PACIFIC RIDGE
exploration ltd.

**(An Exploration-Stage Company)**

# Condensed Consolidated Interim Financial Statements

**June 30, 2019 and 2018**

**(Unaudited – Expressed in Canadian Dollars)**

PACIFIC RIDGE
exploration ltd.

# NOTICE TO READER

**THE ISSUER'S AUDITORS HAVE NOT REVIEWED OR BEEN INVOLVED IN THE PREPARATION OF THESE CONDENSED CONSOLIDATED 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 condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Pacific Ridge Exploration Ltd. (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 condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

## Condensed Consolidated Interim Statements of Financial Position

(Unaudited - Expressed in Canadian dollars)

| | Note | June 30, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | **$** | $ |
| **Current** | | | |
| Cash | | **1,092,854** | 1,213,872 |
| Other receivables | | **11,900** | 5,196 |
| Marketable securities and warrants | 3 | **20,000** | 25,980 |
| Prepaid | | **5,763** | 6,000 |
| | | **1,130,517** | 1,251,048 |
| **Resource Properties** | 4 | **500,619** | 500,619 |
| **Reclamation bonds** | | **24,067** | 24,345 |
| **Right-of-use asset** | 2(c) | **30,829** | - |
| | | **1,686,032** | 1,776,012 |
| **Liabilities** | | | |
| **Current** | | | |
| Trade payable and accrued liabilities | | **215,298** | 26,449 |
| Lease liability - current portion | 2(c) | **29,837** | - |
| Provision for contingent liability | 9 | **207,262** | 207,262 |
| | | **452,397** | 233,711 |
| **Lease liability - long-term** | 2(c) | **248** | - |
| | | **452,645** | 233,711 |
| **Shareholders' equity** | | | |
| Share capital | 5 | **43,596,559** | 43,596,559 |
| Contributed surplus | | **3,308,022** | 3,268,185 |
| Accumulated other comprehensive loss | | **(33,000)** | (28,000) |
| Deficit | | **(45,638,194)** | (45,294,443) |
| | | **1,233,387** | 1,542,301 |
| | | **1,686,032** | 1,776,012 |

Commitments 8

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

Approved and authorized for issue on behalf of the Board of Directors on July 26, 2019

*/s/ "Gerald G. Carlson"*
Director

*/s/ "Blaine Monaghan"*
Director

## Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

(Unaudited - Expressed in Canadian dollars)

| | Note | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 |
| **Administration expenses** | | **$** | $ | **$** | $ |
| Amortization of right-of-use asset | 2(c) | **6,606** | - | **13,212** | - |
| Finance lease interest | 2(c) | **870** | - | **1,914** | - |
| Insurance | | **-** | 5,225 | **5,386** | 5,225 |
| Professional and consulting | | **18,269** | 3,749 | **28,905** | 16,255 |
| Management and administrative | 6 | **26,093** | 29,046 | **47,093** | 47,361 |
| Office operations and facilities | | **2,528** | 14,651 | **3,264** | 29,469 |
| Shareholder communications | | **3,594** | 11,319 | **8,869** | 16,876 |
| Share-based payments | 5(c) | **-** | - | **39,837** | 10,028 |
| Transfer agent and regulatory fees | | **3,632** | 5,405 | **10,814** | 12,753 |
| | | **61,592** | 69,395 | **159,294** | 137,967 |
| **Other expenses (income)** | | | | | |
| Exploration and evaluation costs | 4 | **235,117** | 73,670 | **265,418** | 90,521 |
| Property option payments | 4 | **(75,000)** | - | **(85,000)** | - |
| Unrealized loss in fair value of warrants | 3 | **110** | 6,540 | **980** | 700 |
| Foreign exchange (gain) loss | | **2,035** | (1,027) | **3,059** | (1,540) |
| | | **162,262** | 79,183 | **184,457** | 89,681 |
| **Net loss for the period** | | **(223,854)** | (148,578) | **(343,751)** | (227,648) |
| **Other comprehensive loss:** | | | | | |
| Net change in fair value of marketable securities | 3 | **(7,000)** | (26,500) | **(5,000)** | (10,000) |
| **Total comprehensive loss for the period** | | **(230,854)** | (175,078) | **(348,751)** | (237,648) |
| **Earnings per share (basic and diluted)** | | **(0.01)** | (0.00) | **(0.01)** | (0.01) |
| **Weighted average number of shares outstanding basic and diluted** | | **31,729,009** | 31,329,009 | **31,729,009** | 31,329,009 |

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

PACIFIC RIDGE exploration ltd.

# Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

( Unaudited - Expressed in Canadian dollars)

| | | Share capital | | | | Other | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Amount | Value | | Contributed surplus | comprehensive loss | Deficit | Total |
| | | # | $ | | $ | $ | $ | $ |
| Balance, December 31, 2017 | | 31,329,009 | 43,575,559 | | 3,248,228 | (5,500) | (45,680,844) | 1,137,443 |
| Shares issued for property | 4,5 | 200,000 | 11,000 | - | - | - | - | 11,000 |
| Share based payments | 5 | - | - | - | 10,028 | - | - | 10,028 |
| Unrealized loss in marketable securities | 3 | - | - | - | - | (10,000) | - | (10,000) |
| Net loss for the period | | - | - | - | - | - | (227,648) | (227,648) |
| Balance, June 30, 2018 | | 31,529,009 | 43,586,559 | | 3,258,256 | (15,500) | (45,908,492) | 920,823 |
| Shares issued for property | 4,5 | 200,000 | 10,000 | | - | - | - | 10,000 |
| Share based payments | 5 | - | - | | 9,929 | - | - | 9,929 |
| Unrealized loss in marketable securities | 3 | - | - | | - | (12,500) | - | (12,500) |
| Net income for the period | | - | - | | - | - | 614,049 | 614,049 |
| Balance, December 31, 2018 | | 31,729,009 | 43,596,559 | | 3,268,185 | (28,000) | (45,294,443) | 1,542,301 |
| Share-based payments | 5 | - | - | | 39,837 | - | - | 39,837 |
| Unrealized loss in marketable securities | 3 | - | - | | - | (5,000) | - | (5,000) |
| Net loss for the period | | - | - | | - | - | (343,751) | (343,751) |
| **Balance, June 30, 2019** | | **31,729,009** | **43,596,559** | | **3,308,022** | **(33,000)** | **(45,638,194)** | **1,233,387** |

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

**Condensed Consolidated Interim Statements of Cash Flows**

(Unaudited - Expressed in Canadian

| | Six months ended June 30 | |
|---|---|---|
| | **2019** | 2018 |
| | **$** | $ |
| **Operating activities** | | |
| Loss for the period | **(343,751)** | (227,648) |
| Items not affecting cash: | | |
| Right-of-use asset amortization | **13,212** | - |
| Finance lease interest | **1,914** | - |
| Unrealized loss in fair value of warrants | **980** | 700 |
| Share-based payments | **39,837** | 10,028 |
| Unrealized foreign exchange | **1,991** | - |
| Property option recovery | **(85,000)** | (9,210) |
| | **(370,817)** | (226,130) |
| Changes in non-cash working capital items: | | |
| Other receivables | **(6,704)** | (1,770) |
| Prepaid | **237** | (11,935) |
| Trade payable and accrued liabilities | **188,849** | (18,753) |
| Cash used in operating activities | **(188,435)** | (258,588) |
| **Investing activities** | | |
| Resource property acquisition costs | **-** | (10,000) |
| Proceeds from property option payments | **85,000** | 10,000 |
| Cash provided by investing activities | **85,000** | - |
| **Financing activities** | | |
| Finance lease payments | **(15,870)** | - |
| Cash provided by financing activities | **(15,870)** | **-** |
| Effect of foreign exchange translation on cash | **(1,713)** | - |
| **Decrease in cash** | **(121,018)** | (258,588) |
| Cash, beginning of the period | **1,213,872** | 598,401 |
| **Cash, end of the period** | **1,092,854** | 339,813 |
| **Supplementary cash flow information:** | | |
| Non-cash investing activities: | | |
| Shares issued for resource properties | **-** | **(11,000)** |
| Shares received for resource properties | **-** | **10,500** |
| Non-cash financing activities: | | |
| Non-cash share issue costs | **-** | **-** |

