$ 342,500	\$ 868,745

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

##### **Kwedilima Cheetah Property, Tanzania**

The Company entered into a sub-option agreement with AFGF Holdings (Tanzania) Ltd. (“AFGF”) and True Zone Resources Inc. (“True Zone”) dated September 26, 2014. AFGF is a private company existing under the laws of Tanzania. AFGF represented and warranted that it had acquired a 100% legal and beneficial interest in a prospecting licenses 6903/2011 & 6905/2011 located in the Handeni Kilindi Regional district of Tanzania. The prospecting licenses were issued February 28, 2011 and transferred in June 2011 to AFGF and grants rights for a period of 48 months to carry on prospecting operations.

The sub-option agreement lapsed and was replaced by an option agreement (the “Option Agreement”) between the Company and AFGF dated for reference September 30, 2016. The property that is the subject of the Option Agreement is located on prospecting license 11043/2016 in the Handeni Region, United Republic of Tanzania (the “Property”). The key terms of the Option Agreement are:

The Company can acquire an 80% undivided interest in and to the Property (the “Option”) free and clear of all charges, encumbrances and claims in consideration for:

- (i) cash payment of \$25,000 to AFGF (paid);
- (ii) issuance of 500,000 common shares of the Company to AFGF on or before September 26, 2017 (issued);
- (iii) incur \$75,000 in exploration expenses on or before September 26, 2016 (incurred); and
- (iv) an additional \$75,000 in exploration expenses on or before December 31, 2016 (incurred).

Pursuant to the Option Agreement, AFGF further granted the Company an option to purchase up to an additional 20% interest in the Property (the “Second Option”) upon exercise of the Option by the Company to earn an 80% interest in the Property.

The Second Option may be fully exercised to attain a further 20% legal and beneficial interest in the Property (for an aggregate of up to 100% legal and beneficial interest in the Property) for a 3 year period from the execution of the Option Agreement in consideration for further payments of:

- (i) \$1,000,000 for each additional 5% interest in the Property for up to \$4,000,000; or
- (ii) \$3,000,000 for an additional 15% interest in the Property whereby the Company may at its sole discretion, pay a further \$1,000,000 for a 3% net smelter return (the “Royalty”). The Company is entitled to repurchase up to 2% of the Royalty thereby reducing the Royalty to as low as 2% or 1% net smelter return as the case may be, which may be exercisable at any time, upon the Company giving AFGF notice of exercise together with \$1,000,000 for each 1% net smelter return for an aggregate of up to \$2,000,000.

During the year ended August 31, 2018, the Company exercised the option granted by the Option Agreement pursuant to an option exercise agreement among the Company, AFGF and its staking agent, Jafari Yassim Sebabili (“Sebabili”) (the “Option Exercise Agreement”). The key terms of the Option Exercise Agreement are that the Company will exercise the first option to earn an 80% interest in the Tanzania property and upon such exercise shall be deemed to have earned an additional 20% interest in the Tanzania property for a total 100% legal and beneficial interest. The prospecting license which comprises the Tanzania property (the “PL”) is held by Sebabili on behalf of AFGF and was in the process of being transferred to AFGF. Under the Option Exercise Agreement, Sebabili will withdraw the application to transfer the registration in the PL to AFGF and immediately register the Company as the 100% legal and beneficial owner of the PL. Until such registration occurs, Sebabili will hold the 100% legal and beneficial interest in the PL in trust for the Company.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### 5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

##### Panther1 Property, Canada

On November 2018, the Company signed an option agreement to acquire an 80% interest in Panther1 Property, a vanadium property located on Vancouver Island, British Columbia. Under the terms of the agreement, the Company will make cash payments of \$100,000 to the optionor, issue 2,500,000 common shares to the optionor, and incur \$225,000 in exploration expenditures by December 31, 2019 as follows:

- Cash payment of \$50,000 to the optionor within five business days upon execution of this Agreement (paid);
- Issuance of 1,000,000 common shares of the optionee to the optionor within five business days upon execution of this Agreement (issued at a fair value of \$190,000);
- Incur \$75,000 in exploration expenses on or before December 31, 2018 (\$33,000 incurred and \$57,286 was advanced and recorded to exploration advances as at August 31, 2019);
- Payment of \$50,000 to the optionor by May 15, 2019 (paid);
- Issuance of 1,500,000 common shares of the optionee to the optionor on or before October 31, 2019 (issued subsequent to August 31, 2019); and
- Incur \$150,000 in exploration expenses on or before December 31, 2019 (incurred).

