Unaudited Condensed Consolidated Interim Financial Statements of

# COREX GOLD CORPORATION
(An Exploration Stage Company)

**For the Nine Months Ended September 30, 2017 and 2016**

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**Corex Gold Corporation**
(An Exploration Stage Company)
September 30, 2017 and September 30, 2016
(Expressed in Canadian Dollars)

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Unaudited Condensed Consolidated Interim Financial Statements

## NOTICE TO READER

**The accompanying unaudited condensed consolidated interim financial statements of the Company for the three and nine months ended Septmeber 30, 2017 have been prepared by and are the responsibility of management in accordance with International Financial Reporting Standards applicable to unaudited condensed interim financial reporting.**

**The Company's independent auditor has not audited or performed a review of these financial statements, in accordance with standards established by the Canadian Institute of Chartered Accountant for a review of unaudited condensed consolidated interim financial statements by an entity's auditor.**

**COREX GOLD CORPORATION**

(An Exploration Stage Company)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (unaudited)**

Expressed in Canadian Dollars

As at Septmeber 30, 2017 and December 31, 2016

| | Note | | September 30 2017 | | December 31 2016 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Current | | | | | |
| Cash and cash equivalents | 5 | $ | 1,715,763 | $ | 2,803,745 |
| Receivables | 6,9, 16 | | 375,975 | | 35,816 |
| Prepaid expenses and advances | | | 1,070 | | 5,198 |
| Available-for-sale-investments | 7 | | 480 | | 312 |
| | | | 2,093,288 | | 2,845,071 |
| Property, plant and equipment | 8 | | 22,810 | | 22,778 |
| Exploration and evaluation assets | 9 | | 4,783,946 | | 4,079,981 |
| | | $ | 6,900,044 | $ | 6,947,830 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Current | | | | | |
| Trade and other payables | 10,16 | $ | 969,916 | $ | 508,631 |
| Interest payable on convertible debt | 11 | | 25,000 | | 25,000 |
| Total current liabilities | | | 994,916 | | 533,631 |
| Non-current | | | | | |
| Provisions | 12 | | 30,000 | | 15,000 |
| Total liabilities | | | 1,024,916 | | 548,631 |
| Share capital | 13 | | 36,961,519 | | 36,961,519 |
| Contributed surplus | 14 | | 3,076,513 | | 2,708,413 |
| Accumulated other comprehensive income | 7 | | 362 | | 194 |
| Accumulated Deficit | | | (34,163,266) | | (33,270,927) |
| Total shareholders' equity | | | 5,875,128 | | 6,399,199 |
| | | $ | 6,900,044 | $ | 6,947,830 |

They are signed on the Company’s behalf by:

*“Douglas Ramshaw”* Director
Douglas Ramshaw

*“Craig Schneider”* Director
Craig Schneider

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

**COREX GOLD CORPORATION**
(An Exploration Stage Company)
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (unaudited)**
Expressed in Canadian Dollars
For the three and nine months ended September 30

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| | Note | 2017 | 2016 | 2017 | 2016 |
| **Expenses** | | | | | |
| | 15,16 | $ **318,322** | $ 181,555 | $ **528,710** | $ 390,864 |
| Depreciation | 8 | **102** | - | **1,321** | 1,250 |
| Share-based payments | 14 | **-** | - | **368,100** | 32,290 |
| Total expenses | | **(318,424)** | (181,555) | **(898,131)** | (424,404) |
| Interest and other income | | **3,892** | - | **5,792** | 145 |
| **Net loss for the period** | | **(314,532)** | (181,555) | **(892,339)** | (424,259) |
| **Other comprehensive loss** | | | | | |
| Fair value loss on available-for-sale investments | 7 | **-** | 22 | **168** | (251) |
| **Total loss and comprehensive loss for the period** | | $ **(314,532)** | $ (181,533) | $ **(892,171)** | $ (424,510) |
| **Loss per common share, basic and diluted** | 18 | $ **(0.00)** | $ (0.00) | $ **(0.01)** | $ (0.00) |

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

**COREX GOLD CORPORATION**

(An Exploration Stage Company)

