Blue River Resources Ltd.

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED OCTOBER 31, 2018 AND 2017**

**(EXPRESSED IN CANADIAN DOLLARS)**

# BLUE RIVER RESOURCES LTD.
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**
**October 31, 2018**
**(Expressed in Canadian Dollars)**


| | |
|---|---|
| **CONTENTS** | 1 |
| **INDEPENDENT AUDITOR'S REPORT** | 2 |
| **FINANCIAL STATEMENTS** | |
| Consolidated Statements of Financial Position | 3 |
| Consolidated Statements of Comprehensive Loss | 4 |
| Consolidated Statements of Changes in Shareholders' Deficiency | 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to Consolidated Financial Statements | 7-23 |

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Blue River Resources Ltd.

We have audited the accompanying consolidated financial statements of Blue River Resources Ltd. which comprise the consolidated statements of financial position as at October 31, 2018 and 2017 and the consolidated statements of comprehensive loss, changes in shareholders' deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

**Auditor's Responsibility**
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Blue River Resources Ltd. as at October 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**Emphasis of Matter**
Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from this uncertainty.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
February 28, 2019

# BLUE RIVER RESOURCES LTD.
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

| | **October 31, 2018** | October 31, 2017 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **195** | - |
| Receivables | **1,566** | 2,231 |
| Prepaid expenses | **2,104** | 17,383 |
| Available-for-sale financial asset (Note 3) | **25,123** | 65,428 |
| | **28,988** | 85,042 |
| **Equipment, net** | **1,065** | 1,281 |
| **Exploration and evaluation assets (Note 4)** | **7,220** | 1 |
| **Due from related party (Note 13)** | **75,805** | - |
| **Reclamation bond (Note 5)** | **10,000** | 10,000 |
| **Investment in equity accounted investee (Note 6)** | **48,676** | - |
| **TOTAL ASSETS** | **171,754** | 96,324 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current liabilities** | | |
| Bank indebtedness | **-** | 5,279 |
| Demand loan payable (Note 13) | **15,216** | 12,936 |
| Accounts payable and accrued liabilities (Note 7) | **619,595** | 447,386 |
| Due to related parties (Note 13) | **384,324** | 161,601 |
| Promissory note (Note 8) | **40,348** | 37,348 |
| | **1,059,483** | 664,550 |
| **Shareholders' deficiency** | | |
| Share capital (Note 9) | **10,137,837** | 9,644,287 |
| Share subscriptions (Note 9) | **-** | 40,000 |
| Reserves | **161,070** | 252,344 |
| Deficit | **(11,186,636)** | (10,504,857) |
| | **(887,729)** | (568,226) |
| **TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | **171,754** | 96,324 |

Nature of Operations and Going Concern (Note 1)
Subsequent Events (Note 16)

Approved and authorized on behalf of the Board:

*"Griffin Jones"*, Director

*"Nadwynn Sing"*, Director

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

# BLUE RIVER RESOURCES LTD.
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
**(Expressed in Canadian Dollars)**

| | For the year ended October 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| **OPERATING EXPENSES** | | |
| Consulting fees | **364,847** | 518,707 |
| Depreciation | **216** | 272 |
| Financing fees (Note 13) | **5,320** | 18,764 |
| Management fees (Note 13) | **180,000** | 184,500 |
| Office expenses | **12,004** | 18,562 |
| Professional fees | **64,642** | 53,484 |
| Regulatory and shareholder services | **40,276** | 48,683 |
| Rent | **39,277** | 47,052 |
| Travel and related | **9,427** | 39,336 |
| **OPERATING LOSS** | **(716,009)** | (929,360) |
| **OTHER ITEMS** | | |
| Impairment of available-for-sale financial asset (Note 3) | **(3,123)** | - |
| Impairment of exploration and evaluation assets (Note 4) | **(15,741)** | (59,348) |
| Write off of exploration and evaluation assets (Note 4) | **-** | (923,744) |
| Loss on equity accounted investee (Note 6) | **(1,324)** | - |
| Interest income | **-** | 34 |
| Gain on foreign exchange | **4,132** | 2,616 |
| Gain on settlement of debt (Note 9) | **-** | 10,000 |
| | **(16,056)** | (970,442) |
| **NET LOSS FOR THE YEAR** | **(732,065)** | (1,899,802) |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Net change in fair value of available-for-sale financial asset, net of tax (Note 3) | **(39,785)** | 15,825 |
| Reclassification of impairment of available-for-sale financial assets | **(1,203)** | - |
| | **(40,988)** | 15,825 |
| **COMPREHENSIVE LOSS FOR THE YEAR** | **(773,053)** | (1,883,977) |
| **BASIC AND DILUTED LOSS PER SHARE:** | | |
| Net loss for the year | **(0.00)** | (0.01) |
| Comprehensive loss for the year | **(0.00)** | (0.01) |
| **WEIGHTED AVERAGE SHARES OUTSTANDING** | **182,710,374** | 129,418,202 |

