

ARCUS DEVELOPMENT GROUP INC.

Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Arcus Development Group Inc.

We have audited the accompanying financial statements of Arcus Development Group Inc., which comprise the statements of financial position as at July 31, 2018 and July 31, 2017, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years ended July 31, 2018 and July 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arcus Development Group Inc. as at July 31, 2018 and July 31, 2017, and its financial performance and its cash flows for the years ended July 31, 2018 and July 31, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Arcus Development Group Inc.'s ability to continue as a going concern.

Vancouver, B.C.
November 21, 2018

"D&H Group LLP"

Chartered Professional Accountants

ARCUS DEVELOPMENT GROUP INC.

Statements of Financial Position

As at

(Expressed in Canadian Dollars)

	Note	July 31, 2018	July 31, 2017
		\$	\$
ASSETS			
Current assets			
Cash	2	127,626	1,388,311
Amounts receivable	7	2,594	9,551
Exploration deposit	5	-	100,000
Prepaid expenses		6,424	-
		136,644	1,497,862
Non current assets			
Exploration and evaluation property interests	5, 8	4	4
Total assets		136,648	1,497,866
EQUITY AND LIABILITIES			
Current liabilities			
Trade accounts payable	6, 8	7,269	46,042
Flow-through premium liability	9	-	275,000
Total liabilities		7,269	321,042
Equity			
Share capital	9	9,341,478	9,341,478
Share option reserve	9	1,076,000	1,041,000
Share compensation reserve		135,000	135,000
Other reserve	5	605,605	605,605
Deficit		(11,028,704)	(9,946,259)
Total equity		129,379	1,176,824
Total equity and liabilities		136,648	1,497,866
Nature of operations and going concern	1, 2		
Event after reporting period	11		

Approved by the Board of Directors:

"Ian J. Talbot"

Director

"James Gray"

Director

ARCUS DEVELOPMENT GROUP INC.

Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Note	For the year ended July 31, 2018	For the year ended July 31, 2017
		\$	\$
Expenses			
Exploration and evaluation expenditures	5	1,237,880	1,786,872
Bank charges and interest		(1,643)	(6,502)
Communications		2,272	3,133
Consultants		5,925	5,215
Insurance		17,184	10,000
Management fees	8	-	9,900
Office and sundry		120	260
Professional fees	8	14,981	11,851
Rent		21,000	7,000
Share based compensation	9	35,000	450,000
Travel and promotion		474	2,192
Trust and filing		24,252	19,880
Flow-through premium liability – recovered	9	(275,000)	(15,051)
Net loss and comprehensive loss for the year		(1,082,445)	(2,284,750)
Loss per share		\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding		76,278,065	70,012,563

ARCUS DEVELOPMENT GROUP INC.

Statements of Cash Flows

(Expressed in Canadian Dollars)

	Note	For the year ended July 31, 2018	For the year ended July 31, 2017
		\$	\$
Cash provided by (used for):			
Operating activities			
Net loss for the year		(1,082,445)	(2,284,750)
Adjustments for non-cash items:			
Non-cash exploration and evaluation expenditures		-	1,675,000
Share based compensation		35,000	450,000
Recovery of flow-through share premium	9	(275,000)	(15,051)
Changes in non-cash working capital components:			
Amounts receivable	7	6,957	(9,365)
Trade accounts payable	6	(38,773)	43,617
Exploration deposit and prepaid expenses		93,576	-
		(1,260,685)	(140,549)
Investing activity			
Exploration deposit	5	-	(100,000)
Financing activities			
Issuance of common shares	9	-	1,641,351
Share issuance costs	9	-	(23,033)
		-	1,618,318
Net cash provided (used) during the year		(1,260,685)	1,377,769
Cash, beginning of year		1,388,311	10,542
Cash, end of year		127,626	1,388,311

