imetal resources inc

Consolidated Financial Statements

For the Year Ended May 31, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
iMetal Resources Inc.

We have audited the accompanying consolidated financial statements of iMetal Resources Inc., which comprise the consolidated statement of financial position as at May 31, 2018 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 auditors' 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 we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of iMetal Resources Inc. as at May 31, 2018 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about iMetal Resources Inc.'s ability to continue as a going concern.

Other Matters

The consolidated financial statements of iMetal Resources Inc. for the year ended May 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on September 26, 2017.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

September 20, 2018

iMetal Resources Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

		May 31, 2018		May 31, 2017
ASSETS				
Current				
Cash	$	140,997	$	362,956
Amounts receivable		4,660		14,167
Due from related party (Note 4)		-		8,927
Prepaids		13,761		15,000
		159,418		401,050
Non-current				
Exploration and evaluation assets (Note 3)		1,060,347		561,087
TOTAL ASSETS	$	1,219,765	$	962,137
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	41,480	$	91,807
Due to related parties (Note 4)		16,791		1,962
Note payable (Note 6)		7,544		7,044
Total liabilities		65,815		100,813
SHAREHOLDERS' EQUITY				
Capital stock (Note 8)		37,513,108		36,609,274
Reserves (Note 8)		3,220,597		3,055,142
Deficit		(39,579,755)		(38,803,092)
Total shareholders' equity		1,153,950		861,324
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	1,219,765	$	962,137

Nature of operations and going concern – Note 1
Subsequent events – Note 14

These consolidated financial statements were authorized for issue by the Board of Directors on September 20, 2018. They are signed on the Company's behalf by:

"Johan Grandin"	*"Mark Fedikow"*
Director	Director

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

iMetal Resources Inc.
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

		2018		2017
OPERATING EXPENSES				
Consulting (Note 4)	$	301,783	$	229,722
Interest		500		500
Investor relations		-		6,000
Marketing		41,119		-
Office and salaries		13,527		9,005
Professional fees (Note 4)		100,872		106,428
Share-based payments (Note 4 and 8)		275,297		84,427
Transfer agent and listing fees		30,236		29,420
Travel and promotion		14,149		28,198
Loss from operations		(777,483)		(493,700)
Gain on accounts payable and accrued liabilities		820		-
Reversal of withholding tax liability (Note 7)		-		259,670
Net loss and comprehensive loss for the year	**$**	**(776,663)**	**$**	**(234,030)**
Loss per common share – basic and diluted	$	(0.01)	$	(0.00)
Weighted average number of common shares outstanding - basic and diluted		75,436,171		53,745,891

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

iMetal Resources Inc.
Consolidated Statements of Cash Flows
For the years ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (776,663)	$ (234,030)
Items not affecting cash:		
Interest on notes payable	500	500
Share-based payments	275,297	84,427
Gain on accounts payable and accrued liabilities	(820)	-
Reversal of withholding tax liability	-	(259,670)
Changes in non-cash working capital items:		
Amounts receivable	9,507	(10,895)
Prepaids	1,239	(13,687)
Accounts payable and accrued liabilities	(49,616)	(5,953)
Due from related party	8,927	(8,927)
Due to related parties	14,829	(12,126)
Net cash used in operating activities	(516,800)	(460,361)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation assets	(336,651)	(174,050)
Net cash used in investing activities	(336,651)	(174,050)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of capital stock	422,697	825,000
Share issuance costs	(23,055)	(25,619)
Exercise of stock options	115,000	-
Exercise of warrants and finder's warrants	116,850	-
Proceeds from loan payable	-	5,500
Repayment of loan payable	-	(5,500)
Net cash provided by financing activities	631,492	799,381
Change in cash for the year	(221,959)	164,970
Cash, beginning of year	362,956	197,986
Cash, end of year	$ 140,997	$ 362,956

Supplemental cash flow Information (Note 12)