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

# BLUE RIVER RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY**

**(Expressed in Canadian Dollars)**

| | Common shares | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Number** | **Amount** | **Share subscriptions** | **Warrants** | **Stock options** | **Revaluation reserve** | **Total** | **Deficit** | **Total** |
| | | **$** | **$** | **$** | **$** | **$** | **$** | **$** | **$** |
| **Balance at October 31, 2016** | 106,365,756 | 8,056,968 | 225,600 | 63,262 | 228,127 | 25,163 | 316,552 | (8,618,032) | (18,912) |
| Shares issued in private placement | 30,535,714 | 1,312,500 | (225,600) | - | - | - | - | - | 1,086,900 |
| Shares issued for exploration and evaluation assets | 500,000 | 22,500 | - | - | - | - | - | - | 22,500 |
| Shares issued for debt settlement | 2,000,000 | 90,000 | - | - | - | - | - | - | 90,000 |
| Share issuance costs | - | (31,776) | - | 9,539 | - | - | 9,539 | - | (22,237) |
| Stock options exercised | 2,350,000 | 194,095 | - | - | (76,595) | - | (76,595) | - | 117,500 |
| Share subscriptions received | - | - | 40,000 | - | - | - | - | - | 40,000 |
| Forfeiture of warrants | - | - | - | (12,977) | - | - | (12,977) | 12,977 | - |
| Comprehensive loss for the year | - | - | - | - | - | 15,825 | 15,825 | (1,899,802) | (1,883,977) |
| **Balance at October 31, 2017** | 141,751,470 | 9,644,287 | 40,000 | 59,824 | 151,532 | 40,988 | 252,344 | (10,504,857) | (568,226) |
| Shares issued in private placement | 50,000,000 | 500,000 | - | - | - | - | - | - | 500,000 |
| Share issuance costs | - | (6,450) | - | - | - | - | - | - | (6,450) |
| Forfeiture of warrants | - | - | - | (50,286) | - | - | (50,286) | 50,286 | - |
| Subscriptions reclassified to payables | - | - | (40,000) | - | - | - | - | - | (40,000) |
| Comprehensive loss for the year | - | - | - | - | - | (40,988) | (40,988) | (732,065) | (773,053) |
| **Balance at October 31, 2018** | **191,751,470** | **10,137,837** | **-** | **9,538** | **151,532** | **-** | **161,070** | **(11,186,636)** | **(887,729)** |

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

# BLUE RIVER RESOURCES LTD.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(Expressed in Canadian Dollars)**

| | For the year ended October 31, 2018 | 2017 |
|---|---|---|
| | **$** | $ |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year | **(732,065)** | (1,899,802) |
| Depreciation | **216** | 272 |
| Accrued interest | **5,280** | 6,436 |
| Impairment of available-for-sale financial asset | **3,123** | - |
| Impairment of exploration and evaluation assets | **15,741** | 59,348 |
| Write off of exploration and evaluation asset | **-** | 923,744 |
| Loss on equity accounted investee | **1,324** | - |
| Gain on settlement of debt | **-** | (10,000) |
| Unrealized foreign exchange gain | **(3,806)** | (2,616) |
| | **(710,187)** | (922,618) |
| Changes in non-cash working capital: | | |
| Receivables | **665** | 10,411 |
| Prepaid expenses | **15,279** | (9,454) |
| Accounts payable and accrued liabilities | **132,553** | (29,583) |
| **CASH USED IN OPERATING ACTIVITIES** | **(561,690)** | (951,244) |
| **INVESTING ACTIVITIES** | | |
| Exploration and evaluation asset expenditures | **(23,304)** | (479,538) |
| Acquisition of investment in equity accounted investee | **(50,000)** | - |
| **CASH USED IN INVESTING ACTIVITIES** | **(73,304)** | (479,538) |
| **FINANCING ACTIVITIES** | | |
| Shares issued for cash | **500,000** | 1,086,900 |
| Share issuance costs | **(6,450)** | (22,237) |
| Stock options exercised | **-** | 117,500 |
| Share subscriptions received | **-** | 40,000 |
| Bank indebtedness | **(5,279)** | 5,279 |
| Net funds received from related parties | **146,918** | 7,154 |
| **CASH FROM FINANCING ACTIVITIES** | **635,189** | 1,234,596 |
| **NET CHANGE IN CASH** | **195** | (196,186) |
| **CASH, BEGINNING OF YEAR** | **-** | 196,186 |
| **CASH, END OF YEAR** | **195** | - |

Supplemental Disclosure with Respect to Cash Flows (Note 14)

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

## NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

### Nature of operations

Blue River Resources Ltd. (the "Company") was incorporated on September 26, 2008 under the Business Corporations Act (British Columbia) and the Company's shares trade on the TSX Venture Exchange ("TSX-V") under the symbol "BXR". The Company is in the business of acquisition, exploration and development of mineral properties.