**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)**

Expressed in Canadian Dollars

For the nine months ended September 30

| | | Share Capital | Contributed Surplus | Accumulated Comprehensive Other Income | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2015 | Note | $ 32,260,024 | $ 2,666,787 | $ 353 | $ (32,633,492) | $ 2,293,672 |
| Net loss for the period | | - | - | - | (424,259) | (424,259) |
| Shares issued for debt settlement | 13,16 | 176,400 | - | - | - | 176,400 |
| Shares issued for compensation | 13 | 117,950 | - | - | - | 117,950 |
| Shares issued for cash | 13 | 1,000,000 | - | - | - | 1,000,000 |
| Share issue costs | 13 | (189,801) | - | - | - | (189,801) |
| Fair value of compensation warrants | 13 | - | 37,096 | - | - | 37,096 |
| Fair value of investments | 7 | - | - | (251) | - | (251) |
| Share-based payments | 14 | - | 32,290 | - | - | 32,290 |
| Balance, September 30, 2016 | | $ 33,364,574 | $ 2,736,173 | $ 102 | $ (33,057,751) | $ 3,043,098 |

| | | Share Capital | Contributed Surplus | Accumulated Comprehensive Other Income | Accumulated Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | | $ 36,961,519 | $ 2,708,413 | $ 194 | $ (33,270,927) | $ 6,399,199 |
| Net loss for the period | | - | - | - | (892,339) | (892,339) |
| Share-baed payments | 14 | - | 368,100 | - | - | 368,100 |
| Fair value of investments | 7 | - | - | 168 | - | 168 |
| **Balance, September 30, 2016** | | **$ 36,961,519** | **$ 3,076,513** | **$ 362** | **$(34,163,266)** | **$ 5,875,128** |

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

**COREX GOLD CORPORATION**

**(An Exploration Stage Company)**

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (unaudited)**

Expressed in Canadian Dollars

For the nine months ended September 30

| | Note | | 2017 | | 2016 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Net loss for the period | | $ | (892,339) | $ | (424,259) |
| Adjustments to reconcile loss to net cash used in operating activities: | | | | | |
| Depreciation | 8 | | 1,321 | | 1,250 |
| Share-based payments | 14 | | 368,100 | | 32,290 |
| Changes in non-cash working capital balances: | | | | | |
| Receivables | 9 | | 11,526 | | (18,155) |
| Trade and other payables | 10 | | (153,109) | | (141,918) |
| Prepaid and advances | | | 4,128 | | 11,523 |
| **Total cash outflows from operating activities** | | | (660,373) | | (539,269) |
| **Cash Flows From Investing Activities** | | | | | |
| Purchase of equipment | 8 | | (1,353) | | - |
| Recovery of investment in exploration and evaluation ass | 9 | | - | | 11,239 |
| Exploration and evaluation assets | 9 | | (426,256) | | (124,288) |
| **Total cash outflow from investing activities** | | | (427,609) | | (113,049) |
| **Cash Flows from Financing Activities** | | | | | |
| Shares issued | 13 | | - | | 1,000,000 |
| Share issue costs | 13 | | - | | (34,754) |
| **Total cash provided from financing activities** | | | - | | 965,246 |
| **Total decrease in cash during the period** | | | (1,087,982) | | 312,928 |
| Cash and cash equivalents, beginning of the period | | | 2,803,745 | | 165,378 |
| **Cash and cash equivalents, end of the period** | | $ | 1,715,763 | $ | 478,306 |
| **Composition of cash and cash equivalents** | | | | | |
| Cash | | $ | 65,308 | $ | 451,855 |
| Cash equivalents | | | 1,650,455 | | 26,451 |
| **Cash and cash equivalents, end of the period** | | $ | 1,715,763 | $ | 478,306 |

See Note 19 for Non-Cash Transaction

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

## 1. CORPORATION INFORMATION

Corex Gold Corporation ("Corex" or the "Company") is incorporated under the *Business Corporations Act* (British Columbia) and is primarily engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The business of exploring for and mining minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's principal asset is its Santana Property located in Mexico.

The Company is listed on the TSX Venture Exchange (the "Exchange"), having the symbol CGE.V as a Tier 2 issuer, and its corporate office and principal place of business is located at 350 – 409 Granville Street, Vancouver, British Columbia, Canada, V6C 1T2.

## 2. BASIS OF PREPARATION AND GOING CONCERN

These condensed consolidated interim financial statements for the nine month period ended September 30, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Company's 2016 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed consolidated interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2016 annual financial statements except for new standards, interpretations and amendments mandatorily effective for the first time from January 1, 2017

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 29, 2017.