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

iMetal Resources Inc.
Consolidated Statements of Changes in Shareholders' Equity
For the years ended May 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Capital Stock				
	Number of shares	Amount	Reserves	Deficit	Total
Balance – May 31, 2016	**51,242,466**	**$ 35,764,345**	**$ 2,950,013**	**$(38,569,062)**	**$ 145,296**
Shares issued for private placement	16,500,000	825,000	-	-	825,000
Share issuance costs	-	(46,321)	20,702	-	(25,619)
Shares issued for exploration and evaluation assets	1,250,000	66,250	-	-	66,250
Share-based payments	-	-	84,427	-	84,427
Net loss and comprehensive loss for the year	-	-	-	(234,030)	(234,030)
Balance – May 31, 2017	**68,992,466**	**$ 36,609,274**	**$ 3,055,142**	**$(38,803,092)**	**$ 861,324**
Shares issued for private placement	7,044,950	422,697	-	-	422,697
Share issuance costs		(44,591)	21,536	-	(23,055)
Exercise of warrants and finder's warrants	1,947,500	116,850	-	-	116,850
Transfer to share capital on exercise of finder's warrants	-	8,332	(8,332)	-	-
Exercise of stock options	2,300,000	115,000	-	-	115,000
Transfer to share capital on exercise of stock options	-	123,046	(123,046)	-	-
Shares issued for exploration and evaluation assets	2,250,000	162,500	-	-	162,500
Share-based payments	-	-	275,297	-	275,297
Net loss and comprehensive loss for the year	-	-	-	(776,663)	(776,663)
Balance – May 31, 2018	**82,534,916**	**$ 37,513,108**	**$ 3,220,597**	**$(39,579,755)**	**$ 1,153,950**

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

1. Nature of Operations and Going Concern

The Company is engaged in the exploration and development of mineral properties in Ontario and Quebec, Canada and has not yet determined whether these properties contain National Instrument 43-101 compliant ore reserves that are economically recoverable. The exploration programs undertaken and proposed constitute an exploratory search and the development of historic resources. There is no assurance that the Company will be successful in its search and development. 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 and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and evaluation programs planned by the Company will result in a profitable commercial mining operation. The amounts shown as exploration and evaluation assets represent net costs to date, less amounts written-off, and do not necessarily represent present or future values. The recovery of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the exploration and evaluation of such a property or properties and ultimately upon future profitable production from a property or properties or the realisation of proceeds from the disposition thereof. The Company has incurred losses since inception and at May 31, 2018 has an accumulated deficit of $39,579,755 (2017 - $38,803,092).

The Company requires additional funds to continue operations, to explore its mineral properties and to maintain its property interests. Management is actively seeking additional financing and, while it has successfully done this in the past, there is no assurance that it will continue to be able to do so in the future. These matters raise substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern.

The head office, principal address, registered address and records office of the Company are located at 510 – 580 Hornby Street, Vancouver, British Columbia, Canada, V6C 3B6. The Company's shares are traded on the Tier 2 of the TSX Venture Exchange ("TSX-V") under the symbol "IMR.V" and on the Frankfurt Stock Exchange ("FWB") under the symbol "A7V.F".

2. Significant Accounting Policies

Statement of Compliance

These consolidated financial statements of the Company for the year ended May 31, 2018 have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies applied in these consolidated financial statements are based on the IFRS issued and outstanding as of May 31, 2018.

Basis of Presentation

These consolidated financial statements have been prepared on a historical basis and have been prepared using the accrual basis of accounting, except cash flow information. These consolidated financial statements are presented in Canadian dollars unless otherwise noted.

These consolidated financial statements include accounts of iMetal Resources Inc. and its wholly-owned subsidiary Risorse Dei Minerali Naturali S.R.L ("RMN"), a company incorporated in the province of Grosseto, Italy. All significant inter-company transactions and balances have been eliminated on consolidation.

