# KUTCHO COPPER CORP.

**Condensed Consolidated Interim Financial Statements**

**January 31, 2019**

**Expressed in Canadian Dollars**

**(Unaudited – prepared by management)**

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the entity's auditor.

KUTCHO COPPER CORP.
Condensed consolidated interim statements of financial position
(Expressed in Canadian dollars - unaudited)

| | Notes | January 31, 2019 | April 30, 2018 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | | $ 123,552 | $ 4,216,318 |
| Receivables | 5 | 528,638 | 203,865 |
| Advance | 8 | - | 428,046 |
| Prepaid expenses | | 508,473 | 628,268 |
| Marketable securities | 6,16 | 52,623 | 180,341 |
| | | 1,213,286 | 5,656,838 |
| **Non-current assets** | | | |
| Equipment | 7 | 24,883 | 24,420 |
| Prepaid expenses | | - | 318,750 |
| Reclamation deposit | 8 | 160,000 | 50,000 |
| Exploration and evaluation assets | 4,8 | 44,560,399 | 32,394,412 |
| | | 44,745,282 | 32,787,582 |
| **TOTAL ASSETS** | | **$ 45,958,568** | **$ 38,444,420** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables and accrued liabilities | 10,16 | $ 819,424 | $ 308,321 |
| **Long-term liabilities** | | | |
| Convertible notes | 11(b) | 19,975,560 | 18,178,662 |
| Deposit liability | 9 | 9,200,800 | 4,484,200 |
| Asset retirement obligation | 13 | 160,000 | 50,000 |
| | | 29,336,360 | 22,712,862 |
| **TOTAL LIABILITIES** | | 30,155,784 | 23,021,183 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 14 | 40,000,811 | 36,239,376 |
| Share-based payment reserve | 15 | 3,082,672 | 2,417,045 |
| Convertible note reserve | 15 | 1,762,005 | 1,762,005 |
| Deficit | | (29,042,704) | (24,995,189) |
| **TOTAL SHAREHOLERS' EQUITY** | | 15,802,784 | 15,423,237 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 45,958,568** | **$ 38,444,420** |

Nature and continuance of operations (Note 1)
Subsequent events (Note 18)

Approved and authorized for issuance on behalf of the Board of Directors on March 13, 2019:

| | |
|---|---|
| *"Vince Sorace"* | *"Jay Sujir"* |
| Vince Sorace – Director | Jay Sujir – Director |

KUTCHO COPPER CORP.
Condensed consolidated interim statements of comprehensive loss
(Expressed in Canadian dollars - unaudited)

| | Notes | Three Months Ended January 31, 2019 | Three Months Ended January 31, 2018 | Nine Months Ended January 31, 2019 | Nine Months Ended January 31, 2018 |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Consulting fees | 16 | $ 2,709 | $ 33,063 | $ 44,457 | $ 135,340 |
| Depreciation | 7 | 2,220 | - | 6,660 | - |
| Directors' fees | 16 | 24,434 | - | 73,289 | - |
| Finance expense | 9 | - | 540,330 | - | 540,330 |
| Interest and accretion expense | 11 | 599,208 | 512,175 | 1,796,898 | 523,024 |
| Management fees | 16 | 97,125 | 90,250 | 275,417 | 239,000 |
| Marketing and promotion | | 119,640 | 125,178 | 433,834 | 125,178 |
| Office and miscellaneous | | 68,318 | 56,706 | 228,679 | 63,274 |
| Professional fees | | 12,345 | 166,200 | 99,667 | 251,108 |
| Property investigation | | 40,754 | (345) | 44,141 | 236,429 |
| Rent | | 47,000 | 24,000 | 131,000 | 70,000 |
| Stock based compensation | 14,16 | 149,335 | 163,839 | 606,067 | 163,839 |
| Transfer agent and filing fees | | 26,964 | 47,389 | 53,975 | 60,774 |
| Travel | | 670 | 2,748 | 21,821 | 41,418 |
| | | (1,190,722) | (1,761,533) | (3,815,905) | (2,449,714) |
| **Other (income) expenses** | | | | | |
| Interest income | | - | (2,284) | (308) | (2,284) |
| Unrealized loss on marketable securities | 6 | 23,452 | 51,533 | 127,718 | 168,059 |
| Foreign exchange loss | | 134,752 | 413 | 104,200 | 47 |
| | | (158,204) | (49,662) | (231,610) | (165,822) |
| **Net and comprehensive loss** | | **$ (1,348,926)** | **$ (1,811,195)** | **$ (4,047,515)** | **$ (2,615,536)** |
| **Loss per share – basic and diluted** | 14 | **$ (0.02)** | **$ (0.05)** | **$ (0.08)** | **$ (0.11)** |

KUTCHO COPPER CORP.