The preparation of the condensed consolidated interim financial statements is in compliance with IAS 34 requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

The condensed consolidated interim financial statements are presented in Canadian Dollars ("CDN"), which is also the Company's functional currency.

### Going Concern

The Company has not generated revenue from operations. The Company incurred a net loss of $892,339 during the period ended September 30, 2017 (September 30, 2016 - $424,510) and, as of that date, the Company's deficit was $34,163,266 (December 31, 2016 - $33,270,927) and is expected to continue to incur losses. These conditions indicate the existence of material uncertainties, which may cast significant doubt on the Company's ability to continue as a going concern. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations, and although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

Accordingly, no adjustments to the carrying values of the assets and liabilities have been made in these condensed consolidated interim financial statements. Should the Company no longer be able to continue as a going concern, certain assets and liabilities may require restatement on a liquidation basis, which may differ materially from the going concern basis.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Consolidation

These condensed consolidated interim financial statements include the accounts of:

| | % of Ownership | Jurisdiction | Principal Activity |
|---|---|---|---|
| Latitude Operating Company | 100% | Nevada | Inactive |
| Corex Global S. de R.L. de C.V. ("Corex Global") | 100% | Mexico | Exploration Company |

Subsidiaries are all entities over which the Company has control. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intercompany transactions and balances, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements.

### Recent and Future Accounting Pronouncements

The standards listed below include only those which the Company reasonably expects may be applicable to the Company at a future date. The Company is currently assessing the impact of the standards on the condensed consolidated interim financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9. However, for annual periods beginning before January 1, 2018, an entity may elect to apply those earlier versions instead of applying the final version of this new standard if its initial application date is before February 1, 2015.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- *Classification and measurement of financial assets:*
  Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- *Classification and measurement of financial liabilities:*
  When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.

- *Impairment of financial assets:*
  An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- *Hedge accounting:*
  Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

(Expressed in Canadian Dollars)

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Future Accounting Pronouncement** (cont'd)

- *Derecognition:*
  The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

This standard is applicable to the Company's annual periods beginning January 1, 2018.

*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 *Leases*.

Applicable to annual periods beginning on or after January 1, 2017.

- *Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows)*
  The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

- *Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12 Income Taxes*)
  The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

There have been no material revisions to the nature of judgements and amount of changes in estimates of amount reported in the Company's 2016 annual financial statements.

## 5. CASH AND CASH EQUIVALENTS

Cash at banks and on hand earns interest at floating and fixed rates based on daily deposit rates. Cash equivalents are comprised of guaranteed investment certificates, which are redeemable at any time without penalty.

## 6. RECEIVABLES

| | September 30 2017 | December 31 2016 |
|---|---|---|
| Sales taxes recoverable | $10,393 | $10,243 |
| Sales receivable Note 9 | $346,785 | - |
| Other - Note 16 | 18,797 | 25,573 |
| | $375,975 | $35,816 |

Sales taxes recoverable represents input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada.

Included in sales receivable is the sale of concentrate from the Company's Santana property as described in Note 9.

Included in "Other" is $12,717 (December 31, 2016 - $12,321) receivable from companies with related directors and officers that are due on demand and without interest.

(Expressed in Canadian Dollars)

## 7. AVAILABLE-FOR-SALE INVESTMENTS

Marketable securities consist of an investment in 400 (December 31, 2016 – 400) (post consolidation of 250:1) common shares of Modern Cinema Group Inc. (formerly Hemis Gold Corporation). The fair value of $480 (December 31, 2016 - $312) of the marketable securities has been determined by reference to published price quotations in an active market, a Level 1 valuation. During the period ended September 30, 2017 the Company recorded $168 as an unrealized gain (September 30, 2016 - $251 loss) on investment in marketable securities, which was recognized in other comprehensive income (loss).