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

## 1. Nature of operations

Pacific Ridge Exploration Ltd. and its wholly owned subsidiary Pacific Ridge Exploration (US) Inc. (the "Company" or "Pacific Ridge") are in the business of acquiring and exploring resource properties in Canada and the United States. Pacific Ridge is incorporated and domiciled in Canada under the *Business Corporations Act* (British Columbia). The address of its registered office is 1710 – 1177 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2L3.

The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary capital to finance operations including contributions from future joint venture partners. The carrying value of the Company's mineral properties does not reflect current or future value.

These condensed consolidated interim financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets maybe materially less than the amounts on the statements of financial position. As of June 30, 2019, the Company had a working capital of $678,120 (December 31, 2018 - $1,017,337). The Company believes that based on its current working capital, it could sustain its operation and maintain its minimum obligations for the next year.

## 2. Basis of preparation and summary of significant accounting policies

(a) Statement of Compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2018.

The condensed consolidated interim financial statements were approved by the Board of Directors on July 26, 2019.

(b) Critical accounting estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended December 31, 2017.

(Unaudited - Expressed in Canadian dollars)

**2. Basis of preparation and summary of significant accounting policies** (continued)

(c) New and revised standards and interpretations

The accounting policies applied in the preparation of these condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2018, except for the adoption, on January 1, 2019, of **IFRS 16, *Leases***, which has an initial application as at this date.

**IFRS 16, *Leases***

The Company adopted IFRS 16 effective January 1, 2019 using the modified retrospective approach. In accordance with the transition provisions in IFRS 16, the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognized on January 1, 2019. The comparatives for the 2018 reporting period have not been restated and are accounted for under IAS 17, *Leases*, and IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, as permitted under the specific transitional provisions in the standard. The transitional adjustments arising from the adoption are recognized in the opening balance sheet on January 1, 2019.

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to a sublease for office space which had previously been classified as "operating lease" under the principles of IAS 17 – *Leases* under which these lease payments were recorded as expenses as they were incurred. Under IFRS 16, these liabilities were measured at the present value of the remaining lease payments as at January 1, 2019, discounted using the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 10%. The associated lease liability recognized as at January 1, 2019 was $44,041.

An associated right-of-use asset for the lease was measured at the amount equal to the lease liability on January 1, 2019. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Lease liabilities are subsequently measured at amortized cost using the effective interest rate method.

The following table summarizes the difference between operating lease commitments disclosed immediately preceding the date of initial application, and lease liabilities recognized in the balance sheet at the date of initial application:

| **Lease liability** | $ |
|---|---|
| Operating lease commitments as at December 31, 2018 | 47,610 |
| Discount using the incremental borrowing rate at January 1, 2019 | (3,569) |
| Lease liability recognized as at January 1, 2019 | 44,041 |
| Lease payments | (15,870) |
| Lease interest | 1,914 |
| Lease liability as at June 30, 2019 | 30,085 |
| Current portion | 29,837 |
| Long-term portion | 248 |
| | 30,085 |

| **Right-of-use asset** | $ |
|---|---|
| Value of right-of-use asset as at January 1, 2019 | 44,041 |
| Amortization | (13,212) |
| Value of right-of-use asset as at June 30, 2019 | 30,829 |

(Unaudited - Expressed in Canadian dollars)

## 3. Marketable securities

During the year ended December 31, 2017, the Company entered into an agreement with Four Nines Gold Inc. ("**Four Nines**"), then a private British Columbia company, to option its Mariposa property (note 4(a)(i)). On October 22, 2018, Four Nines consolidated its shares on a five (5) to one (1) basis, and all security numbers below are expressed on a post-consolidation basis. As part of this agreement, during 2017 the Company received 60,000 common shares and 30,000 share purchase warrants of Four Nines.