Condensed consolidated interim statement of changes in shareholders' equity

(Expressed in Canadian dollars - unaudited)

| | Notes | Share capital | | Subscriptions received | Share-based payment reserve | Convertible notes reserve | Deficit | Total |
|---|---|---|---|---|---|---|---|---|
| | | Number of shares | Amount | | | | | |
| **Balance, April 30, 2017** | | **16,447,881** | **$ 19,342,126** | **$ 75,000** | **$ 1,729,834** | **$ 6,522** | **$ (21,028,617)** | **$ 124,865** |
| Shares issued for cash – private placement, net of share issue costs | 14 | 25,074,307 | 13,209,261 | - | 219,014 | - | - | 13,428,275 |
| Subscriptions received | 14 | - | - | (75,000) | - | - | - | (75,000) |
| Shares issued for acquisition | 4,14 | 4,646,892 | 3,020,480 | - | - | - | - | 3,020,480 |
| Shares issued as finder fee on convertible note | 11(b), 14 | 769,230 | 499,999 | - | - | - | - | 499,999 |
| Shares issued on conversion of convertible notes | 11(a), 14 | 681,818 | 150,000 | - | 6,522 | (6,522) | - | 150,000 |
| Shares issued for cash – exercise of options | 14 | 77,500 | 44,649 | | (8,649) | - | - | 36,000 |
| Shares issued for cash – exercise of warrants | 14 | 72,750 | 58,040 | - | (28,940) | - | - | 29,100 |
| Equity component of convertible note | 11(b) | - | - | - | - | 1,762,005 | - | 1,762,005 |
| Stock-based compensation | 14,15,16 | - | - | - | 163,839 | - | - | 163,839 |
| Net and comprehensive loss | | - | - | - | - | - | (2,615,536) | (2,615,536) |
| **Balance, January 31, 2018** | | **47,770,378** | **$ 36,324,555** | **$ -** | **$ 2,081,620** | **$ 1,762,005** | **$ (23,644,153)** | **$ 16,524,027** |
| | | | | | | | | |
| **Balance, April 30, 2018** | | **47,795,378** | **$ 36,239,376** | **$ -** | **$ 2,417,045** | **$ 1,762,005** | **$ (24,995,189)** | **$ 15,423,237** |
| Shares issued for cash – private placement, net of share issue costs | 14 | 9,200,000 | 3,661,135 | - | 73,960 | - | - | 3,735,095 |
| Shares issued for cash – exercise of warrants | 14 | 252,250 | 100,300 | - | (14,400) | - | - | 85,900 |
| Stock-based compensation | 14,15,16 | - | - | - | 606,067 | - | - | 606,067 |
| Net and comprehensive loss | | - | - | - | - | - | (4,047,515) | (4,047,515) |
| **Balance, January 31, 2019** | | **57,247,628** | **$ 40,000,811** | **$ -** | **$ 3,082,672** | **$ 1,762,005** | **$ (29,042,704)** | **$ 15,802,784** |

KUTCHO COPPER CORP.
Condensed consolidated interim statements of cash flows
(Expressed in Canadian dollars - unaudited)

| | Nine Months Ended January 31, 2019 | 2018 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (4,047,515) | $ (2,615,536) |
| Adjustment for non-cash items | | |
| Depreciation | 6,660 | - |
| Accretion of convertible notes | 284,569 | 243,471 |
| Interest expense accrued | 1,512,329 | 253,835 |
| Unrealized loss on marketable securities | 127,718 | 168,059 |
| Stock based compensation | 606,067 | 163,839 |
| Foreign exchange | 138,250 | - |
| Changes in non-cash working capital items: | | |
| Receivables | (324,773) | (119,164) |
| Prepaid expenses | 438,545 | (1,126,136) |
| Advances | 428,046 | - |
| Trade payables and accrued liabilities | (106,556) | 342,173 |
| **Net cash flows used in operating activities** | (936,660) | (2,689,459) |
| **Financing activities** | | |
| Issuance of stock, net of issuance costs | 3,805,095 | 13,428,275 |
| Convertible notes proceeds, net of costs | - | 19,556,000 |
| Deposit liability | 4,578,350 | - |
| Proceeds on exercise of options | - | 36,000 |
| Proceeds on exercise of warrants | 85,900 | 29,100 |
| Loan proceeds | - | 138,000 |
| Loan repayment | - | (138,000) |
| Subscriptions received | - | (75,000) |
| **Net cash flows provided by financing activities** | 8,469,345 | 32,974,375 |
| **Investing activities** | | |
| Exploration and evaluation asset expenditures | (11,508,328) | (28,890,816) |
| Cash on acquisition of subsidiary | - | 37,983 |
| Software | (7,123) | (26,641) |
| Reclamation deposit | (110,000) | - |
| **Net cash flows used in investing activities** | (11,625,451) | (28,879,474) |
| Increase (decrease) in cash | (4,092,766) | 1,405,442 |
| Cash, beginning | 4,216,318 | 406 |
| **Cash, ending** | **$ 123,552** | **$ 1,405,848** |

**1. Nature and continuance of operation**

Kutcho Copper Corp. (formerly Desert Star Resources Ltd.) (the "Company") was formed by the amalgamation of companies which became effective on April 15, 2015. On December 14, 2017, a wholly owned subsidiary, Kutcho Copper Holdings Corp. ("KC Holdings") completed the acquisition of Kutcho Copper Corp. ("KCC") by way of an amalgamation as disclosed in Note 4. The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the trading symbol "KC".