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Field Equipment | Furniture & Fixtures | Office Equipment | Leasehold Improvements | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance at December 31, 2015 and December 31, 2016 | $25,365 | $18,575 | $117,057 | $10,561 | $171,558 |
| Acquisition | | - | 1,353 | - | 1,353 |
| **Balance at September 30, 2017** | **$25,365** | **$18,575** | **$118,410** | **$10,561** | **$172,911** |
| | | | | | |
| **Depreciation and impairment losses** | | | | | |
| Balance at December 31, 2015 | $211 | $18,575 | $117,057 | $10,561 | $146,404 |
| Depreciation for the period | 2,376 | - | - | - | 2,376 |
| Balance December 31, 2016 | 2,587 | 18,575 | 117,057 | 10,561 | 148,780 |
| Depreciation for the period | 1,139 | - | 182 | - | 1,321 |
| **Balance at September 30, 2017** | **$3,726** | **$18,575** | **$117,239** | **$10,561** | **$150,101** |
| | | | | | |
| **Carrying amounts** | | | | | |
| Balance at December 31, 2016 | $22,778 | $- | $- | $- | $22,778 |
| **Balance at September 30, 2017** | **$21,639** | **$-** | **$1,170** | **$-** | **$22,810** |

## 9. EXPLORATION AND EVALUATION ASSETS

| | | Santana Project |
|---|---|---|
| Costs | | |
| Balance at December 31, 2015 | $ | 2,764,674 |
| Exploration costs, *net recoveries* | | 1,300,307 |
| Asset retirement obligations | | 15,000 |
| Balance at December 31, 2016 | | 4,079,981 |
| Exploration costs, *net recoveries* | | 688,965 |
| Asset retirement obligations | | 15,000 |
| **Balance as at June 30, 2017** | **$** | **4,783,946** |

Title to resource properties involves certain inherent risks due to the difficulties in determining the validity of certain claims, as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many resource properties. The Company has investigated title to all of its resource properties, and to the best of its knowledge, titles to all of its properties are in good standing.

## 9. EXPLORATION AND EVALUATION ASSETS (cont'd)

### MEXICO

### Santana Property

The Company holds a 100% interest in two contiguous mining concessions referred to as Santa Lucia and Hilda 35 Fraccion 1, located in Sonora State, Mexico, pursuant to two property option agreements dated December 11, 2007, and an amending agreement dated January 20, 2012, between the Company and private vendors. Consideration for the acquisition included aggregate cash payments of US$1,000,000 and the issuance of an aggregate 1,915,831 common shares of the Company at a recorded value of $203,081, as determined by the market price when issued.

The Hilda 35 Fraccion 1 is also subject to a 2% net smelter return royalty ("NSR"). Each 1% NSR can be purchased for US$1,000,000 within the three years following the conclusion of the feasibility study with positive results. In addition to the concessions under option, Corex has staked two additional contiguous concessions and all four are collectively known as the "Santana Property". The Santana Property covers approximately 7,000 hectares and is located approximately 200 kilometres east-southeast of Hermosillo, Sonora, Mexico.

Pursuant to an agreement dated June 23, 2014 between the Company and Morgan (the "Agreement"), Morgan agreed to invest up to $1,650,000 and to provide operational and management services regarding the Santana Property. The initial tranche of $400,000 ("First Tranche") was advanced to the Company. The First Tranche was provided by way of a private placement for the issuance of 5,000,000 units at a price of $0.08 (the "Units"). Each Unit comprised one common share and one share purchase warrant to purchase an additional common share at a purchase price of $0.15 for a period of two years.

The remaining second tranche of $1,250,000 ("Second Tranche") is to be advanced following satisfactory completion of the initial work program and at the sole discretion of Morgan. The Second Tranche will consist of units to be issued at a price equal to the maximum allowable discount pursuant to the rules of the Exchange as of the date of issuance, each unit consisting of one common share and one-half of one warrant exercisable for a period of two years from the date of issuance. The Agreement requires that the proceeds of the financing be used solely with respect to exploration and development of the Santana Property, or maintenance payments on same. On May 22, 2015, Morgan completed a portion of the Second Tranche drawdown for 2,440,000 Units for gross proceeds of $122,000, which formed part of the 2015 Financing. On May 10, 2016 Morgan completed a further drawdown for 10,000,000 Units for gross proceeds of $500,000, which formed part of the 2016 Financing, completed on May 10, 2016 as described in Note 13. On October 20, 2016 Morgan completed a further drawdown for 6,105,831 shares for gross proceeds of $610,583, which formed part of the October 2016 Financing, as described in Note 13, leaving a balance of $17,417 under the Second Tranche available.

The Agreement also provides that Morgan will manage feasibility work on the property with the objective of advancing the Santana Property into commercial production. As such, Corex, pursuant to the terms of a written agreement (the "Management Agreement"), appointed Morgan's corporate partner, Minas de Guachinango S.A de C.V, a Mexican corporation (the "Manager"), as the Manager over the activities to be conducted on the Property. The Management Agreement will be terminated upon the earlier of the Manager's resignation and termination of the Management Agreement or following the commencement of profitable commercial production at the Santana Property.