Of the 30,000 share purchase warrants received, 20,000 of them are exercisable each into one common share of Four Nines at an exercise price of $1.50 per share until August 24, 2019. The remaining 10,000 share purchase warrants are each exercisable into one common share of Four Nines at an exercise price of $1.50 per share until December 31, 2019.

As at June 30, 2019, the fair value of the 60,000 Four Nines common shares was $12,000 (December 31, 2018 - $15,000), with a fair value loss of $3,000 recorded to other comprehensive loss for the six months ended June 30, 2019. The fair value of the 30,000 Four Nines share purchase warrants was nil (December 31, 2018 - $980) with a fair value loss of $980 recorded to net loss for the six months ended June 30, 2019.

On April 24, 2018, the Company entered into an agreement with Trifecta Gold Ltd. ("Trifecta"), whereby Trifecta obtained the right to acquire an undivided seventy percent interest on the Company's Eureka Dome property (Note 4(a)(ii)). During the year ended December 31, 2018, the Company received 300,000 common shares of Trifecta with a fair value of $16,000 on their date of issuance, a fair value of $10,000 on December 31, 2018, and a fair value of $8,000 on June 30, 2019. A fair value loss of $ $2,000 was recorded to other comprehensive loss for the six months ended June 30, 2019.

The fair value of the shares and warrants is as follows:

| | Four Nines Gold Inc. | | | | Trifecta Gold Ltd. | | Total |
|---|---|---|---|---|---|---|---|
| | Common shares | | Warrants | | Common shares | | |
| | Number | Fair value | Number | Fair value | Number | Fair value | Fair value |
| | # | $ | # | $ | # | $ | $ |
| **Balance, December 31, 2017** | 60,000 | 31,500 | 30,000 | 5,330 | - | - | 36,830 |
| Additions | - | - | - | - | 100,000 | 10,500 | 10,500 |
| Adjustments | - | (7,500) | - | (700) | - | (2,500) | (10,700) |
| **Balance, June 30, 2018** | 60,000 | 24,000 | 30,000 | 4,630 | 100,000 | 8,000 | 36,630 |
| Additions | - | - | - | - | 200,000 | 5,500 | 5,500 |
| Adjustments | - | (9,000) | - | (3,650) | - | (3,500) | (16,150) |
| **Balance, December 31, 2018** | 60,000 | 15,000 | 30,000 | 980 | 300,000 | 10,000 | 25,980 |
| Adjustments | - | (3,000) | - | (980) | - | (2,000) | (5,980) |
| **Balance, June 30, 2019** | 60,000 | 12,000 | 30,000 | - | 300,000 | 8,000 | 20,000 |

(Unaudited - Expressed in Canadian dollars)

## 4. Resource properties

The Company has interests in mineral properties in British Columbia and Yukon in Canada and, in the past, in Nevada in the United States. A summary of capitalized acquisition costs is as follows:

| | Company-owned properties | | On option from third parties | | | | Total |
|---|---|---|---|---|---|---|---|
| | Mariposa | Eureka Dome | TL Zinc | RC Property | Bee Property | Spius | |
| | YT | YT | BC | YT | YT | BC | |
| | $ | $ | $ | $ | $ | $ | $ |
| Balance, December 31, 2017 | 429,619 | 11,290 | 45,000 | 28,000 | 5,000 | - | 518,909 |
| Option payments in cash | - | (10,000) | - | - | - | - | (10,000) |
| Acquisition through cash | - | - | - | - | - | 10,000 | 10,000 |
| Option payments in marketable securities | - | (1,290) | - | - | - | 11,000 | 9,710 |
| Balance, June 30, 2018 | 429,619 | - | 45,000 | 28,000 | 5,000 | 21,000 | 528,619 |
| Option payments in cash | - | - | - | - | - | 40,000 | 40,000 |
| Option payments in marketable securities | - | - | - | - | - | 10,000 | 10,000 |
| Impairment | - | - | (45,000) | (28,000) | (5,000) | - | (78,000) |
| **Balance, December 31, 2018 and June 30, 2019** | **429,619** | **-** | **-** | **-** | **-** | **71,000** | **500,619** |