The Company's principal activity is the acquisition and exploration of resource properties and has not yet been able to determine whether any of these properties contain resource reserves that are economically recoverable.

The principal address of the Company is 1030 West Georgia Street, Suite 717, Vancouver, British Columbia, Canada, V6E 2Y3.

These condensed consolidated interim 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 January 31, 2019, the Company 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 attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that 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 cash on hand, loans or private placement of common shares.

**2. Significant accounting policies and basis of preparation**

***Basis of preparation and statement of compliance***

The condensed consolidated interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The condensed consolidated interim financial statements do not include all of the information required of full annual financial statements and are intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended April 30, 2018. However, these condensed consolidated interim financial statements provide selected significant disclosures that are required in the annual financial statements under IFRS.

The condensed consolidated interim financial statements have been prepared on an accrual basis, based on historical costs. The condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

**2. Significant accounting policies and basis of preparation** (cont'd)

***Consolidation***

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, KC Holdings and Kutcho Copper (USA) Inc. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

***Significant estimates and assumptions***

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

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

***Significant judgments***

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses;
- the classification of financial instruments; and
- the determination of the functional currency of the parent company and its subsidiaries.

**3. Accounting standards**

***Recently adopted accounting standards***

IFRS 9 – The Company has initially adopted IFRS 9 on May 1, 2018. IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. There was no material impact to the Company's financial statements as a result of the transitioning to IFRS 9 and no prior period amounts were restated.

***Issued but not yet effective accounting standards***

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

(Expressed in Canadian dollars - unaudited)

## 4. Acquisition of KCC

On December 14, 2017, the Company acquired all of the outstanding share capital of KCC from Capstone Mining Corp. ("Capstone") (the "Acquisition"). KCC held a 100% interest in the Kutcho copper-zinc-gold-silver project ("Kutcho"). The Company paid a total cash consideration of $28.8 million and issued 4,646,892 common shares of the Company with a fair value of $0.65 per share, to Capstone. Concurrently, KC Holdings and KCC amalgamated to form a wholly owned subsidiary of the Company (Note 14).

The Acquisition has been treated as an asset acquisition in respect of the mineral property interests in KCC, resulting in capitalization of the consideration and other related costs. The estimated fair value attributable to exploration and evaluation assets was allocated to the acquired Kutcho project. The purchase price consideration was allocated as follows:

| | | |
|---|---|---|
| Cash consideration and fair value of common shares issued | $ | 31,820,480 |
| Exploration and evaluation assets (Note 8) | $ | 31,835,630 |
| Net assets acquired | | 39,350 |
| Transaction costs | | (54,500) |
| | $ | 31,820,480 |

## 5. Receivables

| | | January 31, 2019 | | April 30, 2018 |
|---|---|---|---|---|
| Sales taxes recoverable | $ | 528,638 | $ | 193,623 |
| Other receivables | | - | | 10,242 |
| | $ | 528,638 | $ | 203,865 |

## 6. Marketable securities

The Company holds 500,000 shares and 250,000 warrants of QX Metals Inc. (formerly Black Sea Copper & Gold Corp.) ("QX Metals"), a company listed on the TSXV and related to the Company by way of common directors and officers. Each warrant is exercisable to acquire an additional common share of the QX Metals at a price of $0.60 per share for period ending November 25, 2019. The cost of these securities was $300,000. QX Metals is a discovery-focused mineral exploration company that strives to make high-reward discoveries in regions with proven mineral wealth. This investment is measured at its fair value. At January 31, 2019, the Company recorded an unrealized loss of $127,718 (2018: $168,059) relating to the investment in QX Metals. The fair value of the shares at January 31, 2019 is $52,500 (April 30, 2018 - $165,000) and was determined as the underlying market price of the shares. The fair value of the warrants at January 31, 2019 is $123 (April 30, 2018 - $15,341) which was determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free rate of 1.09%; Expected life of 0.82 years; Expected volatility of 112% and dividend yield of nil (Notes 12 and 16).