The head office and principal address of the Company are located at Suite 501 – 525 Seymour Street, Vancouver, B.C., V6B 3H7. The Company's records office and registered address is Suite 700 – 401 West Georgia Street, Vancouver, B.C., V6B 5A1.

### Going concern

The Company's mineral properties are at the exploration stage and are without a known body of commercial ore. The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities. The amounts shown as exploration and evaluation assets represent acquisition, holding and deferred exploration costs and do not necessarily represent present or future recoverable values. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the Company obtaining the necessary financing to complete the exploration and development of the properties, the discovery of economically recoverable reserves and future profitable operations.

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at October 31, 2018, the Company had a working capital deficit of $1,030,495 (October 31, 2017 – $579,508), had not advanced its properties to commercial production, and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to raise equity capital or borrowings sufficient to meet current and future obligations. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with proceeds from the exercise of options and warrants and further private placements.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations as a going concern.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were authorized by the audit committee and board of directors of the Company on February 28, 2019.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### Basis of presentation

These consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable and are presented in Canadian dollars unless otherwise noted.

### Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Blue River Resources Inc., incorporated under the Laws of the State of Wyoming. All material intercompany balances and transactions have been eliminated upon consolidation.

### Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiary is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than Canadian dollars are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

### Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates and assumptions as the basis for determining the stated amounts include the recoverability of mineral properties, valuation of share-based compensation and other equity based payments and the recoverability and measurement of deferred tax assets and liabilities. Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

> Valuation of share-based compensation
> The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.
>
> Income taxes
> In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### Use of estimates and judgments - *continued*

Critical judgments exercised in apply accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements are as follows:

Determination of functional currency
The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, retention of operating cash flows, and frequency of transactions with the reporting entity.

Economic recoverability and probability of future economic benefits of exploration and evaluation assets
Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

### Equipment

Equipment is recorded at cost less accumulated depreciation, which is calculated on a declining-balance basis as follows:

| | |
|---|---|
| Office equipment | 8% |
| Furniture and fixtures | 20% |
| Computer hardware | 55% / 100% |

One-half the normal rate of depreciation is recorded in the year of acquisition.

### Exploration and evaluation assets

*Pre-exploration costs*
Pre-exploration costs are expensed as incurred.

*Exploration and evaluation expenditures*
Costs directly related to the exploration and evaluation of mineral properties are capitalized once the legal rights to explore the mineral properties are acquired or obtained.  When the technical and commercial viability of a mineral resource have been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued***

**Restoration and environmental obligations**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit and loss for the year.

The Company currently has no significant restoration or environmental obligations

**Impairment of long lived assets**

The carrying amount of the Company's long lived assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**Investments in associates (equity accounted investees)**

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity. In addition, significant influence may be achieved when the Company and other shareholders of the entity are under common control.

Investments in associates are accounted for using the equity method and are recognized initially at cost. The financial statements include the Company's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the associate.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

### Share capital

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

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

*Valuation of equity units issued in private placements:*
The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing price on the issuance date, the balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded to reserves.

### Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

### Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. Share-based payments to non-employees are measured on the date and at the fair value of goods or services received, or fair value of the equity instruments issued, whichever can be more reliably measured. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company transfers the value of forfeited and expired unexercised vested stock options to deficit from reserves on the date of expiration.

### Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are measured at fair value with changes in carrying value being included in profit or loss.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

**Financial instruments -** ***continued***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

**Income Taxes**

*Current income tax:*
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

*Deferred income tax:*
Deferred income tax is provided using temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

**Income Taxes - *continued***

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

*Flow-through shares:*
Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the proceeds received for flow-through shares into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. When the qualifying resource expenditures are renounced the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

**New and Future Accounting Pronouncements**

The following pronouncements and amendments are effective for the Company's annual periods beginning on or after November 1, 2018 unless otherwise stated. Adopting these standards is expected to have minimal or no impact on the consolidated financial statements.

a. IFRS 2 – Share Based Payments: the amendments eliminate the diversity in practice in the classification and measurement of particular share-based payment transactions which are narrow in scope and address specific areas of classification and measurement. It is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted provided it is disclosed. Management determined this standard will not have a material effect on the Company's consolidated financial statements.

b. IFRS 9 – Financial Instruments: Classification and Measurement: applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Management determined this standard will not have a material effect on the Company's consolidated financial statements .

c. IFRS 15 – Revenue from Contracts with Customers: establishes principles that an entity shall report more useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. More specifically to production (and sales) based royalties, variable consideration is estimated and included in the transaction price to the extent it is highly probable that there will be no significant reversal in the amount of cumulative revenue recognized when the uncertainty is resolved. This new approach to variable revenue could accelerate the recognition of revenue which depends on future production (or sales) levels. The standard was issued in May 2014 and is effective for annual periods beginning on or after January 1, 2018. Management determined this standard will not have a material effect on the Company's consolidated financial statements.

d. IFRS 16 – Leases: specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. Management is currently evaluating the impact this standard will have on the Company's consolidated financial statements.