2. Significant Accounting Policies (*cont'd*)

Significant Accounting Judgments, Estimates and Assumptions

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

Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Differences may be material.

Fair value of stock options and warrants

The fair value of stock options and brokers' warrants issued are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods. The Company has not recorded any deferred tax assets.

Critical judgments in applying accounting policies:

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- the determination that the Company will continue as a going concern for the next year;
- the determination that there have been no events or changes in circumstances that indicate the carrying amount of exploration and evaluation assets may not be recoverable; and
- the determination that the functional currency of RMN is the Canadian dollar.

2. Significant Accounting Policies (*cont'd*)

Foreign Currency Translation

The Company's functional and reporting currency is the Canadian dollar. The functional currency of RMN is the Canadian dollar.

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

Financial Instruments

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss.

FVTPL has two categories: designated and held for trading. The Company's cash is classified as FVTPL. Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost.
The Company's amounts receivable (excluding GST) and due from related party are classified as loans and receivables. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income or loss except for losses in value that are considered other than temporary. Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The Company does not have any derivative financial assets.

At each reporting date, the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value, less directly attributable transaction costs. The Company's accounts payable and accrued liabilities, due to related parties, and note payable are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes in financial liabilities classified as FVTPL are recognized in profit or loss.

The Company does not have any derivative financial liabilities.

2. Significant Accounting Policies (*cont'd*)

Financial Instruments (*cont'd*)

Impairment of Assets

The carrying amount of the Company's assets (which include 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 loss and comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell or 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.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell or 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.

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

Exploration and Evaluation Assets and Expenditures

Although the Company has taken steps to verify title to mineral properties in which it has an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Currently, all mineral properties of the Company are at the exploration stage. Pre-exploration costs are expensed in the period in which they are incurred.

The Company records its interests in mineral properties at cost. Exploration expenditures relating to these interests are capitalized until the properties to which they relate are placed into production, sold or abandoned. These expenditures will be amortized over the estimated useful life of the related property using the unit-of-production basis following commencement of production, or written-off if the mineral properties are sold or abandoned. General exploration expenditures are expensed as incurred. The amounts shown for mineral properties represent costs to date, and do not necessarily represent future values as they are entirely dependent upon the economic recovery of current and future reserves.

The Company reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration or production results, if any, and upon management's assessment of the future probability of profitable revenues from the property or from sale of the property. Management's assessment of the property's estimated current fair market value is also based upon management's review of other property transactions that have occurred in the same geographic area as its properties.

2. Significant Accounting Policies (*cont'd*)

Exploration and Evaluation Assets and Expenditures (*cont'd*)

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized, however, for corporate income tax purposes; the Company has no right to claim these costs as tax deductible expenses.

Cash and Cash Equivalents

Cash and cash equivalents is comprised of cash at banks and on hand, short-term deposits with an original maturity of three months or less, and bank overdrafts. At May 31, 2018 and 2017, the Company did not have any cash equivalents.

Share Capital

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the trading price of the Company's shares on the TSX Venture Exchange on the date of share issuance.

Flow-through shares are common shares which are issued under an agreement that, as provided for in the Canadian Income Tax Act, the Company transfers to the purchaser of the shares the tax benefits of the exploration expenditures that are financed by the proceeds of the share issue.

Share-based Payments

Obligations for issuance of common shares under the Company's stock-based compensation plan are accrued over the vesting period using fair values. Fair values are determined at issuance using the Black Scholes option-pricing model, taking into account a nominal forfeiture rate, and are recognized as share-based compensation with a corresponding credit to reserves. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital. In the event that stock options, and agents' options and warrants, are not exercised, the fair value of those options and warrants is not removed from the reserves.

Stock options granted to non-employees are measured at the fair value of goods or services rendered or at the fair value of the instruments issued, if it is determined that the fair value of the goods or services received cannot be 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. Warrants issued to brokers are measured at their fair value on the vesting date and are recognized as a deduction from equity and credited to reserves. The fair value of stock options and warrants issued to brokers are estimated using the Black-Scholes option pricing model. Any consideration received on the exercise of stock options and/or warrants, together with the related portion of reserves, is credited to share capital.