(Expressed in Canadian dollars - unaudited)

## 7. Equipment

| | | Computer software |
|---|---|---|
| **Cost** | | |
| Balance as at April 30, 2017 | $ | - |
| Addition | | 26,640 |
| Balance as at April 30, 2018 | $ | 26,640 |
| Addition | | 7,123 |
| Balance as at January 31, 2019 | $ | 33,763 |
| | | |
| **Accumulated depreciation** | | |
| Balance as at April 30, 2017 | $ | - |
| Depreciation for the year | | 2,220 |
| Balance at April 30, 2018 | | 2,220 |
| Depreciation for the period | | 6,660 |
| Balance at January 31, 2019 | $ | 8,880 |
| | | |
| Net book value as at January 31, 2019 | $ | 24,883 |
| Net book value as at April 30, 2018 | $ | 24,420 |

## 8. Exploration and evaluation assets

| | Kutcho | TCS | January 31, 2019 | April 30, 2018 |
|---|---|---|---|---|
| **Property acquisition costs** | | | | |
| Balance, beginning | $ 31,835,630 | $ 28,642 | $ 31,864,272 | $ - |
| Additions | 16,740 | - | 16,740 | 31,864,272 |
| **Balance, ending** | 31,852,370 | 28,642 | 31,881,012 | 31,864,272 |
| **Exploration and evaluation costs** | | | | |
| Balance, beginning | 530,140 | - | 530,140 | - |
| Corporate social responsibility | 708,196 | - | 708,196 | 164,538 |
| Environmental | 3,481,527 | - | 3,481,527 | 59,029 |
| Permitting | 321,830 | - | 321,830 | - |
| Geotechnical | 2,650,919 | - | 2,650,919 | 10,736 |
| Metallurgy | 1,089,965 | - | 1,089,965 | 3,849 |
| Engineering | 1,553,123 | - | 1,553,123 | 20,160 |
| Exploration | 489,988 | - | 489,988 | 3,321 |
| Resource | 1,455,468 | - | 1,455,468 | 4,566 |
| General | 248,629 | 39,602 | 288,231 | 263,941 |
| Asset retirement obligation | 110,000 | - | 110,000 | - |
| **Balance, ending** | 12,639,785 | 39,602 | 12,679,387 | 530,140 |
| **Total** | $ 44,492,155 | $ 68,244 | $ 44,560,399 | $ 32,394,412 |

**8. Exploration and evaluation assets** (cont'd)

*Kutcho, Canada*

The Kutcho project located in northern British Columbia, approximately 100 kilometres east of Dease Lake and Highway 37, and consists of one mining lease and 54 mineral exploration claims encompassing 23,943 Hectares, owned by the Company's subsidiary, KC Holdings. The Company allocated a cost of $31,835,630 to this property on the acquisition of KCC (Note 4). In addition, the carrying value of the project in the accounts of KCC on acquisition included a reclamation bond of $50,000. During the period ended January 31, 2019, the reclamation bond increased by $110,000 (Note 13). The full amount of the reclamation deposit of $160,000 is held by regulatory authorities and will be released to the Company on satisfactory restoration of the properties.

In January 2018, the Company entered into a consulting agreement for the management of various aspects of a feasibility study on the project. The agreement required the Company to pay cash calls in advance of work being carried out by the consultants. A cash call balance of $Nil remained at January 31, 2019 (April 30, 2018: $428,046) for work to be undertaken in future periods.

*TCS, Canada*

On March 29, 2018, the Company signed and option agreement to acquire 100% interest in the TCS property located in northern British Columbia, Canada. In order to earn the 100% interest, the Company is required to make cash payments of $145,000 and issue 150,000 common shares over a period of four years. The optionors will retain a 2% net smelter royalty ("NSR") on the property, of which 1% can be bought for $500,000 on or before the first indicated resource estimate is published, for $750,000 on or before a Preliminary Economic Assessment or more stringent economic study is published, and $1,250,000 thereafter. As at April 30, 2018, the Company had paid $10,000 in cash and issued 25,000 shares with a fair value of $10,600 (Note 14).

Once the option is exercised, the Company will be required to make annual advance royalty payments of $10,000 for five years, increasing to $20,000 per year thereafter.

**9. Precious Metals Purchase Agreement**

On December 14, 2017, the Company entered into a definitive US$65 million Precious Metals Purchase Agreement (the "PMPA") with Wheaton Precious Metals Corp. ("Wheaton") in respect to the Kutcho project. Under the principal terms, Wheaton will pay the Company staged cash payments totaling US$65 million for 100% of the silver and gold production from Kutcho until 5.6 million ounces of silver and 51,000 ounces of gold have been delivered, at which point the stream will decrease to 66.67% of the silver and gold production for the life of the mine. Wheaton will make an ongoing cash payment equal to 20% of the applicable spot price of silver and gold for each ounce delivered under the agreement. The Company is entitled to receive US$7 million on an early deposit basis to fund Feasibility Study expenditures at Kutcho. The Company received the first installment of US$3.5 million ($4,484,200) on April 3, 2018 and the second installment of US$3.5 million ($4,578,350) on August 17, 2018. As of January 31, 2019, the Company recorded a foreign exchange loss of $138,250 regarding the early deposit for a total deposit liability balance of $9,200,800. The balance of the US$65 million is payable in installments during construction of Kutcho. Wheaton would make an additional payment of up to US$20 million should the processing throughput at Kutcho be increased to 4,500 tons per day or more within 5 years of attaining commercial production. An agent received an advisory fee of $540,330 (US$420,000) in connection with the PMPA.