Pursuant to the terms of the Agreement, Corex has additionally granted to Morgan a participation right with respect to any future equity or convertible debt financing while the Management Agreement is in force and a right of first refusal with respect to any financing required in order for the Santana Property to be made profitable after the completion of a phase 2 work program.

(Expressed in Canadian Dollars)

## 9. EXPLORATION AND EVALUATION ASSETS (cont'd)

**MEXICO** (cont'd)

**Santana Property** (cont'd)

H. Morgan & Company ("Morgan")

On April 19, 2015, the Company executed a surface access agreement between the communal landowners located adjacent to the Company's Santana project to provide unencumbered surface access for a period of 25 years. The agreement allows for the Company to carry out all exploration activities in connection to its Santana project. The terms of the agreement include annual payments of Mexican pesos ("MXP") 1,000,000 in year one, MXP 1,300,000 in year two which was prepaid (MXP 400,000 paid on November 24, 2014 and MXP 1,900,000 paid on signing). Each additional year thereafter will be increased by 6% of the previous year's rent, with a review and additional increase of MXP 200,000 every five years. The Company may terminate the agreement at any time with no further obligations other than removal of any buildings and/or equipment it may have installed.

On August 29, 2017 the Company entered consignment form for the sale of 260.50 troy ounces of gold-in-carbon concentrate resulting from its bulk testing heap leach activities. The sale was settled subsequent to September 30, 2017 in the amount of $346,785 (MXP$5,067,730).

Impairment

As at September 30, 2017 and December 31, 2016, management has determined that the carrying value of its Santana Property had no indicators of impairment.

## 10. TRADE AND OTHER PAYABLES

| | | September 30 2017 | December 31 2016 |
|---|---|---|---|
| Trade payables | $ | **$884,790** | $502,063 |
| Due to related party - Note 16 | | **85,126** | 6,568 |
| Total | $ | **$969,916** | $508,631 |

## 11. INTEREST PAYABLE ON CONVERTIBLE DEBT

**Convertible Promissory Note**

On January 20, 2012 (amended February 2012), the Company entered into an unsecured convertible promissory note (the "Note") with a private investor (the "Holder") for $570,000 (the "Principal Sum"), which was due January 20, 2013 along with interest at a rate of 9% per annum.

During the year ended December 31, 2012, the Company repaid the Note with cash and the host debt and embedded derivative liability were derecognized.

As at September 30, 2017, the Company has an accrued interest payable of $25,000 (December 31, 2016 - $25,000) that remains outstanding on the Note.

## 12. PROVISIONS

The Company fulfils its site restoration obligations as required when a drill site is abandoned, and accordingly, no discounted present value was calculated due to the expected short-term nature of the obligation. Management will continue to assess asset retirement obligations as future exploration activity is undertaken.

At September 30, 2017, the estimated costs for exploration and evaluation rehabilitation were $30,000 (December 31, 2016 - $15,000).

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL AND RESERVES

### a) Common Shares

The Company's authorized share capital is an unlimited number of common shares without par value.

The following is a summary of changes in common share capital from January 1, 2016 to September 30, 2017:

| | Number of Shares | Issue Price | Total |
|---|---|---|---|
| Balance December 31, 2015 | 75,161,640 | - | $32,260,024 |
| Shares issued for compensation | 210,000 | $0.15 | 30,450 |
| Shares issued for compensation | 700,000 | $0.13 | 87,500 |
| Shares issued for private placement | 20,000,000 | $0.05 | 1,000,000 |
| Shares issued for private placement | 34,405,831 | $0.10 | 3,440,583 |
| Shares issued for debt settlement | 2,205,000 | $0.14 | 297,675 |
| Shares issued on exercise of options | 900,000 | $0.05 | 45,000 |
| Fair value of stock options transferred on exercise | - | - | 27,760 |
| Share issue costs | - | - | (227,473) |
| **Balance, December 31, 2016 and September 30, 2017** | **133,582,471** | **-** | **$36,961,519** |

During the period ended September 30, 2017 there were no share issuances.

During the year ended December 31, 2016, the following shares were issued:

On May 5, 2016 the Company issued 210,000 compensation shares in connection with a private placement completed in the prior year 2015. The common shares were valued at $30,450, as determined by the market price when issued being $0.145 per common share.