**(Expressed in Canadian Dollars)**

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *continued*

**New and Future Accounting Pronouncements -** ***continued***

e. IFRIC 22 – Foreign Currency Transactions and Advance Consideration: addresses how to determine the 'date of the transaction' when applying IAS 21. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. Management determined this standard will not have a material effect on the Company's consolidated financial statements.

f. IFRIC 23 – Uncertainty Over Income Tax Treatments: clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. It is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. Management does not anticipate this standard having a material effect on the Company's consolidated 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 consolidated financial statements.

## NOTE 3 – AVAILABLE-FOR-SALE FINANCIAL ASSET

In March 2014, the Company closed an agreement with Global Resources Investment Ltd., an arm's length party to the Company, pursuant to which the Company subscribed to 359,515 shares of Global Resources Investment Trust PLC ("GRIT shares") at a subscription price of £1 per share. In consideration of the purchase of the GRIT shares, the Company issued to GRIT 10,000,000 common shares at a price of £0.0360 per share, which was the equivalent of $0.067 per share.

On acquisition, the GRIT shares were valued at $670,000. The GRIT shares have been designated as an available-for-sale financial asset and are recorded at fair value with the unrealized gains and losses being recognized in other comprehensive income (loss). Fair value is determined by reference to the closing market price at each reporting date. The cumulative unrealized gain or loss that is recognized in other comprehensive income is recognized in the statement of profit or loss when the available-for-sale financial asset is sold or impaired.

As at October 31, 2018, the remaining 332,809 (2017 – 332,809) GRIT shares had a fair value of $25,123 (2017 - $65,428). Management determined that the GRIT shares were impaired and, therefore, recorded an impairment of $3,123 which was based on the reclassification of the cumulative unrealized loss in other comprehensive income to the statement of profit or loss and the reclassification of unrealized foreign exchange losses.

## NOTE 4 – EXPLORATION AND EVALUATION ASSETS

| | Castle Project (Canada) $ | Mazama Copper Project (USA) $ | Banlung Gold Project (Cambodia) $ | Total $ |
|---|---|---|---|---|
| **Balance, October 31, 2016** | **1** | **1** | **456,863** | **456,865** |
| Acquisition costs | - | 42,500 | - | 42,500 |
| Deferred costs | | | | |
| Consulting – geological | - | 16,848 | - | 16,848 |
| General exploration expenditures | - | - | 466,880 | 466,880 |
| Write off | - | (59,349) | (923,743) | (983,092) |
| **Balance, October 31, 2017** | **1** | **-** | **-** | **1** |
| Acquisition costs | - | 10,000 | - | 10,000 |
| Deferred costs | | | | |
| Consulting – geological | 7,219 | 5,741 | - | 12,960 |
| Write off | - | (15,741) | - | (15,741) |
| **Balance, October 31, 2018** | **7,220** | **-** | **-** | **7,220** |

## NOTE 4 – EXPLORATION AND EVALUATION ASSETS – *continued*

### Title to mineral properties

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral property interests. The Company has investigated title to all of its mineral property interests and to the best of management's knowledge, title to all of its properties are in good standing and free of material defect.

### CASTLE PROJECT – British Columbia, Canada

The Castle Project was comprised of four mineral claim groups located in the Similkameen area of British Columbia: RATS Claim, Claimbank Claim, South Castle Claim, and Delorme claim. Certain of the claims are subject to a net smelter return royalty ("NSR") on any ore production from the property. The Company continues to hold an interest in one claim.

As at October 31, 2017, the Castle Project was carried at a nominal carrying value of $1 as management did not have further plans to explore the property. Recent exploration activity in the area has renewed interest in the Princeton / Nicola area; as such, management has commenced exploration on the project.

### MAZAMA COPPER PROJECT – Washington, USA

On February 25, 2013, as amended on February 25, 2015, the Company signed an option agreement to acquire a 100% beneficial right, title, and interest in and to a property located in Okanogan County, Washington State, USA. Certain terms of the agreement were amended on February 25, 2015 and February 16, 2017. On June 20, 2013, the TSX-V approved the transaction.