(Expressed in Canadian dollars - unaudited)

**9. Precious Metals Purchase Agreement** (cont'd)

The PMPA is subject to a "Back-In Right" clause, whereby RGLD Gold Canada Inc. ("Royal Gold") has an option to exercise a Back-In Right to earn a 50% interest in certain claims of the Kutcho project. If Royal Gold exercises the Back-In Right option, Wheaton is entitled to repayment of the deposits in cash plus payment of an additional amount to give Wheaton a specific internal rate of return on the deposits, or a reduction of the percentages of gold and silver payable and reduction of the deposit to US$7 million.

Wheaton may terminate the PMPA at any point up to 90 days following delivery of a feasibility study, in which case all early deposit amounts advanced less US$1,000,000 will become repayable in cash, with the deferral of cash payments under certain conditions for up to two years.

The PMPA is secured by all present and after-acquired property and assets of the Company.

**10. Trade payables and accrued liabilities**

| | January 31, 2019 | April 30, 2018 |
|---|---|---|
| Trade payables (Note 16) | $ 748,172 | $ 171,916 |
| Accrued liabilities | 70,000 | 135,159 |
| Payroll liabilities | 1,252 | 1,246 |
| | $ 819,424 | $ 308,321 |

**11. Convertible notes**

(a) On February 23, 2017, the Company closed a non-brokered private placement of convertible notes of the Company for gross proceeds of $150,000. The convertible notes were to mature after one year and bear interest at the rate of 10% per annum calculated quarterly and payable at maturity. On January 10, 2018, the lenders converted the principal amount into 681,818 units of the Company at a value of $0.22 per unit, each unit comprising of one common share and one transferable common share purchase warrant. Each warrant is exercisable for one common share of the Company at $0.40 per share.

The notes were compound financial instruments as they included both liability and equity components. On initial recognition, the Company determined the fair value of the liability component on the date of issue to be $143,478. The fair value of the liability was determined by calculating the fair value of the future cash flows of the loan assuming a discount rate of 15%. The equity component was determined to be $6,522, which comprises the proceeds less the liability component. The debt component of the convertible notes was accreted over the term to maturity, with accretion charge included in interest expense.

Details of movements in the convertible notes balances are as follows:

| | January 31, 2019 | April 30, 2018 |
|---|---|---|
| Balance, beginning of period | $ - | $ 148,356 |
| Amount advanced | - | - |
| Conversion | - | (150,000) |
| Equity component of convertible debenture | - | - |
| Accretion of convertible debentures | - | 5,343 |
| Interest accrued | - | 10,479 |
| Interest paid | - | (14,178) |
| Balance, end of period | $ - | $ - |

(Expressed in Canadian dollars - unaudited)

**11. Convertible notes** (cont'd)

(b) On December 14, 2017, the Company closed a Term Debt Loan with Wheaton for gross proceeds of $20 million. The proceeds of the Term Debt Loan were used in full to pay part of the cash portion of the purchase price of the KCC acquisition. The Term Debt Loan is secured by all assets of the Company relating to Kutcho, is to mature after 7 years and bears interest at the rate of 10% per annum payable semi-annually, with the first three payments being deferred until 24 months after closing. One-half of the deferred payments will be paid in cash and one-half of the deferred payments may be either paid in cash or added to the principal amount at the Company's option. Wheaton has the option to convert all or a portion of the principal amount into shares of the Company at $0.8125 per share. The Company may repay the loan in full after 24 months, subject to penalties ranging from 15% to 25%, depending on the date of repayment.

The loan is a compound financial instrument as it includes both liability and equity components. On initial recognition, the Company determined the fair value of the liability component on the date of issue to be $18,150,709. The fair value of the liability was determined by calculating the fair value of the future cash flows of the loan assuming a discount rate of 12%. The equity component was determined to be $1,849,291, which comprises the proceeds less the liability component. The debt component of the convertible notes is being accreted over the term to maturity, with accretion charge included in interest expense.

In connection with the Term Debt Loan, an agent received a finance advisory fee of $899,999, of which $400,000 was paid in cash and the balance through the issuance of 769,230 common shares of the Company with a fair value of $499,999 (Note 14). The Company paid other transaction costs of $44,000 related to the issuance of the Term Debt Loan. Total transaction costs of $943,999 were allocated to the liability and equity components on the same basis as the allocation of proceeds, with $856,713 being deferred against the convertible debt and $87,286 being allocated against the equity component, for a net equity component of $1,762,005.