On May 9, 2016 pursuant to the settlement of debt the Company issued 2,205,000 common shares at an issue price of $0.135 per common share extinguishing an aggregate of $176,400 in outstanding trade payables and loans to related and non-related parties (\see Note 16) resulting in a loss on debt settlement of $121,275.

On May 10, 2016, the Company completed a non-brokered private placement for 20,000,000 units at a price of $0.05 per unit, for aggregate gross proceeds of $1,000,000 (the "2016 Financing"). Each unit consists of one common share and one-half of one non-transferable share purchase warrant. Each whole warrant is exercisable by the holder to acquire one additional common share at a price of $0.15 for a period of 24 months from closing.

The Company issued 700,000 compensation shares in connection with the 2016 Financing. The common shares were valued at $87,500 as determined by the market price when issued being $0.125 per common share. The Company issued 525,000 agents warrants at a price of $0.15 per warrant and on the same terms as the 2016 Warrants. The Agent Warrants were recorded at their fair market value of $37,096 using an option pricing valuation method (see Agents Warrants below). Financing also included cash compensation of $26,250 to agents.

On October 20, 2016, the Company completed a non-brokered private placement for 34,405,831 shares at a price of $0.10 per unit, for aggregate gross proceeds of $3,440,583.

The Company issued 900,000 common shares pursuant to the exercise of stock option at an exercise price of $0.05.

(Expressed in Canadian Dollars)

## 13. SHARE CAPITAL AND RESERVES (cont'd)

### b) Contributed Surplus

Contributed surplus consists of the fair value of stock options and warrants granted since inception, less amounts reversed for exercised stock options and warrants. If granted options vest and then subsequently expire or are forfeited, no reversal of contributed surplus is recognized.

### c) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from January 1, 2016 to September 30, 2017:

| Share Purchase Warrants | Number | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2015 | 9,250,000 | $0.15 |
| Issued | 10,000,000 | $0.15 |
| Balance, December 31, 2016 | 19,250,000 | $0.15 |
| Expired | (9,250,000) | $0.15 |
| **Balance, September 30, 2017** | 10,000,000 | $0.15 |

As at September 30, 2017, 10,000,000 (December 31, 2016 –19,250,000) share purchase warrants were outstanding and exercisable with a weighted average remaining contractual life of 0.61 (December 31, 2016 – 0.81) years. Each warrant entitles the holders thereof the right to purchase one common share as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 10,000,000 | $0.15 | 10-May-18 |

### c) Agent Warrants

The following is a summary of changes in agent warrants from January 1, 2016 to September 30, 2017:

| Agents Warrants | Number | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2015 | 70,000 | $0.15 |
| Expired | (70,000) | $0.15 |
| Granted | 525,000 | $0.15 |
| Balance December 31, 2016 and September 30, 2017 | 525,000 | $0.15 |

As at September 30, 2017, 525,000 (December 31, 2016 – 525,000) agent warrants were outstanding and exercisable with a weighted average remaining contractual life of .61 (December 31, 2016 – 1.36) years. Each agent warrant entitles the holder to purchase one common share as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 525,000 | $0.15 | 10-May-18 |

(Expressed in Canadian Dollars)

## 14. SHARE-BASED PAYMENTS

The Company has a stock option plan (the "Plan") in place under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The stock options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

The following is a summary of changes in options from January 1, 2017 to September 30, 2017:

| Grant Date | Expiry Date | Exercise Price | Opening Balance | Granted | Exercised | Forfeited | Closing Balance | Vested and Exercisable |
|---|---|---|---|---|---|---|---|---|
| 7-Feb-13 | 7-Feb-18 | $0.10 | 750,000 | - | - | - | 750,000 | 750,000 |
| 8-Feb-13 | 8-Feb-18 | $0.10 | 850,000 | - | - | - | 850,000 | 850,000 |
| 2-Nov-15 | 2-Nov-20 | $0.05 | 3,600,000 | - | - | - | 3,600,000 | 3,600,000 |
| 3-Feb-16 | 3-Feb-21 | $0.05 | 150,000 | - | - | - | 150,000 | 150,000 |
| 19-May-17 | 19-May-22 | $0.12 | - | 3,500,000 | - | - | 3,500,000 | 3,500,000 |
| | | | 5,350,000 | 3,500,000 | - | - | 8,850,000 | 8,850,000 |
| /eighted Average Exercise Pri( | | | $0.06 | 0.10 | - | - | $0.08 | $0.08 |
| /eighted Average Life remainir | | | 3.03 | 4.64 | - | - | 3.21 | 3.21 |

As at September 30, 2017, 8,850,000 (December 31, 2016 – 5,350,000) stock options were outstanding and exercisable under the Plan with a weighted average remaining contractual life of 3.21 (December 31, 2016 – 3.03) years.