In addition to capitalized acquisition costs, the Company has incurred the following exploration and evaluation expenses:

| | Province / | Six months ended June 30 | |
|---|---|---|---|
| Property | Territory | 2019 | 2018 |
| | | $ | $ |
| Mariposa | YT | 1,495 | 45 |
| Eureka Dome | YT | - | (835) |
| TL Zinc | BC | 13,470 | 16,468 |
| RC and Bee | YT | - | 12,500 |
| Spius | BC | 223,198 | 11,275 |
| Gold Cap | YT | - | 20,000 |
| General exploration not allocated to a specific property | | 27,255 | 31,068 |
| | | 265,418 | 90,521 |

**4. Resource properties** (continued)

a) Company-owned properties:

i) Mariposa property, Yukon

The Company acquired a 100% interest in the Mariposa property, Dawson Mining District, Yukon, in 2014. In September 2016, the Company optioned its Mariposa property to Four Nines. Pursuant to the terms of the agreement, amended in February 2017, in May 2017, in July 2017, and in January 2018, Four Nines could earn a stake in the property by issuing certain number of Four Nines shares, making certain cash payments and performing certain amount of work. Four Nines complied with the amounts required by December 31, 2017 by issuing to the Company 60,000 shares, 30,000 warrants (Note 3), a payment of $300,000 in cash, and completed approximately $304,000 of exploration work in the property.

However, at December 31, 2018 no further payments, either in securities or in cash were received from Four Nines, and the minimum exploration targets were not met. On March 8, 2019, the Company terminated the Four Nines option agreement.

ii) Eureka Dome property, Yukon

On April 24, 2018, the Company entered into an option agreement with Trifecta, amended on December 19, 2018, whereby the Company granted Trifecta an option to acquire a 70% interest in its Eureka Dome property in the Dawson Mining District, Yukon.

Under the terms of the agreements, Trifecta had agreed to pay the Company an aggregate of $200,000 in cash (of which $20,000 was received), issue 1,000,000 Trifecta common shares in favour of the Company (of which 200,000 were received), and incur exploration expenses of not less than $2,500,000. However, on April 22, 2019, the option agreement with Trifecta was terminated because Trifecta was unable to fulfill its option requirements.

b) Company-owned properties on option to third parties

i) Fyre Lake property, Yukon

The Company owns a 100% interest in the Fyre Lake property, located in the Watson Lake Mining District, Yukon. On January 18, 2017, the Company closed an option agreement with BMC Minerals (No. 1) Ltd. ("BMC"), amended on December 19, 2018 whereby BMC has the right to acquire a 100% interest in Fyre Lake by making payments totalling $3,095,000 as follows:

A non-refundable deposit and initial option payment of $375,000 ($25,000 received in November 2016 and $350,000 received in January 2017), a second option payment of $300,000 received in December 2017, and a third option payment of $1,200,000 received on December 28, 2018. In order to exercise the option, BMC must make a final $1,220,000 payment. This payment is due upon BMC obtaining production financing for its Kudz Ze Kayah project, but in any event no later than December 31, 2020. BMC will also pay $75,000 to Pacific Ridge every six months, commencing June 30, 2019 ($75,000 received during the six months ended June 30, 2019), until the final tranche has been paid.

In addition, if it exercises the option, BMC has agreed to make a bonus payment of $1,000,000 if and when BMC's Kudz Ze Kayah property has reached commercial production for one year.

As there is no carrying value for Fyre Lake on the Company's statement of financial position, these option payments are recorded as property option payments on the statement of loss and comprehensive loss.