ARCUS DEVELOPMENT GROUP INC.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Common Shares		Share Option Reserve	Share Compensation Reserve	Other Reserve	Deficit	Total Equity
	Number	Amount					
		\$	\$	\$	\$	\$	\$
August 1, 2016	46,158,155	6,813,211	591,000	135,000	130,605	(7,661,509)	8,307
Units issued for mineral properties	10,869,910	1,200,000	-	-	475,000	-	1,675,000
Private placements	14,400,000	1,398,851	-	-	-	-	1,398,851
Costs of share issuance	-	(23,033)	-	-	-	-	(23,033)
Premium related to flow-through shares	-	(290,051)	-	-	-	-	(290,051)
Stock options granted	-	-	450,000	-	-	-	450,000
Warrants exercised	4,850,000	242,500	-	-	-	-	242,500
Loss for the year	-	-	-	-	-	(2,284,750)	(2,284,750)
July 31, 2017	76,278,065	9,341,478	1,041,000	135,000	605,605	(9,946,259)	1,176,824
August 1, 2017	76,278,065	9,341,478	1,041,000	135,000	605,605	(9,946,259)	1,176,824
Stock options granted	-	-	35,000	-	-	-	35,000
Loss for the year	-	-	-	-	-	(1,082,445)	(1,082,445)
July 31, 2018	76,278,065	9,341,478	1,076,000	135,000	605,605	(11,028,704)	129,379

ARCUS DEVELOPMENT GROUP INC.

Notes to the Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

The Company was incorporated in British Columbia, Canada on June 6, 2006 and is in the business of pursuing and developing property interests that are considered to be sites of potential economic mineralization. The Company's registered office is Suite 1200 – 750 West Pender Street, Vancouver, BC.

The mineral exploration business involves, by its nature, a high degree of risk. There can be no assurance that exploration projects will result in valuable mineral discoveries or profitable mining operations. Additionally, there can be no assurance that a mining operation will achieve profitability once it commences operation.

2. GOING CONCERN

At July 31, 2018 the Company has net working capital of \$129,375. However, it has no source of operating revenue and has incurred losses since inception aggregating \$11,028,704. The Company will need to raise additional equity financing to meet future exploration expenditures and general working capital requirements. The Company has limited working capital, no source of operating revenue and continued operations are dependent on the Company's ability to raise the necessary funds through equity issues or the sales of assets. Although the Company has been successful in raising funds to date, there can be no assurance that additional funding will be available in the future.

The financial statements have been prepared assuming the Company will be able to realize its assets and discharge its liabilities in the normal course of business. At the date of these financial statements, the Company has not been able to identify a known body of commercial grade ore on any property and the ability of the Company to continue as a going concern is dependent upon it being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of a property. In the event the Company is not able to obtain adequate funding, there is material uncertainty as to whether the Company will be able to maintain or complete the acquisition of its property interests. These uncertainties may cast significant doubt upon the Company's ability to continue as a going concern. The financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to achieve profitable operations or to obtain adequate financing.

3. BASIS OF PRESENTATION

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 have been prepared in accordance with the accounting policies presented below and are based on the IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective as of July 31, 2018. The policies set out below were consistently applied to all periods presented unless otherwise noted.

Basis of preparation

These financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in the accounting policies set out in note 4.

The financial statements for the year ended July 31, 2018 were approved and authorized for issue by the Board of Directors on November 21, 2018.

ARCUS DEVELOPMENT GROUP INC.

Notes to the Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)

3. BASIS OF PRESENTATION *(continued)*

Significant Accounting Judgments, Estimates and Assumptions

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

Critical judgments in applying accounting policies:

The following is a critical judgment that management has made in the process of applying accounting policies and that has the most significant effect on the amounts recognized in the financial statements:

- the determination that the Company will continue as a going concern for the next year

Key sources of estimation uncertainty:

- the estimation of the fair value of the liability related to flow-through shares
- the estimation of the fair value of share options and warrants

4. SIGNIFICANT ACCOUNTING POLICIES

Exploration and evaluation property interests

Exploration and evaluation property exploration costs, including option payments incurred in respect to earning a property interest, are expensed until the applicable property interests have reached a stage where their economic viability has been established.

Cost includes any cash consideration and advance royalties paid, and the fair market value of shares issued, if any, on the acquisition of exploration and evaluation property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made.

Consistent with the provisions of IFRS 11, cost sharing activities involving other companies but not conducted through separate legal entities are considered to be 'Joint Operations', and are accounted for at cost. Accordingly, in a standard joint venture involving exploration companies in the initial stages of project development, each party recognizes its proportionate share of costs incurred, and in fact incurs such expenditures, based on its percentage of participation in a particular project. To the extent that a party fails to participate in project expenditures, its overall percentage interest in the project is then typically subject to dilution provisions.