Details of movements in the convertible loan balance are as follows:

| | January 31, 2019 | April 30, 2018 |
|---|---|---|
| Balance, beginning of period | $ 18,178,662 | $ - |
| Amount advanced | - | 20,000,000 |
| Equity component of convertible debenture | - | (1,762,005) |
| Deferred financing costs | 92,473 | (943,999) |
| Accretion of convertible debentures | 192,096 | 139,461 |
| Interest accrued | 1,512,329 | 745,205 |
| Balance, end of period | $ 19,975,560 | $ 18,178,662 |

**12. Loans payable**

The Company entered into a loan agreement with a party related by common directors and officers on October 30, 2017, as amended on November 15, 2017, to borrow an amount of up to $150,000 to be used for working capital needs. The loan bore interest at 10% per annum and other fees of $10,000 and was repayable three months from the advance date of October 30, 2017. The loan was secured by 333,334 shares of QX Metals (Notes 6 and 16). On December 19, 2017, the Company repaid the borrowed principal in the amount of $138,000 plus accrued interest and other fees under the loan agreement of $11,541.

**13. Asset retirement obligation**

The Company allocated $50,000 as part of the purchase price equation of the Kutcho project acquisition on December 14, 2017, to future site restoration costs (Note 4). During the period ended January 31, 2019, the Company increased the asset retirement obligation to $160,000 based on the current estimate of future restoration costs (Note 8).

## 14. Share capital

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

Effective August 30, 2016, the Company completed a share consolidation on the basis of two existing common shares for one post-consolidation common share. Effective May 1, 2017, the Company completed a further share consolidation on the basis of two existing common shares for one post-consolidation common share. All common share and per common share, warrant and option information in these consolidated financial statements have been retroactively restated to reflect the share consolidations.

At January 31, 2019, there were 57,247,628 issued and fully paid common shares (April 30, 2018 – 47,795,378).

***Share issuances***

<u>*Period ended January 31, 2019:*</u>

On August 15, 2018 the Company completed a short form prospectus offering consisting of 9,200,000 flow-through shares at a price of $0.45 per share, for gross proceeds of $4,140,000. The Company paid a 6% cash commission of $248,400 to the agents, incurred other share issue costs of $156,505, and issued 552,000 warrants to agents, which are exercisable at $0.45 for 24 months from closing. The broker warrants have fair value of $73,960 which was recorded as a share issue cost. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free rate of between 2.07% and 2.19%; Expected life of 2 years; Expected volatility between 86% and 100% and dividend yield of $Nil.

During the period ended January 31, 2019, the Company issued 200,000 common shares upon exercise of warrants with prices ranging from $0.25 to $0.40 and 52,250 common shares upon exercise of broker warrants at an exercise price of $0.40 for total cash proceeds of $85,900. As a result, $14,401 was transferred from share-based payment reserve to share capital.

<u>*Year ended April 30, 2018:*</u>

On May 1, 2017, the Company closed a non-brokered private placement comprising of 2,500,000 units at a price of $0.20 per unit for gross proceeds of $500,000. Each unit is comprised of one post-consolidation common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one post-consolidation common share of the Company at an exercise price of $0.25 per share until May 1, 2019. The Company held $75,000 in cash as at April 30, 2017, for subscriptions received in connection for the closing of the private placement.

On December 8, 2017, the Company closed a private placement of 22,574,307 subscription receipts of its wholly-owned subsidiary, KC Holdings, at a price of $0.65 per subscription receipt for gross proceeds of $14,673,300. Each subscription receipt ultimately entitled the holder to receive one unit of the Company, consisting of one common share of the Company and one-half of one common share purchase warrant. Each purchase warrant entitles the holder to purchase one common share of the Company at an exercise price of $1.00 per share for a period of 36 months from the date of the conversion of the subscription receipts into the underlying units. The subscription receipts were converted into the underlying units on December 14, 2017 upon closing of Kutcho acquisition (Note 4). The Company paid a 6% cash commission and finders' fees of $1,412,798, incurred other share issuance costs of $412,227, and issued 507,088 broker

(Expressed in Canadian dollars - unaudited)

**14. Share capital** (cont'd)

***Share issuances*** (cont'd)

*Year ended April 30, 2018 (cont'd):*

warrants in relation to the financing. Each broker warrant is exercisable for one common share of the Company for period of 24 months from December 14, 2017 at an exercise price of $0.65 per common share. The broker warrants have a fair value of $219,014 which was recorded as a share issue cost. The fair value was determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free rate of 1.43%; Expected life of 2 years; Expected volatility of 143% and dividend yield of $Nil.

On December 14, 2017, the Company issued 4,646,892 common shares with a fair value of $3,020,480 as part consideration for the Acquisition (Note 4).

On December 14, 2017, the Company issued 769,230 common shares with a fair value of $499,999 as a finance fee in connection to the Term Debt Loan (Note 11 (b)).

On January 10, 2018, the Company issued 681,818 units upon conversion of convertible notes (Note 11(a)). Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at an exercise price of $0.40 per share until July 10, 2019.

On April 30, 2018, the Company issued 25,000 common shares with a fair value of $0.424 per share pursuant to the TCS property option agreement (Note 8).