(Unaudited - Expressed in Canadian dollars)

**4. Resource properties** (continued)

c) Third party properties being optioned to the Company

i) Spius, British Columbia

On April 27, 2018, the Company entered into an option agreement to acquire a 100% interest in the Spius property, Nicola and New Westminster Mining Divisions, British Columbia. The terms of the option agreement are as follows:

| Cash payments to be made | Shares to be issued | Cumulative exploration expenses to be incurred | Due date | Comment |
|---|---|---|---|---|
| $ | # | $ | | |
| 10,000 | 200,000 | - | Upon execution and regulatory approval | (paid and issued) |
| 40,000 | 200,000 | 50,000 | December 15, 2018 | (paid, issued and exceeded) |
| 50,000 | 300,000 | 300,000 | December 15, 2019 | (Exploration expenses exceeded) * |
| 110,000 | 300,000 | 800,000 | December 15, 2020 | |
| 210,000 | 1,000,000 | 800,000 | | |

* During the year ended December 31, 2018, exploration expenses incurred in Spius amounted to $95,965, and $223,198 for the six months ended June 30, 2019, thus already exceeding the $300,000 cumulative commitment for 2019.

The agreement is subject to a 1% NSR to the property vendor, half of which can be purchased for $1,500,000, as well as an underlying 2% NSR, of which the Company has the right to buy down half for $1,500,000. In addition, bonus payments are payable upon certain advanced development mileposts. One of the underlying vendors of the Spius property is a company where a director of the Company owns a 25% interest. During the year ended December 31, 2018, the Company posted a bond for $12,500 for future reclamation costs with the Government of British Columbia.

d) Impaired properties

i) RC and Bee properties, Yukon

On June 9, 2017, the Company entered into two option agreements to acquire a 100% interest in contiguous groups of mineral claims situated in the Dawson and Mayo Mining Districts, Yukon, known the RC and Bee properties. Pursuant to the agreements, the Company paid $20,000 and issued 200,000 common shares to the optionor during 2017. Due to inconclusive exploration results, the Company decided to abandon this option; no further option payments will be made, and the carrying amount of $33,000 was impaired in December, 2018.

(Unaudited - Expressed in Canadian dollars)

**4. Resource properties** (continued)

d) Impaired properties (continued)

ii) TL Zinc property, British Columbia

On August 11, 2016, the Company entered into an option agreement, amended on May 16, 2017 and on August 7, 2018, to acquire a 100% interest in the TL Zinc property, Vernon Mining Division, British Columbia.

During 2016, the Company had paid $20,000 in cash and issued 250,000 common shares valued at $25,000.

The proposed 2017 drill program at the TL Zinc property was suspended. Allegations of third party interests in the 16 TL Zinc claims under option to Pacific Ridge were made. As there is uncertainty as to the outcome of any legal process to resolve the issue, the Company decided to abandon this project and impair its $45,000 carrying value at December 31, 2018.

On February 9, 2019, the Company received a default notice by the optionor of the TL Zinc property.

**5. Share capital**

a) Common Shares

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

There were no common shares issued during the six months ended June 30, 2019.

During the year ended December 31, 2018, the Company issued 200,000 common shares at a fair value of $0.055 and 200,000 common shares at a fair value of $0.05 per share (for an aggregate value of $21,000) as part of the acquisition agreement for the Spius property (Note 4(c)(i)).

b) Share Purchase Warrants

There are no warrants outstanding as at June 30, 2019, with the following history:

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price | Number of Warrants | Weighted Average Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of year | - | - | 2,815,250 | 0.14 |
| Expired | - | - | (2,815,250) | 0.14 |
| Balance, end of period | - | - | - | - |

(Unaudited - Expressed in Canadian dollars)

**5. Share capital** (continued)

c) Stock Options

The Company has a stock option plan in place authorizing the granting of stock options to qualified optionees to purchase a total of up to 10% of the then issued and outstanding common shares of the Company. Stock options generally are granted for a maximum term of five years and expire 90 days following the termination of the optionee's agreement. The exercise price for the options is set at the closing market price of the common shares on the grant date. The vesting periods of options vary with terms determined by the board of directors.