Foreign currencies

The functional and presentation currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

ARCUS DEVELOPMENT GROUP INC.

Notes to the Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash

Cash is comprised of cash at 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. The Company's cash is held with major financial institutions in business accounts, bankers' acceptances and in government treasury bills which are available on demand by the Company for its programs, and are not invested in any asset backed deposits/investments.

Share-based compensation

In connection with incentive stock options granted by the Company to its officers, directors, employees and consultants, an expense is recognized over the vesting period based on the estimated fair value of the options on the date of the grant as determined using an option pricing model. The expense is charged to share-based compensation and the offset is credited to share option reserve. Cash received on exercise of incentive stock options is credited to share capital along with any share option reserve amounts previously recorded that are applicable to the options exercised.

Compensation expense is also recorded in connection with common shares issuance where an intrinsic value in excess of the cash consideration paid can be reasonably established at the date of issuance.

Income taxes

Deferred income taxes are recorded using the asset and liability method. Under the asset and liability method, deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax bases. Deferred income tax assets and liabilities are measured using the enacted or substantively enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares are accounted for as compound instruments comprising liability and equity components upon issuance, with any premium received that can be reasonably determined being attributed to the tax benefit provided and considered a liability. Upon qualifying expenditures being incurred, this liability is reversed and recognized in income, and any deferred tax liability in respect to the amounts renounced to investors is recorded. Costs related to the liability component are also charged to profit or loss.

The Company estimates the value of the liability component using the residual method, whereby the quoted price of the Company's non-flow-through shares issued is compared to the price investors paid for the flow-through shares and any difference forms the premium amount.

Financial instruments

The Company classifies its financial instruments into one of five categories: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the statement of financial position date at fair value, except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. The Company classifies and measures its financial instruments as follows:

- Cash is classified as FVTPL. It is measured at fair value and changes in fair value are recognized in earnings.
- Amounts receivable are classified as loans and receivables. These are measured at amortized cost. Management has determined that face value approximates fair value due to their short-term maturity.
- Trade accounts payable are classified as other financial liabilities and are measured at face value. Management has determined that face value approximates fair value due to their short term maturity.

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4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IFRS requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS standards prioritize the inputs into three levels that may be used to measure fair value:

- Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, amounts receivable, and trade accounts payable. The fair values of assets and liabilities measured on a recurring basis include cash determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all receivables and payables approximate their current fair values because of their nature and respective maturity dates or durations.

Financial risk management

Currency risk

Foreign currency exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian and the United States dollar.

Commodity price risk

Commodity price risk is the risk that the fair value or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time. However, the Company is exposed to commodity price risk as it impacts the Company's access to capital and funding.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and term deposits is limited because of their short-term investment nature. A variable rate of interest is earned on cash and term deposits, changes in market interest rates at the year-end would not have a material impact on the Company's financial statements.

Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

Environmental risk

The Company is engaged in resource exploration and development and is accordingly exposed to environmental risks associated with such activity. Management is of the opinion that the Company addresses environmental risk and compliance

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Notes to the Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

in accordance with industry standards and specific project environmental requirements however there is no certainty that all environmental exposure has been addressed.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. The Company uses the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrant.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (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 is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Decommissioning liabilities

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time when they are incurred or when the event giving rise to such an obligation occurs. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

The Company is subject to laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its exploration and evaluation activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Capital disclosures

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, such that it can explore and develop its projects for the benefit of its shareholders and other stakeholders. The Company manages its capital structure and makes adjustments to it based upon changes in economic conditions and the risk characteristics of its assets. The Company may issue new shares through private placements and public offerings in order to maintain or adjust its capital structure. The Company is not subject to any externally-imposed capital requirements.

Accounting standards adopted, or issued but not yet effective

The Company adopted no material new accounting standards during its current fiscal year, and is unaware of any applicable but not-yet-adopted standards that are expected to materially affect the financial statements of future periods.

ARCUS DEVELOPMENT GROUP INC.