As at August 31, 2019, the Company has advanced aggregate funds of \$57,286 (2018 - \$26,286) to various third parties for future exploration work on the properties.

#### 6. CAPITAL STOCK

Authorized – unlimited common and preferred shares without par value

Issued and outstanding:

Share capital transactions during the year ended August 31, 2019 were as follows:

- 1,150,000 stock options were exercised for gross proceeds of \$115,000. A fair value of \$102,434 was transferred from reserves to share capital on exercise.
- 4,247,375 warrants and broker's warrants were exercised for proceeds of \$637,106. A fair value of \$21,560 was transferred from reserves on exercise of agent's warrants.
- 1,000,000 shares were issued at a fair value of \$190,000 for an exploration and evaluation asset (Note 5).

Share capital transactions during the year ended August 31, 2018 were as follows:

- In July 2018, the Company completed its initial public offering consisting of 4,000,000 units at \$0.10 per unit for gross proceeds of \$400,000. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company for a period of two years from the closing date at a price of \$0.15 per common share during the first year and \$0.20 per common share during the second year. The Company paid cash share issuance costs of \$134,513 and issued 320,000 broker's warrants with a fair value of \$23,597 to purchase one common share of the Company for a period of three years from the closing date at a price of \$0.15 per common share.

##### Stock options

The Company's plan allows the directors to grant stock options to directors, officers, employees and consultants to purchase up to a total of 10% of the issued and outstanding common shares. No stock option granted under the plan is transferable by the optionee other than by will or the laws of descent and distribution, and each stock option is exercisable during the lifetime of the optionee only by such optionee.



**ZANZIBAR GOLD INC.**

## Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

**6. CAPITAL STOCK (CONTINUED)**

A summary of the Company's outstanding share purchase options as at August 31, 2019 and the changes during the year are presented below:

	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance – August 31, 2017	-	\$ -
Granted	1,150,000	0.10
Balance – August 31, 2018	1,150,000	0.10
Exercised	(1,150,000)	0.10
Granted	1,200,000	0.15
Balance – August 31, 2019	1,200,000	\$ 0.15

The weighted average remaining life of the options outstanding at August 31, 2019 was 4.50 years (August 31, 2018 – 3.60 years).

<b>Number of Options</b>	<b>Exercise Price (\$)</b>	<b>Expiry Date</b>
1,200,000	0.15	February 27, 2024
1,200,000		

**Stock based compensation**

The stock based compensation expense recognized during the year ended August 31, 2019 was \$186,886 (2018 - \$73,024).

During the year ended August 31, 2019, the Company granted 1,200,000 (2018 – 1,150,000) stock options at a weighted average exercise price of \$0.15 (2018 - \$0.10) per share.

The weighted average fair value of each stock option granted during the year ended August 31, 2019 was \$0.16 (2018 - \$0.09), calculated using the Black-Scholes Option Pricing Model on the grant date using the following weighted average assumptions:

	<u>2019</u>	<u>2018</u>
Risk-free interest rate	1.80%	1.51%
Expected life of option	5 years	5 years
Expected dividend yield	0%	0%
Expected stock price volatility	150%	141.56%

**ZANZIBAR GOLD INC.**

## Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

**6. CAPITAL STOCK (CONTINUED)****Share purchase warrants**

A summary of the Company's outstanding share purchase warrants as at August 31, 2019 and the changes during the year are presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance – August 31, 2017	-	\$ -
Granted	4,320,000	0.15
Outstanding – August 31, 2018	4,320,000	0.15
Exercised	(4,247,375)	0.15
	72,625	\$ 0.15

The weighted average remaining life of the warrants outstanding at August 31, 2019 was 1.26 years (August 31, 2018 – 1.75 years).