The following is a summary of changes in options from January 1, 2016 to December 31, 2016:

| Grant Date | Expiry Date | Exercise Price | Opening Balance | Granted | Exercised | Expired | Closing Balance | Vested and Exercisable |
|---|---|---|---|---|---|---|---|---|
| 5-Jan-11 | 5-Jan-16 | $0.67 | 495,000 | — | — | (495,000) | — | — |
| 7-Feb-13 | 7-Feb-18 | $0.10 | 750,000 | — | — | — | 750,000 | 750,000 |
| 8-Feb-13 | 8-Feb-18 | $0.10 | 850,000 | — | — | — | 850,000 | 850,000 |
| 28-Mar-13 | 28-Mar-18 | $0.10 | 150,000 | — | — | (150,000) | — | — |
| 2-Nov-15 | 2-Nov-20 | $0.05 | 3,600,000 | — | — | — | 3,600,000 | 3,600,000 |
| 3-Feb-16 | 3-Feb-21 | $0.05 | — | 650,000 | (500,000) | — | 150,000 | 150,000 |
| 9-Mar-16 | 9-Mar-21 | $0.05 | — | 400,000 | (400,000) | — | — | — |
| | | | 5,845,000 | 1,050,000 | (900,000) | (645,000) | 5,350,000 | 5,350,000 |
| Weighted Average Exercise Price | | | $0.12 | $0.05 | — | $0.54 | $0.06 | $0.06 |
| Weighted Average Life remaining | | | 3.62 | 4.13 | — | — | 3.03 | 3.03 |

### a) Fair Value of Options Issued During the Period

During the period ended September 30, 2017, the weighted average fair value at grant date of options granted was $0.10 (2016 - $0.05) per option. During the period ended September 30, 2017 there were 3,500,000 (2016 – 1,050,000) options granted.

The model inputs for options granted or vested during the periods ended September 30, 2017 and September 30, 2016 included:

| Grant Date | Expiry Date | Share Price at Grant Date | Exercise Price | Risk-Free-Interest Rate | Expected Life (Years) | Volatility Factor | Dividend Yield |
|---|---|---|---|---|---|---|---|
| May-19-17 | May-19-22 | $0.13 | $0.12 | 0.94% | 5 | 113.70% | 0% |
| Feb-03-16 | Feb-03-21 | $0.04 | $0.05 | 0.72% | 5 | 107.89% | 0% |
| Mar-09-16 | Mar-09-21 | $0.04 | $0.05 | 0.72% | 5 | 118.95% | 0% |

Expected volatility is based on the historical volatility of the Company's market share price.

(Expressed in Canadian Dollars)

## 14. SHARE-BASED PAYMENTS (cont'd)

### b) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the period ended September 30, 2017 were $368,100 (September 30, 2016 - $32,290).

## 15. NATURE OF EXPENSES

| | Note | Three Months Ended September 30 2017 | 2016 | Nine Months Ended September 30 2017 | 2016 |
|---|---|---|---|---|---|
| **Administrative and General Expenses:** | | | | | |
| Accounting and legal | | $ 4,914 | $ 2,225 | $ 20,062 | $ 30,982 |
| Consulting | 16 | 141,266 | 105,035 | 254,418 | 249,938 |
| Foreign exchange (gain) loss | | 29,734 | 9,617 | 48,435 | (32,897) |
| Investor relations, website development and marketing | | 73,259 | 295 | 73,874 | 14,137 |
| Office and administration fees | | 25,533 | 23,832 | 37,200 | 43,442 |
| Regulatory fees | | 21,203 | 3,519 | 29,682 | 10,598 |
| Rent | | 9,325 | 25,468 | 21,488 | 42,446 |
| Shareholder communications | | 4,314 | 2,248 | 4,785 | 2,445 |
| Transfer agent fees | | 626 | 1,365 | 2,720 | 4,645 |
| Travel | | 2,254 | 1,266 | 12,678 | 2,084 |
| Wages | | 5,893 | 6,685 | 23,368 | 23,044 |
| | | $ 318,322 | $ 181,555 | $ 528,710 | $ 390,864 |