During the year ended April 30, 2018, a total of 77,500 common shares were issued upon the exercise of stock options at prices between $0.40 and $0.73 per share for total cash proceeds of $36,000. As a result, $8,649 was transferred from share-based payment reserve to share capital.

During the year ended April 30, 2018, the Company issued 25,000 common shares upon exercise of warrants and 47,750 common shares upon exercise of broker warrants at an exercise price of $0.40 per share for total cash proceeds of $29,100. As a result, $13,161 was transferred from share-based payment reserve to share capital.

***Warrants***

Share purchase warrant transactions are summarized as follows:

| | Number of Warrants | Weighted average exercise price |
|---|---|---|
| Outstanding, April 30, 2017 | 11,174,059 | $ 0.74 |
| Issued | 14,976,056 | 0.83 |
| Exercised | (72,750) | 0.40 |
| Expired | (7,739,559) | 0.89 |
| Outstanding, April 30, 2018 | 18,337,806 | 0.75 |
| Issued | 552,000 | 0.45 |
| Exercised | (252,250) | 0.34 |
| Expired | (2,934,500) | 0.40 |
| Outstanding, January 31, 2019 | 15,703,056 | $ 0.82 |

(Expressed in Canadian dollars - unaudited)

**14. Share capital** (cont'd)

***Warrants*** *(cont'd)*

Details of warrants outstanding as at January 31, 2019 are as follows:

| Exercise Price | Expiry Date | Balance, end of period |
|---|---|---|
| $0.40 | August 28, 2019 | 275,000 |
| $0.25 | May 1, 2019 | 2,400,000 |
| $0.40 | July 10, 2019 | 681,818 |
| $0.65 | December 14, 2019 | 507,088 |
| $1.00 | December 14, 2020 | 11,287,150 |
| $0.45 | August 15, 2020 | 480,000 |
| $0.45 | September 28, 2020 | 72,000 |
| | | 15,703,056 |

At January 31, 2019, the weighted-average remaining contractual life of warrants outstanding was 1.53 years.

On August 15, 2018, the Company extended the expiry of 275,000 share purchase warrants issued as part of a unit private placement for one year to August 28, 2019.

***Stock options***

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time-to-time, in its discretion, and in accordance with the TSXV requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed a rolling 10% of the Company's issued and outstanding common shares at the time the options are granted.

Stock option transactions are summarized as follows:

| | Number of options | Weighted average exercise price |
|---|---|---|
| Options outstanding, April 30, 2017 | 1,395,000 | $ 0.54 |
| Granted | 3,274,000 | 0.65 |
| Exercised | (77,500) | 0.46 |
| Expired | (518,750) | 0.65 |
| Options outstanding, April 30, 2018 | 4,072,750 | 0.62 |
| Granted | 2,055,000 | 0.39 |
| Expired | (676,250) | 0.61 |
| Options outstanding, January 31, 2019 | 5,451,500 | $ 0.53 |

(Expressed in Canadian dollars - unaudited)

**14. Share capital** (cont'd)

***Options*** *(cont'd)*

Details of options outstanding as at January 31, 2019 are as follows:

| Exercise Price | Expiry Date | Balance, end of period |
|---|---|---|
| $1.00 | September 23, 2019 | 25,000 |
| $0.80 | February 16, 2020 | 42,500 |
| $0.80 | May 20, 2020 | 25,000 |
| $0.40 | September 27, 2021 | 455,000 |
| $0.40 | December 5, 2021 | 100,000 |
| $0.65 | December 14, 2022 | 2,649,000 |
| $0.75 | January 22, 2023 | 100,000 |
| $0.60 | July 4, 2023 | 350,000 |
| $0.35 | January 21, 2024 | 1,705,000 |
| | | 5,451,500 |

At January 31, 2019, the weighted-average remaining contractual life of options outstanding was 4.09 years.

*Period ended January 31, 2019:*

On July 4, 2018, the Company granted 350,000 stock options to an officer of the Company at an exercise price of $0.60 per common share for a period of five years ending July 4, 2023. The options vest in four equal parts over two years ending on July 4, 2020. The total value of these options on grant date was $121,095 and the Company recognized $68,148 in share based compensation expense for the portion of options vested during the period ended January 31, 2019, determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 2.07%; Expected life of 5 years; Expected volatility of 121% and dividend yield of nil.

On January 21, 2019, the Company granted 1,705,000 stock options to officers, directors and consultants of the Company at an exercise price of $0.35 per common share for a period of five years ending January 21, 2014. The options vest in four equal parts over two years ending on January 21, 2021. The total value of these options on grant date was $398,472 and the Company recognized $11,417 in share based compensation expense for the options vested during the period ended January 31, 2019, determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.95%; Expected life of 5 years; Expected volatility of 115% and dividend yield of nil.