2. Significant Accounting Policies (*cont'd*)

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore its exploration and evaluation assets. These equity financing transactions may involve the issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement, the Warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement. Warrants that are part of units are valued based on the residual value method. Warrants that are issued as payment for agency fees or other transactions costs are accounted for as share-based payments.

Loss per Share

Loss per share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding for the reporting period. For diluted earnings per share, dilutive effect is recognized from the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

The basic loss per share figure has been calculated using the weighted average number of common shares outstanding during the respective period. Diluted loss per share is equal to basic loss per share as the effect of outstanding options and warrants is anti-dilutive.

Deferred Income Taxes

The Company accounts for and measures deferred income tax assets and liabilities in accordance with the liability method under which deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance is provided for the amount of the potential future benefit not expected to be realized. The Company has taken a valuation allowance for the full amount of all potential deferred tax assets.

Flow-Through Financing

The Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through tax liability and included in accounts payable and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability is reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

2. Significant Accounting Policies (*cont'd*)

Restoration and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profit or loss as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

New accounting standards and interpretation

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2018 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these consolidated financial statements and, are not expected to have a material effect on the Company's future results and financial position:

Effective for annual years beginning on or after January 1, 2018:

IFRS 9, Financial Instruments – Classification and Measurement. IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement.

IFRS 9 addresses classification and measurement of financial assets and financial liabilities as well as de-recognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. The Company has done a preliminary analysis and does not expect a material effect on the consolidated financial statements as a result of adopting this standard.

IFRS 15, Revenue from Contracts with Customers. IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. The Company has done a preliminary analysis and does not expect a material effect on the consolidated financial statements as a result of adopting this standard.

2. Significant Accounting Policies (*cont'd*)

New accounting standards and interpretation (*cont'd*)

Effective for annual years beginning on or after January 1, 2019:

IFRS 16, Leases. IFRS 16 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 extent of the impact of adoption has not yet been determined.

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

(Expressed in Canadian Dollars)

3. Exploration and Evaluation Assets

	Gowganda West	Ghost Mountain	Mosher Lake	Carheil	Temagami North	Total
Balance – May 31, 2016	**$ -**	**$ -**	**$ -**	**$ 305,127**	**$ 7,162**	**$ 312,289**
Acquisition costs	75,000	66,250	-	16,828	-	158,078
Exploration costs:						
Assays, staking and mapping	39,060	-	-	-	-	39,060
Consulting	3,018	-	-	39,087	-	42,105
Equipment rental and field work	372	-	-	-	-	372
Geological/Geophysical	1,905	-	-	-	-	1,905
Office, miscellaneous and travel	7,278	-	-	-	-	7,278
	126,633	66,250	-	55,915	-	248,798
Balance – May 31, 2017	126,633	66,250	-	361,042	7,162	561,087
Acquisition costs	79,295	92,500	90,000	3,460	-	265,255
Exploration costs:						
Assays, staking and mapping	138,939	-	278	-	-	139,217
Consulting	3,000	2,500	-	5,813	-	11,313
Equipment rental and field work	20,526	-	900	-	-	21,426
Geological/Geophysical	26,106	-	763	-	-	26,869
Office, miscellaneous and travel	34,084	806	290	-	-	35,180
	301,950	95,806	92,231	9,273	-	499,260
Balance – May 31, 2018	**$ 428,583**	**$ 162,056**	**$ 92,231**	**$ 370,315**	**$ 7,162**	**$1,060,347**

3. Exploration and Evaluation Assets *(cont'd)*

Ontario, Canada

Gowganda West Property

During the year ended May 31, 2017, the Company entered into an option agreement for mineral properties in Gowganda, Ontario. The option agreement includes cash payments totalling $200,000 and share issuances totalling 2,000,000 under the following terms:

- The Vendors will receive $50,000 upon signing the definitive agreement (paid);
- The Vendors will receive $50,000 each year for three years starting one year after the signing of the definitive agreement (year one paid). During the year ended May 31, 2018 the agreement was amended in that the first payment was satisfied in two $10,000 payments and one $30,000 payment;
- The Company will issue 500,000 shares to the vendors upon the signing of the definitive agreement (issued at a fair value of $25,000);
- The Company will issue 500,000 shares each year for three years, starting one year after the signing of the definitive agreement (year one issued at a fair value of $25,000);
- The Vendors will have the first right of refusal to participate in up to 10% of all future financings in the Company; and
- The Vendors will be entitled to a 3% NSR royalty. The Company has the option to acquire half of the NSR for $1,000,000 up until the end of the 3 year term of this agreement.

Ghost Mountain Property

During the year ended May 31, 2017, the Company entered into an option agreement for mineral properties in Kirkland Lake, Ontario. The terms of the option agreement include:

- The Vendors will receive $25,000 upon signing of the definitive agreement (paid);
- The Vendors will receive $25,000 one year from signing the definitive agreement (paid);
- The Company will issue 750,000 shares to the Vendors upon the signing of the definitive agreement (issued at a fair value of $41,250);
- The Company will issue 750,000 shares one year from signing the definitive agreement (issued at a fair value of $67,500 (Note 8));
- The Vendors will have the first right of refusal to participate in up to 10% of all future financings in the Company; and
- The Vendors will be entitled to a 3% NSR royalty. The Company has the option to acquire half of the NSR for $1,000,000 up until the end of the 3 year term of this agreement.

3. Exploration and Evaluation Assets *(cont'd)*

Ontario, Canada *(cont'd)*

Mosher Lake Property

During the year ended May 31, 2018, the Company entered into an option agreement for mineral properties in Gowganda, Ontario. The option agreement includes cash payments totalling $50,000 and share issuances totalling 3,000,000 under the following terms:

- The Vendors will receive $20,000 upon signing a definitive agreement (paid);
- The Vendors will receive $15,000 each year for two years starting one year after the signing of the definite agreement;
- The Company will issue 1,000,000 shares to the Vendors upon signing a definitive agreement (issued at a fair value of $70,000 (Note 8));
- The Company will issue 1,000,000 shares to the Vendors each year for two years starting one year after the signing of the definite agreement;
- A 2% NSR is reserved by the Vendors on the property. The Company has the option to acquire half of the NSR for $1,000,000 anytime up to five years from the date of closing of the definitive agreement; and
- The Vendors have the first right of refusal to participate in up to 10% of all future financings in the Company.

Temagami North Property

The Company holds several claims on the Temagami North Property.

Quebec, Canada

Carheil Property

During the year ended May 31, 2016, the Company acquired mineral properties (43 claims) in Quebec from Skyworld Holdings Limited ("Skyworld"). The terms of the acquisition include:

- Skyworld will receive $15,000 upon signing of a definitive agreement (paid);
- Skyworld will receive $10,000 each year for five years for a total of $50,000 starting in the year following the year of the initial $15,000 payment and the signing of the definitive agreement (paid in full);
- The Company will issue 400,000 shares to Skyworld upon the closing of the transaction (issued at a value of $20,000);
- The Company will issue 500,000 additional shares per year each year for three years for a total of 1,500,000 shares, starting in the year following the year after the closing of the transaction (issued in full at a value of $75,000); and
- Finder's fees were paid by issuing 190,000 shares valued at $9,500 to an arm's length third party in connection with this transaction.

During the year ended May 31, 2017, the Company renewed the 43 claims for two years and also staked an additional 189 contiguous claims.

During the year ended May 31, 2018, the Company renewed the 54 claims to August 2020 and subsequent to May 31, 2018, the Company renewed the 54 claims to August 2022.