Under the terms of the amended option agreement, the Company will earn a 100% interest in the property subject to the following:

- The Company must pay a total of $260,000 cash as follows:
  - $5,000 upon approval by the TSX-V (paid);
  - $10,000 on or before July 30, 2013 (paid);
  - $20,000 on or before August 19, 2013 (paid);
  - $50,000 on or before June 20, 2014 (paid);
  - $70,000 on or before September 30, 2015 (paid); and
  - $105,000 on or before May 28, 2017 ($10,000 paid).
- The Company must issue a total of 6,000,000 common shares of the Company to the vendor:
  - 500,000 common shares before July 20, 2013 (issued for a value of $42,500);
  - 500,000 common shares every three months from February 25, 2013 for a total of 4,500,000 shares (2,000,000 common shares issued at a value of $160,000, 500,000 issued at a value of $32,500 and 2,000,000 common shares issued at a value of $90,000);
  - 500,000 shares on or before July 30, 2016 (issued at a value of $22,500); and
  - 500,000 shares on or before March 7, 2017 (issued for a value of $22,500) (Note 9).

Further to the terms of the amended option agreement, the Company agreed to incur minimum exploration and development expenses of $125,000 by June 20, 2014 (incurred); a further $150,000 by December 27, 2017 (incurred); and a further $175,000 by December 27, 2018.

The vendor retained a 3.0% NSR on any ore production from the property. The Company is eligible to purchase a 1% NSR at anytime by making a cash payment of $1,000,000 and an additional 1% for $2,000,000.

In connection with the amended agreement dated February 16, 2017, the Company also entered into a Debt Settlement Agreement to settle $100,000 of the cash owed for 2,000,000 shares. The Company issued the shares to settle the obligations in June 2017 (Note 9).

As at October 31, 2017, the property had lapsed and as a result, the Company abandoned the option and recorded an impairment of $59,349. During the year ended October 31, 2018, the Company recorded an impairment of $15,741 relating to the payment of unpaid acquisition costs paid to the optionors and other expenses during the year.

## NOTE 4 – EXPLORATION AND EVALUATION ASSETS – *continued*

### BANLUNG GOLD PROJECT – Cambodia

In May 2016, the Company entered into a property option agreement with Angkor Gold Corp. ("Angkor") to explore Angkor's 100% owned Banlung Tenement located in Cambodia.

The agreement gave the Company the option to acquire up to a 70% participating interest through the exercising of four options as follows:

- Option 1 to acquire a 10% participating interest – the Company must pay Angkor US$100,000 of which US$50,000 is to be paid upon signing the agreement (paid) and US$50,000 is to be paid within 30 days after the execution of the agreement (paid) and incur US$900,000 in exploration and development expenditures as follows:
    - US$200,000 to be incurred by July 30, 2016 (paid) of which US$75,000 shall be deposited with Angkor no later than May 30, 2016 and US$125,000 no later than June 30, 2016;
    - A further US$200,000 to be incurred by December 31, 2016 (paid) of which US$50,000 must be deposited with Angkor on the first of each month starting September 1, 2016;
    - A further US$200,000 to be incurred by June 30, 2017 (paid) of which US$50,000 must be paid every six weeks starting January 15, 2017;
    - A further US$200,000 to be incurred by December 31, 2017 of which US$50,000 must be paid on the first of each month starting September 1, 2017; and
    - A further US$100,000 to be incurred by March 30, 2018 of which US$50,000 must be paid by January 15, 2018 and US$50,000 must be paid by February 28, 2018;
- Option 2 to acquire a further 30% participating interest – the Company must incur US$1,500,000 in exploration and development expenditures within two years from the date the first option is exercised;
- Option 3 to acquire a further 10% participating interest – the Company must pay US$1,000,000 in cash to Angkor within one year from the date the second option is exercised; and
- Option 4 to acquire a further 20% participating interest – the Company must complete a Bankable Feasibility Study on the property.

Upon completion of Option #4, Angkor would maintain a 30% free-carry on the Banlung Tenement or can covert at its discretion, to a 5% net-smelter return.

As at October 31, 2017, the Company decided not to proceed with the required option payments and as such, wrote off the costs on the property of $923,743.

## NOTE 5 – RECLAMATION BOND

As at October 31, 2018 the Company held a reclamation bond of $10,000 (2017 - $10,000) in connection with the Castle Project.

## NOTE 6 – INVESTMENT IN EQUITY ACCOUNTED INVESTEE

In July 2018, the Company entered into an Investment Agreement (the "Agreement") with an arms' length party, Global Satellite Integration Ltd. ("GSIL"), a private company incorporated under the laws of British Columbia, whereby the Company would acquire 30% of the voting shares of GSIL through the purchase of 42 units of GSIL for $50,000 with each unit consisting of 1 Class A common share and 1 Class C common share of GSIL. Under the Agreement, the Company has the right, but not the obligation, to participate in any future financings of GSIL to ensure the Company maintains its 30% ownership.