Stock option transactions and the number of stock options outstanding and exercisable are summarized below:

| As at: | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| | # | $ | # | $ |
| Balance, beginning of year | 2,010,000 | 0.06 | 2,826,500 | 0.06 |
| Granted | 1,050,000 | 0.06 | 400,000 | 0.06 |
| Expired | - | - | (1,216,500) | 0.05 |
| Balance, end of period | 3,060,000 | 0.06 | 2,010,000 | 0.06 |
| Exercisable, end of period | 3,060,000 | 0.06 | 2,010,000 | 0.06 |

On January 12, 2018, the Company granted 200,000 fully-vested stock options to two officers of the Company. These options are exercisable into one common share of the Company at an exercise price of $0.06 per share until January 12, 2023. The fair value of these options, recorded in net loss as share-based compensation expense, was calculated at $10,028.

On November 1, 2018, the Company granted 200,000 fully-vested stock options to a consultant. These options are exercisable into one common share of the Company at an exercise price of $0.065 per share until November 1, 2023. The fair value of these options, recorded in net loss as share-based compensation expense, was calculated at $9,929.

On January 4, 2019, the Company granted an aggregate of 1,050,000 fully-vested stock options to certain directors, officers and a consultant pursuant to the Company's stock option plan. Each stock option is exercisable into one common share of the Company at an exercise price of $0.05 per common share for a period of five years. The fair value of these options, recorded in the net loss as share-based compensation, was calculated at $39,837.

The Company applies the fair value method of accounting for stock options. Option pricing models require the input of highly subjective assumptions including expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(Unaudited - Expressed in Canadian dollars)

**5. Share capital** (continued)

c) Stock Options

The fair value of options granted was estimated at the grant date based on the *Black-Scholes* option-pricing model, using the following assumptions:

| | Options granted on: | | |
|---|---|---|---|
| | January 4, 2019 | November 1, 2018 | January 12, 2018 |
| Risk-free interest rate | 1.91% | 2.40% | 2.00% |
| Expected share price volatility | 102.23% | 102.68% | 121.95% |
| Expected option life in years | 5 | 5 | 5 |
| Expected dividend yield | Nil | Nil | Nil |

Stock options outstanding and exercisable are as follows:

| Expiry date | Weighted average exercise price | June 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | $ | $ | $ |
| February 2, 2020 | 0.050 | 730,000 | 730,000 |
| July 21, 2021 | 0.080 | 150,000 | 150,000 |
| August 12, 2021 | 0.080 | 40,000 | 40,000 |
| November 30, 2021 | 0.080 | 325,000 | 325,000 |
| June 16, 2022 | 0.060 | 365,000 | 365,000 |
| January 12, 2023 | 0.060 | 200,000 | 200,000 |
| November 1, 2023 | 0.065 | 200,000 | 200,000 |
| January 4, 2024 | 0.050 | 1,050,000 | - |
| | 0.058 | 3,060,000 | 2,010,000 |

**6. Related parties**

Related parties include the board of directors and officers, close family members and enterprises that are controlled by these individuals as well as certain consultants performing similar functions.

The Company has no compensation arrangements with its board of directors other than non-cash stock option grants. The Company has no termination benefits, post-employment benefits and other long-term benefits in place. Key management includes the board of directors and executive officers.

(Unaudited - Expressed in Canadian dollars)

**6. Related parties** (continued)

Compensation awarded to key management is listed below:

| | Six months ended June 30 | |
|---|---|---|
| | **2019** | 2018 |
| | **$** | $ |
| Management fees paid to a company controlled by the CEO of the Company * | **48,000** | 48,000 |
| Management fees paid to a company controlled by the CFO of the Company | **18,000** | 15,700 |
| Stock-based compensation recorded for stock options granted to directors and officers of the Company (non-cash expense) | **30,352** | 10,028 |
| | **96,352** | 73,728 |

* 50% of the CEO's compensation is charged to exploration and evaluation costs

An aggregate of $15,550 was payable to related parties as at June 30, 2019 (December 31, 2018 – nil).

In addition, during 2018 the Company entered into an option agreement for the purchase of the Spius property (Note 4(c)(i)). The underlying vendors of this property include a company where a director of the Company owns a 25% interest.

**7. Financial instruments**

With the adoption of IFRS 9 in 2018, the Company has classified cash, other receivables, and trade payable and accrued liabilities at amortized cost; marketable securities as FVTOCI, and warrants as FVTPL.