4. Related Party Transactions

The Company incurred $332,435 (2017 - $174,894) to related parties during the year ended May 31, 2018 as follows:

- $120,000 (2017 - $Nil) in consulting fees to a former director and chief executive officer of the Company.
- $120,000 (2017 - $105,000) in consulting fees to a company owned by the Company's chief executive officer and director of the Company.
- $15,000 (2017 - $14,450) in consulting fees to a company controlled by a director of the Company.
- $1,062 (2017 - $Nil) in consulting fees to a company controlled by a director of the Company.
- $72,000 (2017 - $52,500) in professional fees to a firm where an officer of the Company is a partner.
- $4,372 (2017 - $2,944) in consulting fees to an officer of the Company.

As at May 31, 2018, the Company owed $16,791 (2017 - $1,962) to related parties as follows:

- $3,079 (2017 - $1,400) to a company controlled by a director of the Company.
- $12,600 (2017 - $562) to a company where an officer of the Company is a partner.
- $1,112 (2017 - $Nil) to a company controlled by a director of the Company.

As at May 31, 2018, the Company advanced $Nil (2017 - $8,927) to a company controlled by a director of the Company.

During the year ended May 31, 2018, the Company granted 2,500,000 (2017 – $Nil) stock options with a fair value of $171,034 (2017 - $Nil) to officers and directors of the Company.

5. Loan Payable

During the year ended May 31, 2017, the Company received loan proceeds of $5,500 from a firm where an officer of the Company is a partner. The loan was unsecured, non-interest bearing, payable on demand and had no fixed terms of repayment. The loan was repaid in full during the year ended May 31, 2017.

6. Note Payable

In March 2013, the Company entered into a promissory note for $5,000 that accrues interest at 10% per annum. As at May 31, 2018, the Company had recorded interest payable of $2,544.

7. Reversal of Withholding Tax Liability

During the year ended May 31, 2017, Canada Revenue Agency ("CRA") approved the Company's Notice of Objection with regard to withholdings taxes related to management and consulting fees paid by the Company during the 2010, 2011, 2012 and 2013 fiscal years. As a result, tax liabilities previously accrued by the Company in the amount of $259,670 were revised to $nil by CRA.

8. Equity

a) Share capital

Authorized share capital consists of an unlimited number of common shares without par value.

As at May 31, 2018, the Company had 82,534,916 shares issued and outstanding.

During the year ended May 31, 2018, the Company:

i. Completed a non-brokered private placement by issuing 7,044,950 units for gross proceeds of $422,697. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share, exercisable at a price of $0.10 per share for a period of 24 months from the date of issue. The Company paid cash finder’s fees totaling $23,055 and issued 290,000 finder’s warrants exercisable at a price of $0.10 per share for a period of 24 months from the date of issue. The finder’s warrants were ascribed a fair value of $21,536.

ii. Issued 1,947,500 common shares of the Company for proceeds of $116,850 for warrants and finder’s warrants exercised.

iii. Issued 2,300,000 common shares of the Company for proceeds of $115,000 for stock options exercised.

iv. Issued 2,250,000 common shares of the Company valued at $162,500 for exploration and evaluation assets (Note 3).

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

i. Issued 1,250,000 common shares of the Company valued at $66,250 for exploration and evaluation assets (Note 3).

ii. Completed a non-brokered private placement by issuing 16,500,000 units for gross proceeds of $825,000. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share, exercisable at a price of $0.06 per share for a period of 24 months from the date of issue. The Company paid cash finder’s fees totaling $25,619, and issued 410,000 finder’s warrants exercisable at a price of $0.06 per share for a period of 24 months from the date of issue. The finder’s warrants were ascribed a fair value of $20,702.

b) Share purchase options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, officers, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the option price of any common share in respect of which an option may be granted under the stock option plan shall be fixed by the Board of Directors but shall be not less than the minimum price permitted by the Exchange.