As at October 31, 2018, the Company had paid GSIL $50,000 for 42 units of GSIL representing 30% of the outstanding voting shares.

During the year ended October 31, 2018, the Company recorded a loss on the equity accounted investee of $1,324 which represented the Company's portion of GSIL's loss for the period from August 1, 2018 to October 31, 2018.

**(Expressed in Canadian Dollars)**

## NOTE 6 – INVESTMENT IN EQUITY ACCOUNTED INVESTEE - *continued*

Summarized financial information in respect of GSIL as of October 31, 2018 is as follows:

| | **October 31, 2018** |
|---|---|
| | **$** |
| Current assets | **35,120** |
| Non-current assets | **106,632** |
| Total assets | **141,752** |
| Current liabilities | **147,300** |
| Non-current liabilities | **-** |
| Total liabilities | **147,300** |
| Net and comprehensive loss for the three months ended October 31, 2018 | **(4,414)** |
| Company's share of net and comprehensive income | **(1,324)** |

## NOTE 7 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | **October 31, 2018** | October 31, 2017 |
|---|---|---|
| | **$** | $ |
| Trade payables | **576,947** | 408,336 |
| Accrued liabilities | **42,648** | 39,050 |
| | **619,595** | 447,386 |

## NOTE 8 – PROMISSORY NOTE

In May 2015, the Company received a promissory note for $30,000 from an arm's length lender which matured on May 21, 2017 and bears interest at 10% per annum, payable on maturity.

In conjunction with the promissory note, the Company granted the lender a bonus of 600,000 non-transferable warrants upon advance of the loan, whereby each warrant entitles the lender the right to purchase one common share of the Company at $0.05 per share for a period of two years from the date of issuance. The warrants expired during the year ended October 31, 2017.

As at October 31, 2018, the loan remains outstanding and is now due on demand. The Company owes the lender $40,348 (2017 - $37,348) which includes $10,348 (2017 - $7,348) of accrued interest.

## NOTE 9 – SHARE CAPITAL

**Authorized common shares**

Unlimited common shares without par value.

**Issued shares**

During the year ended October 31, 2018 the Company:

a) Closed a private placement by issuing 50,000,000 units at $0.01 per unit for total gross proceeds of $500,000. Each unit consists of one common share and one share purchase warrant with each warrant exercisable for $0.05 per share for a period of two years. No value was assigned to the warrants. In connection with this private placement the Company incurred share issue costs of $6,450.

**(Expressed in Canadian Dollars)**

## NOTE 9 – SHARE CAPITAL – *continued*

### Issued shares (continued)

During the year ended October 31, 2017, the Company:

a) Closed a private placement by issuing 16,250,000 units at $0.05 per unit for total gross proceeds of $812,500. Each unit consists of one common share and one-half share purchase warrant with each whole warrant exercisable for $0.09 per share for a period of two years. No value was assigned to the warrants. In connection with the close of this private placement, the Company incurred costs of $8,822.

b) Closed a private placement by issuing 14,285,714 units at $0.035 per unit for total gross proceeds of $500,000. Each unit consists of one common share and one share purchase warrant with each warrant exercisable for $0.06 per share for a period of two years. In connection with the close of this private placement, the Company paid finders' fees and costs of $13,415 and issued 337,600 warrants with an exercise price of $0.06 per warrant and an expiry date of two years from the date of issue. The finders warrants have a value of $9,539. No value was assigned to the unit warrants.

c) Issued 500,000 common shares valued at $22,500 in connection with the Mazama Copper Project option agreement.

d) Issued 2,000,000 common shares valued at $90,000, in connection with a debt settlement agreement dated February 16, 2017, to settle $100,000 of the past due cash owed on the Mazama Copper Project option agreement (Note 4). The transaction resulted in a gain on debt settlement of $10,000.

e) Issued 2,350,000 common shares in connection with the exercise of various stock options at $0.05 per option for gross proceeds of $117,500.

As at October 31, 2018, the Company had $nil (2017 - $40,000) in subscriptions received relating to future financings. During the year ended October 31, 2018 the funds previously received were reclassified to payables as the funds will be repaid and no shares will be issued.

### Stock options

The Company has an incentive stock options plan in place whereby, the maximum number of shares reserved for issue under the plan shall not exceed 10% of the issued and outstanding common shares of the Company from time to time. The maximum number of common shares reserved for issue to any individual director or officer under the plan cannot exceed 5% of the issued and outstanding number of common shares in any twelve-month period, the maximum number of common shares reserved for issue to all consultants cannot exceed 2% of the issued and outstanding number of common shares in any twelve-month period, and the maximum number of common shares reserved for issue to employees cannot exceed 2% of the issued and outstanding number of common shares in any twelve-month period. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX-V). Options may be granted for a maximum term of ten years from the date of the grant, are non-transferable, and expire within 90 days of termination of employment or holding office as director or officer of the Company and, in the case of death, expire by the earlier of within one year thereafter or the expiry date of the option. Upon death, the options may be exercised by legal representation or designated beneficiaries of the holder of the option.