Fair values

As at June 30, 2019, the recorded amounts for cash, other receivables and trade payable and accrued liabilities approximate their fair values due to their short maturity. The Company's marketable securities and warrants are measured subsequent to initial recognition at fair value on a recurring basis. These financial instruments are grouped into Level 1 to 3 based on the degree to which the significant inputs used to determine the fair value are observable. Marketable securities are classified within level 1 of the fair value hierarchy as their fair value measurement is derived from quoted prices in active markets for identical assets. Warrants are classified within level 2 of the fair value hierarchy as their fair value measurement is derived from inputs other than quoted prices included within level 1, that are observable either directly or indirectly. No financial instruments were considered level 3, which are fair value measurements derived from valuation techniques that include significant inputs that are not based on observable market data.

7. **Financial instruments** (continued)

Interest rate risk

The Company's cash held in financial institutions earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a material impact on the expected cash flows.

Credit risk

The Company has its cash deposited with large, federally insured, commercial financial institutions, and therefore exposed to minimal credit risk.

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 manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. At June 30, 2019, the Company had cash of $1,092,854 (December 31, 2018 - $1,213,872), trade payable and accrued liabilities of $215,298 (December 31, 2018 - $26,449), a provision for a contingent liability of $207,262 (December 31, 2018 – $207,262), and an office lease obligation of $30,085 (December 31, 2018 – nil) (Note 2(c)).

Currency risk

The Company keeps approximately 3.5% of its cash in US dollars. A change in the value of the US dollar by 10% relative to the Canadian dollar would affect the Company's working capital by approximately $4,000, with minimal impact to its net income (loss) for the year as there are virtually no transactions in US dollars.

Price risk

The Company is exposed to price risk on its marketable securities and warrants due to fluctuations in the current market prices and fluctuations in trading volumes of those securities. At June 30, 2019, the Company held marketable securities and warrants with a fair value of $20,000 (December 31, 2018 - $25,980). These investments are subject to market price fluctuations that can be significant.

8. **Commitments**

On July 10, 2018, the Company entered into a sublease agreement with respect to office space covering the period from September 1, 2018 to August 31, 2020. The monthly commitment for the Company is $2,645 plus applicable taxes. A deposit of two months was provided to the sublessor, which will be applied to the last two months of office rent. The lease payment commitments for subsequent years are, therefore, as follows:

| | |
|---|---|
| 2019 | 15,870 |
| 2020 | 15,870 |

**9. Provision for contingent liability**

On October 23, 2018, the Canada Revenue Agency ("CRA") notified the Company that it would conduct an audit of the BC Mining Exploration Tax Credit ("BCMETC") with respect to the flow-through financing conducted during 2016, affecting the taxation years 2016 and 2017. For that 2016 flow-through financing, an amount of $434,600 was raised and the Company committed to renounce the same amount to the investors through Canadian Exploration Expenses ("CEE") to be incurred before the end of 2017.

On March 1, 2019, the CRA concluded its audit and issued a letter to the Company proposing a reclassification of $366,730 as Canadian Development Expenses ("CDE"), which cannot be renounced to investors, leaving only the remaining $67,870 as CEE. The CRA based its conclusion taking the position that expenses in mineral properties held under option agreements cannot be treated as CEE, and should be treated as CDE instead.

After obtaining advice from a law firm specializing in taxation issues, the Company submitted a response to the CRA outlining arguments by which the Company challenges the position taken by the CRA and requesting that the ruling be reconsidered.

As the Company provided indemnity agreements to the investors that participated in the 2016 flow-through private placement, should the final decision upon review of the Company's challenge remain unchanged, the Company would have to refund any personal tax reassessed to its investors; the Company estimates this amount to be equal to 50% of the amount denied, or $183,365. In addition, the CRA is also proposing a reassessment of the BCMETC by $21,397 and $2,500 in fines, adding up to the $207,262 that the Company has set up set up as a provision.

The Company has not received a response from the CRA to the Company's challenge as at the date of publication of these condensed consolidated interim financial statements.

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