During the year ended May 31, 2018, the Company granted 3,850,000 (2017 – 1,350,000) stock options at a weighted average exercise price of $0.07 (2017 - $0.05) per share and recorded share-based payments of $275,297 (2017 - $84,427). In January 2018, the Company granted 2,000,000 stock options to directors, officers and consultants at an exercise price of $0.15 per share for a period of five years. Of the 2,000,000 options granted, directors and officers voluntarily returned 1,850,000 to the Company in the same month.

(Expressed in Canadian Dollars)

8. Equity *(cont'd)*

b) Share purchase options *(cont'd)*

The continuity of share purchase options is as follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, May 31, 2016	5,100,000	$ 0.05
Granted	1,350,000	0.05
Balance, May 31, 2017	6,450,000	$ 0.05
Granted	3,850,000	0.07
Expired/cancelled	(1,350,000)	0.05
Exercised	(2,300,000)	0.05
Balance, May 31, 2018	6,650,000	$ 0.06

At May 31, 2018, the following incentive stock options were outstanding to directors, officers and consultants:

Number of Options Outstanding	Exercise Price	Expiry Date	Number of Options Exercisable
2,700,000	$ 0.05	May 19, 2021	2,700,000
300,000	0.05	April 17, 2022	300,000
100,000	0.05	July 28, 2022	100,000
100,000	0.05	August 8, 2022	100,000
100,000	0.05	August 15, 2022	100,000
2,500,000	0.07	October 11, 2022	2,500,000
150,000	0.15	January 17, 2023	150,000
100,000	0.075	April 8, 2023	100,000
300,000	0.085	May 7, 2023	300,000
300,000	0.075	May 31, 2023	300,000
6,650,000			6,650,000

The weighted average remaining life of the options at May 31, 2018 is 3.84 years (2017 – 4.16 years).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the years ended May 31, 2018 and 2017:

	2018	2017
Risk-fee interest rate	1.82%	1.05%
Expected life of options	5 years	5 years
Expected annualized volatility	180.50%	145.06%
Expected dividend rate	-	-

(Expressed in Canadian Dollars)

8. Equity *(cont'd)*

c) Warrants

The continuity of share purchase warrants for the year ended May 31, 2018 is as follows:

	Outstanding Warrants	Weighted Average Exercise Price
Balance, May 31, 2016	-	$ -
Granted – warrants	16,500,000	0.06
Granted – finder's warrants	410,000	0.06
Balance, May 31, 2017	16,910,000	0.06
Granted – warrants	7,044,950	0.10
Granted – finders' warrants	290,000	0.10
Exercised – warrants	(1,782,500)	0.06
Exercised – finders' warrants	(165,000)	0.06
Balance, May 31, 2018	22,297,450	$ 0.07

At May 31, 2018, the following warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
14,962,500	$0.06	April 10, 2019*
7,334,950	0.10	December 14, 2019
22,297,450		

*Subsequent to May 31, 2018, 671,000 warrants were exercised for proceeds of $40,260.

The weighted average remaining life of the warrants at May 31, 2018 is 1.08 years (2017 – 1.86).

The following weighted average assumptions were used for the Black-Scholes valuation of finder's warrants granted during the year ended May 31, 2018 and 2017:

	2018	2017
Risk-fee interest rate	1.60%	0.76%
Expected life of warrants	2 years	2 years
Expected annualized volatility	194.69%	198.87%
Expected dividend rate	-	-

(Expressed in Canadian Dollars)

9. Segmented Information

The Company currently conducts all of its operations in Canada in one business segment being the acquisition and exploration of resource properties.