The Company's stock option transactions are summarized as follows:

| | Number of options | Weighted average exercise price $ |
|---|---|---|
| Balance, October 31, 2016 | 7,200,000 | 0.05 |
| Exercised | (2,350,000) | 0.05 |
| **Balance, October 31, 2017 and 2018** | **4,850,000** | **0.05** |

**(Expressed in Canadian Dollars)**

## NOTE 9 – SHARE CAPITAL – *continued*

### Stock options - *continued*

The following table summarizes the options outstanding and exercisable at October 31, 2018:

| Exercise price | Number outstanding | Expiry date |
|---|---|---|
| $ | | |
| 0.05 | 2,150,000 | May 9, 2021 |
| 0.05 | 200,000 | June 16, 2021 |
| 0.05 | 800,000 | July 18, 2021 |
| 0.05 | 1,700,000 | August 17, 2021 |
| | **4,850,000** | |

The weighted average life of stock options outstanding at October 31, 2018 is 2.66 years.

### Warrants

During the year ended October 31, 2017, the Company:

- Granted 337,600 finder's warrants on June 16, 2016 in connection with the closing of the Company's private placement. The warrants are exercisable at $0.06 per share and expire two years from the date of issuance. The fair value attributable to these warrants of $9,539 using the Black-Scholes Option Pricing Model was applied to share issue costs.

The fair value of each warrant tranche granted is estimated at the time of the grant using the Black-Scholes Option Pricing Model with weighted average assumptions for grants as follows:

| | Year ended October 31, | |
|---|---|---|
| | **2018** | 2017 |
| Risk-free interest rate | **-** | 0.89% |
| Expected life | **-** | 2.00 |
| Annualized volatility | **-** | 136% |
| Dividend rate | **-** | - |

A summary of share purchase warrant activities are as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| | | $ |
| Balance, October 31, 2016 | 19,997,746 | 0.11 |
| Issued | 22,748,314 | 0.07 |
| Forfeited | (1,550,000) | 0.14 |
| Balance, October 31, 2017 | 41,196,060 | 0.08 |
| Issued | 50,000,000 | 0.05 |
| Forfeited | (17,693,039) | 0.10 |
| **Balance, October 31, 2018** | **73,503,021** | **0.06** |

**(Expressed in Canadian Dollars)**

## NOTE 9 – SHARE CAPITAL – *continued*

**Warrants -** ***continued***

A summary of the share purchase warrants outstanding at October 31, 2018 is as follows:

| Exercise price | Number outstanding | Expiry date |
|---|---|---|
| $ | | |
| 0.09 | 8,125,000 | November 30, 2018* |
| 0.15 | 754,707 | October 15, 2019 |
| 0.06 | 14,623,314 | June 30, 2019 |
| 0.05 | 50,000,000 | January 5, 2020 |
| | **73,503,021** | |

* *expired unexercised subsequent to the year end*

The weighted average life of warrants outstanding at October 31, 2018 is 0.95 years.

## NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payables, due from and to related parties, demand loan and promissory note approximates their carrying values. The Company's other financial instruments, being cash, reclamation bond, and available-for-sale financial asset are measured at fair value using Level 1 inputs.

## NOTE 11 – FINANCIAL RISK AND CAPITAL MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

**a) Credit risk**

Credit risk is the risk of loss associated with a counter party's inability to fulfill its payment obligations. The Company's primary exposure to credit risk is on its cash accounts. Cash accounts are held with major banks in Canada. The Company has deposited its cash with two major banks from which management believes the risk of loss is low.

**b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet liabilities when they become due. As at October 31, 2018, the Company had a cash balance of $195 to settle liabilities of $1,059,483. Liquidity risk is assessed as high.

## NOTE 11 – FINANCIAL RISK AND CAPITAL MANAGEMENT - *continued*

**c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Interest rate risk*

The Company has cash balances and interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

*Foreign currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and it has one property: the Castle Project, located in Canada. The Company is not exposed to foreign currency risk on its property.

The Company's available-for-sale financial asset is trading on the London Stock Exchange in British pounds (£). Each 1% change in the Canadian dollar versus the British pound will result in a gain/loss of approximately $250. Additionally, for every £0.01 change in the price of GRIT shares, the Company will realize a £3,300 net change in fair value, before taxes, on its investment.