Number of Warrants	Exercise Price (\$)	Expiry Date
45,000	0.15	July 19, 2020*
27,625	0.15	July 18, 2021
72,625		

\*Warrant exercise price: \$0.15 (July 19, 2019) and \$0.20 (July 19, 2020)

The weighted average fair value of the broker's warrants granted during the year ended August 31, 2019 was \$Nil (year ended August 31, 2018 - \$0.07), calculated using the Black-Scholes Option Pricing Model on the grant date using the following weighted average assumptions:

	Year ended August 31, 2018
Risk-free interest rate	1.35%
Expected life of option	3 years
Expected dividend yield	0%
Expected stock price volatility	141.56%

**Reserves**

Reserves relate to share-based payment reserve, which represent the fair value of stock options or warrants until such time that the share-based instruments are exercised, at which time the corresponding amount will be transferred to share capital.

## **ZANZIBAR GOLD INC.**

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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#### **7. RELATED PARTY TRANSACTIONS**

As at August 31, 2019, there is \$89,256 (2018 – \$69,125) due to a director of the Company. These amounts are non-interest bearing and have no specified terms of repayment.

As at August 31, 2019, there is \$242,000 (2018 – \$140,000) due to a company controlled by a director of the Company. These amounts are non-interest bearing. and have no specified terms of repayment

As at August 31, 2019, included in loan payable is a balance of \$78,833 (2018 – \$200,336) due to a director of the Company. These amounts are non-interest bearing and have no specified terms of repayment.

During the year ended August 31, 2019, the Company incurred \$60,000 (2018 - \$30,000) in consulting fees from a company controlled by a director of the Company.

During the year ended August 31, 2019, the Company incurred \$42,000 (2018 - \$Nil) in rent from a company controlled by a director of the Company.

During the year ended August 31, 2019, the Company incurred \$3,000 (2018 - \$Nil) in consulting fees from a director of the Company.

During the year ended August 31, 2019, the Company granted 600,000 stock options to a director valued at a total of \$93,443 recorded to stock based compensation in the current year.

During the year ended August 31, 2017 the Company granted stock options to its directors valued at \$102,434 of which \$29,410 was recognized during the year ended August 31, 2017 and \$73,024 was recognized during the year ended August 31, 2018.

During the year ended August 31, 2018, a director of the Company, Mr. Farrage, a company for which Mr. Farrage is the Chief Executive Officer and a third party agreed to postpone the payment due date of \$245,001, \$140,000 and \$48,548 respectively until that date which is 13 months from the date that the Company's common shares are listed and called for trading on the CSE. The amounts owing by the Company are non-interest bearing. Notwithstanding such postponement, the Company may pre-pay all or any part of the debt without penalty before such payment due date. The amounts have been classified as current liabilities on the statements of financial position as at August 31, 2019 as they fall within twelve months from the period end date.

#### **8. MANAGEMENT OF CAPITAL**

The Company defines its capital as all components of shareholders' equity. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern.

In order to maintain its capital structure, the Company, is dependent on equity funding and when necessary, raises capital through the issuance of equity instruments, primarily comprised of common shares. The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. There were no changes to the Company's approach to managing capital during the year.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

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## 9. FINANCIAL INSTRUMENTS AND RISKS

### *Fair Value*

The Company's financial instruments consist of cash, amounts receivable, accounts payable, loan payable and due to related parties. The fair value of all financial instruments approximate their carrying values. Cash is classified as fair value through profit and loss and amounts receivable is classified at amortized cost. Accounts payable, due to related parties and loan payable are classified as amortized cost.

The Company's financial instrument is exposed to a number of risks that are summarized below:

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due or can do so only at excessive cost. The Company has significant financial liabilities outstanding including accounts payable and accrued liabilities, loan payable and amounts due to related parties. The Company is exposed to the risk that it may not have sufficient liquid assets to meet its commitments associated with these financial liabilities.