Notes to the Financial Statements
July 31, 2018 and 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION PROPERTY EXPENDITURES

Schedule of cumulative exploration and evaluation property costs

	Note	Balance July 31, 2017	Incurred during fiscal 2018	Balance, July 31, 2018
		\$	\$	\$
Dawson Gold Project, Yukon				
Acquisition		2,072,873	-	2,072,873
Staking fees		232,599	-	232,599
Exploration costs				
Airborne geophysical survey		576,617	-	576,617
Assays		288,893	103,648	392,541
Camp food & accommodation		112,920	69,802	182,722
Consultant's fees		293,870	125,335	419,205
Drilling		358,838	578,535	937,373
Equipment rental		339,017	7,200	346,217
Field personnel		687,327	-	687,327
Fixed wing & fuel		186,520	28,095	214,615
Helicopter & fuel		524,256	218,257	742,513
Maintenance costs		75,106	21,133	96,239
Management fees	8	15,913	64,100	80,013
Transport		19,112	17,934	37,046
Travel		33,601	1,782	35,383
Other field expenses		26,541	2,059	28,600
Yukon Mining Incentive Program rebate		(37,500)	-	(37,500)
Deferred exploration and evaluation property costs		5,806,503	1,237,880	7,044,383

Dawson Gold Project, Yukon

By an agreement dated June 9, 2009, ATAC Resources Ltd. ("ATAC") granted the Company an option to acquire a 50% interest in each of the Green Gulch, Touleary, Dan Man and Shamrock gold prospects, collectively referred to as the Dawson Gold Project. During the 2012 fiscal year the Company exercised the option and acquired a 50% interest in the Dawson Gold Project by: (i) paying ATAC an aggregate \$185,000 by March 1, 2012; (ii) issuing ATAC an aggregate of 1,000,000 Company shares by March 1, 2012; and (iii) incurring aggregate exploration expenditures of \$3,500,000 prior to March 1, 2012.

Upon completion of these option requirements, the Company and ATAC formed a 50/50 joint venture to advance the project with the Company acting as Operator. One-half of all subsequent project costs were being recovered from ATAC. For accounting purposes this joint venture was considered to be a 'Joint Operation', as described in the Company's significant accounting policies.

Pursuant to a property purchase agreement dated August 2, 2016, the Company acquired ATAC's 50% joint venture interest in the Dawson Gold Project in consideration for the issue of 10,869,910 common shares and 5,000,000 share purchase warrants, and the granting of a 1% net smelter return ("NSR") royalty interest in any future production from any of the four Dawson properties. Each share purchase warrant entitles ATAC to purchase one common share of the Company at a price of \$0.20 until August 19, 2021. The share consideration issued has been recorded at a fair value of \$1,200,000 based on the value of the Company's shares at the date of issue. The warrants issued were measured using the Black-Scholes option pricing model to derive an estimated fair value of \$475,000; no value was assigned to the NSR. All of these warrants remain unexercised subsequent to July 31, 2018. Refer also to note 9.

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Notes to the Financial Statements

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(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION PROPERTY EXPENDITURES *(continued)*

At July 31, 2017, the Company had made a \$100,000 advance payment towards its 2017 drilling program on the Dan Man property.

For financial statement presentation purposes, each of the four prospects is carried on the Company's Statements of Financial Position at \$1. The Company's current accounting policy is to expense the related exploration and property option costs as incurred, and such costs incurred from the inception of the Dawson Gold Project are disclosed cumulatively in the above table.

6. TRADE ACCOUNTS PAYABLE

	July 31, 2018	July 31, 2017
	\$	\$
Financial liabilities		
Trade accounts payable	7,269	46,042

All amounts are short term. The carrying value of trade accounts payable is considered a reasonable approximation of fair value.

7. AMOUNTS RECEIVABLE

The Company has amounts receivable from the Government of Canada due to statutory credits and has classified these receivables as non-financial assets.

8. RELATED PARTY DISCLOSURES

Relationships

Key management

Nature of the relationship

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President and Chief Executive Officer, Directors, and the Chief Financial Officer. The Company's President and Chief Executive Officer is also the Chief Operating Officer of ATAC.

Services provided for the year ended July 31, 2018	Geological and project management services	Management Services	Amounts in Accounts Payable at July 31, 2018
Key management	\$ 64,100	\$ 750	\$ -
Services provided for the year ended July 31, 2017	Geological and project management services	Management Services	Amounts in Accounts Payable at July 31, 2017
Key management	\$ 6,000	\$ 11,400	\$ 6,000

Refer also to notes 5 and 9.