10. Capital Management

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

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

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

11. Financial Instruments and Financial Risk Factors

Financial instruments

Financial instruments must be classified at one of three levels within a fair value hierarchy according to the relative reliability of the inputs used to estimate their values. The three levels of the hierarchy are as follows:

- Level 1: Unadjusted quoted price 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 hierarchal classification of the Company's financial instruments measured at fair value for the year ended May 31, 2018 and 2017 is as follows:

2018	Level 1	Level 2	Level 3	Total
Cash	$ 140,997	$ -	$ -	$ 140,997

2017	Level 1	Level 2	Level 3	Total
Cash	$ 362,956	$ -	$ -	$ 362,956

Cash is measured using Level 1. The Company does not have any financial instruments that are measured using Level 2 or Level 3 inputs. During the year ended May 31, 2018, there were no transfers between Level 1, Level 2, and Level 3 classified assets and liabilities.

The Company's financial instruments are exposed to certain financial risks, including liquidity risk and foreign exchange risk.

11. Financial Instruments and Financial Risk Factors *(cont'd)*

Fair Value

The Company's financial instruments include cash, amounts receivable (excluding GST), due from related party, accounts payable and accrued liabilities, due to related parties, and note payable. Cash is classified as "held for trading" and measured at fair value, amounts receivable and due to related party are classified as "loans and receivables" and measured at amortized cost, while accounts payable and accrued liabilities, due to related parties, and note payable are classified as "other financial liabilities" initially recognized at fair value less directly attributable transactions costs, then subsequently recognized at amortized cost.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. To the extent that the Company does not believe it has sufficient liquidity to meet obligations, it will consider securing additional equity funding, or engage in negotiations to extend terms with creditors. The Company manages liquidity risk through the management of its capital structure (see Note 10).

Foreign Exchange Risk

The Company raises its capital in Canadian dollars. The Company holds its cash mainly in Canadian dollars. The Company minimizes its exposure to foreign currency risk by minimizing the amount of funds in currencies other than the Canadian dollar. The Company does not undertake currency hedging activities. The Company continuously monitors its exposure to foreign exchange risk to determine if any mitigation strategies warrant consideration.

12. Supplemental Information

	2018	2017
Non-Cash Investing and Financing Activities:		
Common shares issued for exploration and evaluation assets	$ 162,500	$ 66,250
410,000 finder's warrants issued in private placement	$ -	$ 20,702
290,000 finder's warrants issued in private placement	$ 21,536	$ -
Transfer to share capital on exercise of finder's warrants	$ 8,332	$ -
Transfer to share capital on exercise of stock options	$ 123,046	$ -
Accounts payable included in exploration and evaluation assets	$ 8,607	$ 8,498

(Expressed in Canadian Dollars)

13. Income Taxes

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2018	2017
Net loss before income tax	$ 776,663	$ 234,030
Effective statutory rate	26.40%	26.00%
Expected income tax recovery	(205,000)	(60,848)
Change in statutory, foreign tax, foreign exchange rates and other	(216,000)	-
Net effect of deductible and non-deductible amounts	73,000	(52,199)
Share issue costs	(6,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(70,000)	-
Unrecognized benefit of non-capital loss	424,000	113,047
Income tax recovery	$ -	$ -

Deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax assets have been recognized are attributable to the following:

	2018	2017
Non-capital loss carry-forwards	$ 12,246,000	$ 10,972,000
Exploration and evaluation assets	9,693,000	10,453,626
Investment tax credit	42,000	-
Property and equipment	287,000	211,359
Allowable capital losses	60,000	-
Share issue costs	51,000	37,133
	$ 22,379,000	$ 21,674,118

The Company has non-capital losses of approximately $12,246,000 (2017 - $10,972,000) which are available to reduce future taxable income in Canada and which expire between 2027 and 2038.

14. Subsequent Events

Subsequent to the year ended May 31, 2018, the Company:

a) Issued 100,000 stock options to a consultant exercisable at $0.08 per share for a period of five years from the date of issue.

b) Signed a Memorandum of understanding with multiple First Nation communities to advance its Gowganda West Gold-Copper-Cobalt Project in Northern Ontario. Under the MOU, the Company issued 350,000 shares.

c) Received proceeds of $40,260 from the exercise of 671,000 warrants.