The Company's approach to managing liquidity is to ensure that it will always have sufficient cash to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity transactions. The Company manages its liquidity risk by continuously monitoring cash flow requirements relating to its anticipated exploration and evaluation activities as well as general overhead requirements.

### *Credit Risk*

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash balances. The Company manages its credit risk on bank deposits by holding deposits in high credit quality banking institutions in Canada.

### *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in non-interest bearing bank account, management considers the interest rate risk to be minimal.

### *Commodity Price Risk*

The ability of the Company to finance the exploration and development of its properties and the future profitability of the Company is directly related to the market price of the primary minerals identified in its mineral properties. Mineral prices fluctuate on a daily basis and are affected by a number of factors beyond the Company's control. A sustained, significant decline in the prices of the primary minerals or in the share prices of junior mineral exploration companies in general, could have a negative impact on the Company's ability to raise additional capital. Sensitivity to commodity price risk is remote since the Company has not established any reserves or production.

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

#### 9. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

##### *Foreign Exchange Risk*

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the foreign currency exchange rates. The Company's functional currency is the Canadian dollar. All of the Company's financial instruments are denominated in Canadian dollars. The Company conducts some of its business in US dollars and is therefore exposed to variations in the foreign exchange rate. In management's opinion there is no material foreign exchange risk to the Company.

#### 10. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration and development of exploration and evaluation assets.

The Company operates in both Canada and Tanzania. The Company's exploration and evaluation assets are located in Canada and Tanzania.

#### 11. INCOME TAX

A reconciliation of the expected income recovery to the actual income tax recovery is as follows:

	2019	2018
Loss for the year	\$ (482,107)	\$ (210,802)
Statutory tax rate	27%	27%
Expected income tax recovery	(130,169)	(56,917)
Effect of change in tax rate	-	(5,142)
Other	50,459	(35,162)
Change in valuation allowance and other	79,710	97,221
<b>Deferred income tax recovery</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	2019	2018
Loss carry-forwards	\$ 960,063	\$ 637,875
Share issuance costs	80,708	107,675
	<b>\$ 1,040,771</b>	<b>\$ 745,550</b>

## ZANZIBAR GOLD INC.

### Notes to the Financial Statements

For the Years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

#### 11. INCOME TAX (CONTINUED)

The tax pools relating to these deductible temporary differences expire as follows:

	<b>Loss carry- forwards</b>
2034	\$ 6
2035	129,179
2036	135,618
2037	135,302
2038	237,770
2039	322,189
	<u>\$ 960,063</u>

#### 12. SUBSEQUENT EVENTS

Subsequent to August 31, 2019, the Company:

- a) Entered into agreements with the Mkuvia and Fakawi properties respectively, both gold properties located in the Handeni area of North central Tanzania. The Mkuvia Property due diligence agreement contains the following terms: (i) the Company may spend up to \$100,000 on its due diligence review, which shall be credited, at the Company's discretion, towards exploration expenditures or cash options requirements on the Mkuvia. Subject to regulatory approval, the Company can earn a 100% legal and beneficial interest in the licenses on the Fakawi Property, free and clear of all charges and encumbrances, on the following option terms: (i) a cash payment of US\$75,000 each within 10 and 60 days of the effective date of the option agreement; (ii) the issuance of 1,000,000 common shares to the optionor; (iii) initiate a US\$250,000 development and mining program within 6 months of the effective date of the option agreement; (iv) a cash payment of US\$100,000 within one year of the effective date of the option agreement; and (v) an issuance of 1,000,000 common shares within one year of the effective date of the option agreement.
- b) Announced a private placement at \$0.13 per unit for the sale of up to 7,692,308 units for gross proceeds of up to \$1,000,000. Each unit shall comprise one common share and one share purchase warrant, where each warrant may be exercised to purchase a further common share at a price of \$0.15 for a period of three years.
- c) On September 25, 2019, granted 1,700,000 stock options to purchase common shares of the Company at \$0.175 per common share, with a term of 5 years from date of grant. These options were subsequent cancelled on December 9, 2019.
- d) Issued 1,500,000 common shares for the Panther1 property (Note 5).