*Year ended April 30, 2018:*

On December 14, 2017, the Company granted 3,174,000 stock options to directors, officers and consultants of the Company at an exercise price of $0.65 per common share for a period of five years ending December 14, 2022. The options vest in four equal parts over two years ending on December 14, 2019. The total value of these options on grant date was $1,179,888. The Company recognized $461,991 in share based compensation expense for the portion of options vested during the year ended April 30, 2018 and $489,668 during the period ended January 31, 2019. The value of the stock options was determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.76%; Expected life of 5 years; Expected volatility of 128% and dividend yield of nil.

(Expressed in Canadian dollars - unaudited)

**14. Share capital** (cont'd)

***Options** (cont'd)*

On January 22, 2018, the Company granted 100,000 stock options to a consultant of the Company at an exercise price of $0.75 per common share for a period of five years ending January 22, 2023. The options will vest in three equal parts over eighteen months ending on July 22, 2019. The total value of these options on grant date was $65,172. The Company recognized $21,494 in share based compensation expense for the portion of options vested during the year ended April 30, 2018 and $36,834 during the period ended January 31, 2019. The value of the options was determined using the Black-Scholes Option Pricing Model with the following assumptions: Risk free interest rate of 1.76%; Expected life of 5 years; Expected volatility of 129% and dividend yield of nil.

***Loss per share***

The calculation of basic and diluted loss per share for the nine months ended January 31, 2019 and 2018 was based on the loss attributed to common shareholders of $4,047,515 (2018 – $2,615,822) and the weighted average number of common shares outstanding of 53,365,745 (2018 – 24,422,028).

The calculation of basic and diluted loss per share for the three months ended January 31, 2019 and 2018 was based on the loss attributed to common shareholders of $1,348,926 (2018 – $1,811,195) and the weighted average number of common shares outstanding of 57,147,628 (2018 – 35,397,496).

**15. Reserves**

***Share-based payment reserve***

The share-based payment reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded is transferred to deficit.

***Convertible note reserve***

The convertible debt reserve records the equity component of convertible debt with liability and equity components. On conversion, the amount recorded is transferred to share capital.

**16. Related party transactions**

The Company holds 500,000 shares and 250,000 warrants acquired at a cost of $250,000 in QX Metals, a TSXV listed company with directors and officers in common (Note 6).

The Company borrowed $138,000 from a company with directors and officers in common during the year ended April 30, 2018. The principal together with interest and other fees was repaid during the year. The loan was secured by 333,334 QX Metals shares (Notes 6 and 12).

Key management compensation is as follows:

| | Three Months ended January 31, | | Nine Months ended January 31, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Aggregate cash compensation | $ 245,175 | $ 84,000 | $ 703,754 | $ 232,750 |
| Stock based compensation | 129,837 | 138,968 | 504,086 | 138,968 |
| | $ 375,012 | $ 222,968 | $ 1,207,840 | $ 371,718 |

Trade payables and accrued liabilities at January 31, 2019 include $4,684 (April 30, 2018 - $15,417) in unpaid expenses and fees to an officer of the Company (Note 10).

**17. 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:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. This risk is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its receivables. This risk is minimal.

***Foreign exchange risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is exposed to currency risk as it incurs expenditures that are denominated in US dollars while its functional currency is the Canadian dollar. The Company does not hedge its exposure to fluctuations in foreign exchange rates. Cash balances of $62,097 are held in US dollars at January 31, 2019.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding. This risk is considered to be high.

***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments have original maturities of three months or less and are therefore exposed to interest rate fluctuations on renewal. This risk is considered to be minimal.

***Capital management***

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit.

There were no changes in the Company's approach to capital management during the period.

The Company is not subject to any externally imposed capital requirements.

**17. Financial risk and capital management** (cont'd)

***Fair value***

The fair value of the Group's financial assets and liabilities approximates the carrying amount.

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 Company's cash and marketable securities are measured at fair value. Cash is measured using level 1 inputs. The fair value of the Company's investment in the shares of a public company is measured using level 1 inputs. The fair value was determined by reference to the underlying share price quoted on the open market at the reporting date. The fair value of the Company's investment in the warrants of a public company is measured using level 3 inputs. The fair value was determined by through calculation using the Black–Scholes Option Pricing Model at the reporting date (Note 6).

**18. Subsequent events**

On January 28, 2019, the Company entered into an Exploration Agreement with Kaska Nation relating to Kutcho project. As compensation for entering into the agreement, the Company has subesquently issued 300,000 share purchase warrants to Kaska Nation at an exercise price of $1.00 for a period of five years.

On February 21, 2019, the Company entered into a loan agreement to borrow an aggregate amount of $1,500,000 to be used for working capital needs and Kutcho feasibility study. The loan bears interest at 5% per annum compounded quarterly and is repayable on or before February 21, 2020. The Company issued 500,000 bonus shares in connection with the loan.

On February 21, 2019, the Company granted 200,000 stock options to a consultant of the Company at an exercise price of $0.35 per common share for a period of eighteen months ending August 21, 2020.