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Notes to the Financial Statements

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9. EQUITY

At July 31, 2018 the authorized share capital consists of an unlimited number of common shares without par value. All issued shares are fully paid.

On October 25, 2016, the Company closed concurrent non-brokered flow-through and non-flow-through private placements for a total of 12,610,916 flow-through units sold at a price of \$0.10 per unit for gross proceeds of \$1,261,092, and a total of 1,789,084 non-flow-through units sold at a price of \$0.077 per unit for gross proceeds of \$137,759. The aggregate proceeds from the sale of all units were \$1,375,818, net of cash share issuance costs of \$23,033. Both the flow-through and the non-flow-through units were comprised of one common share of the Company and one half of one transferrable share purchase warrant. Each full warrant entitles the holder to purchase one non-flow-through share at a price of \$0.20 per share at any time on or before October 24, 2018.

At July 31, 2018 all 7.2 million of these warrants remain outstanding, together with the 5,000,000 warrants described in note 5.

Refer to note 11.

The per unit premium received on the flow-through units relative to the non-flow-through units was recorded as a premium on flow-through shares and, at July 31, 2017, a liability of \$275,000 relating to the pro-rata portion of flow-through funds still unspent. No values were allocated to the warrant components of these financings. During the year ended July 31, 2018 the Company's exploration expenses incurred resulted in the complete recovery of this liability.

On September 13, 2017, 250,000 stock options were granted to a consultant, entitling that individual to purchase up to a total of 250,000 common shares at a price of \$0.16 per share for a period of five years. These options vested to the recipient on the date of grant, and remain unexercised. The Company recognized a fair value of \$35,000 in respect to the issuance of the above stock options, and the amount was credited to share option reserve on the Company's balance sheet.

At July 31, 2018, there are an aggregate of 3,850,000 stock options outstanding to various directors, officers, consultants and employees of consultants, comprised of the 250,000 options granted on September 13, 2017 plus 3,600,000 options exercisable to purchase common shares of the Company at \$0.14 per share until January 23, 2022.

The weighted average life of the options at July 31, 2018 was 3.53 years and a weighted average exercise price of \$0.14 per option.

The Company utilized the Black-Scholes option pricing model to calculate this amount, with the following assumptions:

Risk-free interest rates	1.78%
Expected life	5 years
Volatility	148%
Expected dividend yield	nil

The fair value of stock options awarded was \$0.14 per option.

Changes in these subjective input assumptions can materially affect the fair value estimates, and therefore management believes that the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options and warrants.

Refer also to note 5.

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10. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	2018 \$	2017 \$
Net loss before income taxes	<u>1,082,445</u>	<u>2,284,750</u>
Expected income tax recovery at 27% (2017 – 26%)	292,260	594,035
Effect of current items	(267,965)	(576,195)
Tax assets not recognized	<u>(24,295)</u>	<u>(17,840)</u>
Income tax recovery	<u>-</u>	<u>-</u>

The significant components of the Company's deferred income tax assets are as follows:

	As at July 31,	
	2018 \$	2017 \$
Variance of carrying amount of property costs from tax cost	3,197,259	3,220,471
Non-capital losses incurred	2,024,551	1,934,568
Share issuance costs incurred	14,302	19,720
Total deferred tax pools, net	<u>5,236,112</u>	<u>5,174,759</u>
Net deferred tax asset at 27% (2017 – 26%)	1,413,750	1,345,437
Valuation allowance	<u>(1,413,750)</u>	<u>(1,345,437)</u>
	<u>-</u>	<u>-</u>

The Company's current non-capital losses will expire as follows:

2027	\$ 242,055
2028	473,769
2029	140,434
2030	191,883
2031	194,751
2032	213,840
2033	146,005
2034	136,712
2035	77,525
2036	48,977
2037	68,617
2038	89,983
	<u>\$ 2,024,551</u>

The Company's undeducted share issuance costs are amortized to non-capital losses on a straight line basis over 5 years.

Certain of the Company's deferred tax assets remain subject to assessment by Canadian taxation authorities.

ARCUS DEVELOPMENT GROUP INC.

Notes to the Financial Statements

July 31, 2018 and 2017

(Expressed in Canadian Dollars)

11. EVENT AFTER REPORTING PERIOD

7.2 million warrants to acquire common shares at \$0.20 per share expired unexercised.