*Commodity Price risk*

The ability of the Company to explore and develop its exploration and evaluation assets and the future profitability of the Company are directly related to the price of copper. The Company monitors copper prices to determine the appropriate course of action to be taken.

## NOTE 12 – CAPITAL DISCLOSURE AND MANAGEMENT

The Company considers its cash and share capital as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash. There was no change in the Company's approach to capital management during the year ended October 31, 2018.

## NOTE 13 – RELATED PARTY TRANSACTIONS

Related party transactions are as follows:

a) As at October 31, 2018, the Company owes certain officers, directors and related companies $384,324 (2017 - $161,601) for unpaid management fees and loans advanced to the Company.

b) As at October 31, 2018, the Company was owed $75,805 (2017 - $Nil) from a company with a common director.

c) As at October 31, 2018, the Company owes a shareholder with a 12.8% interest in the Company $15,216 (2017 - $12,936) for the demand loan payable which includes interest of $5,716 (2017 - $3,436). The demand loan bears interest at 24% per annum and has no specific date of repayment.

**(Expressed in Canadian Dollars)**

## NOTE 13 – RELATED PARTY TRANSACTIONS - *continued*

Amounts due from and owing by the Company are unsecured, non-interest bearing and have no specified terms of repayment. The summary of related party transactions is as follows:

| | **For the year ended October 31,** | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| Financing fees | **2,280** | - |
| Management fees | **180,000** | 184,500 |

## NOTE 14 – SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company entered into certain non-cash transactions that have been excluded from the statements of cash flows as follows:

| | **For the year ended October 31,** | |
|---|---|---|
| | **2018** | 2017 |
| | **$** | $ |
| Non-cash investing and financing activities: | | |
| Shares issued for exploration and evaluation assets | **-** | 22,500 |
| Value of share subscriptions transferred to share capital | **-** | 225,600 |
| Value of stock options transferred to share capital from reserves | **-** | 76,595 |
| Value of warrants transferred to share issue costs | **-** | 9,539 |
| Value of expired warrants transferred to deficit | **50,286** | 12,977 |
| Exploration and evaluation expenditures in accounts payable and accrued liabilities | **131,307** | 131,651 |
| Value of share subscriptions reclassified to payable | **40,000** | - |
| Net change in fair market value of available-for-sale financial asset | **(40,988)** | 15,825 |

## NOTE 15 – DEFERRED INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the corporate statutory income tax rates to the Company's loss before income taxes. The components of these differences are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **$** | **$** |
| Loss before income taxes | **732,065** | 1,899,802 |
| Effective statutory rate | **27.0%** | 26.0% |
| Expected tax recovery | **(196,000)** | (494,000) |
| | | |
| Increase (decrease) resulting from: | | |
| Change in valuation allowance | **260,000** | 485,000 |
| Effect on share issue costs recognized | **(1,000)** | (14,000) |
| Unrecognized items for tax purposes | **3,000** | 4,000 |
| Difference in tax rates in foreign jurisdiction and others | **(78,000)** | 19,000 |
| Change in corporate tax rate | **12,000** | **-** |
| Income tax recovery | **-** | - |

**(Expressed in Canadian Dollars)**

## NOTE 15 – DEFERRED INCOME TAXES - *continued*

The Company's tax-effected deferred income tax assets are made up as follows:

| | **2018** | 2017 |
|---|---|---|
| | **$** | $ |
| Deferred income tax assets: | | |
| Non-capital losses carried forward | **1,856,000** | 1,600,000 |
| Financing costs | **10,000** | 14,000 |
| Exploration and evaluation assets | **534,000** | 528,000 |
| Allowable capital losses | **29,000** | 27,000 |
| Others | **1,000** | 1,000 |
| | **2,430,000** | 2,170,000 |
| Less valuation allowance | **(2,430,000)** | (2,170,000) |
| | - | - |

Due to the uncertainty of realization of these loss carry-forwards, the benefit is not reflected in the financial statements as the Company has provided a full valuation allowance for the future tax assets resulting from these items.

The Company has non-capital loss carry forwards of approximately $6,872,525 which can be applied to reduce future taxable income in Canada expiring as follows:

| Year of Expiry | $ |
|---|---|
| 2028 | 1,192 |
| 2029 | 252,589 |
| 2030 | 500,134 |
| 2031 | 542,333 |
| 2032 | 696,109 |
| 2033 | 952,199 |
| 2034 | 785,109 |
| 2035 | 463,900 |
| 2036 | 1,033,056 |
| 2037 | 962,810 |
| 2038 | 683,094 |
| | 6,872,525 |

## NOTE 16 – SUBSEQUENT EVENTS

Subsequent to the year-end, 8,125,000 share purchase warrants with an exercise price of $0.09 per share expired unexercised.