## 16. RELATED PARTY TRANSACTIONS

### a) Key Management Compensation

Consulting fees consist of:

| | September 30 2017 | September 30 2017 |
|---|---|---|
| Key management personnel compensation comprised: | | |
| Share-based payments | $236,636 | $19,510 |
| Consulting fees | 138,755 | 155,438 |
| | $375,391 | $174,948 |

1 Consulting fees of $30,000 (2016 - $48,000) were paid or accrued to Mr. Douglas Ramshaw the President and Chief Executive Officer of the Company. Mr. Ramshaw was appointed on July 19, 2017. Mr. Ramshaw in 2016 acted as the Company's Vice President of Corporate Development.

2 Consulting fees of $90,000 (2016 - $90,000) were paid or accrued to Craig Schneider ("Schneider"), a director and the former Company's Chief Executive Officer. Mr. Scheider resigned on July 19, 2017 and Mr. Douglas Ramshaw was appointed in his stead as President and Chief Executive Officer

3 Consulting fees of $18,755 (2016 - $17,438) were paid or accrued to Minco Corporate Management ("Minco"), a company controlled by Terese Gieselman, the Company's Chief Financial Officer.

4 Share-based payments are the fair value of options granted to directors and key management personnel as described in Note 14.

(Expressed in Canadian Dollars)

## 16. RELATED PARTY TRANSACTIONS (cont'd)

### b) Related Party Liabilities Included in Trade and Other Payables

| Amounts due to: | Service for: | September 30 2017 | December 31 2016 |
|---|---|---|---|
| Schneider | Consulting fees | $84,000 | $- |
| Minco | Consulting fees | 1,126 | 6,568 |
| | | $85,126 | $6,568 |

### c) Related Party Receivables

As at September 30, 2017 $12,717 (December 31, 2016 - $12,321) was included in accounts receivable for expenses incurred on behalf of Standard Graphite Corp. ("Standard") for shared office expenses and rent. Standard is a company that has a common officer, Terese Gieselman and common director Kevin Puil. Amounts due relate to expenses incurred on behalf of Standard.

## 17. INCOME TAXES

As at September 30, 2017, the Company has estimated non-capital losses for Canada of $7,522,000 and in Mexico of $5,099,000 for tax purposes that may be carried forward to reduce taxable income derived in future years. Non-capital Canadian and Mexican tax losses expire as follows:

| Year of Expiry | Taxable Losses |
|---|---|
| 2023 | $ 4,618,000 |
| 2024 | 337,000 |
| 2025 | 374,000 |
| 2026 | 400,000 |
| 2027 | 515,000 |
| 2028 | 523,000 |
| 2029 | 817,000 |
| 2030 | 1,052,000 |
| 2031 | 1,193,000 |
| 2032 | 733,000 |
| 2033 | 578,000 |
| 2034 | 423,000 |
| 2035 | 336,000 |
| 2036 | 722,000 |
| **Total** | $ 12,621,000 |

The Company's tax position is calculated annually and readers are referred to the audited consolidated financial statements for the year ended December 31, 2016 for further details.

## 18. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period.

| | September 30 2017 | September 30 2016 |
|---|---|---|
| Net loss attributable to ordinary shareholders | **($892,339)** | ($424,510) |
| Weighted average number of common shares | **133,582,471** | 90,504,485 |
| Basic and diluted loss per share | **($0.01)** | ($0.00) |

(Expressed in Canadian Dollars)

## 19. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the condensed consolidated interim statements of cash flows. During the periods ended September 30, 2017 and September 30, 2016 the following non-cash transactions were recorded:

i) During the periods ended September 30, 2017 and September 30, 2016 no cash was paid for interest or income taxes;

ii) The Company recognized $15,000 (2016 - $Nil) in rehabilitation provisions;

iii) Exploration and evaluation assets payable amounts of $614,394 (2016 - $Nil) in accounts payable.

iv) A compensation charge of $Nil (2016 - $37,096 l) associated with the grant of Nil ( 2016 – 525,000) agent warrants was recorded as share issue costs - Note 13;

v) The Company issued Nil (2016 - 700,000) compensation shares in connection with the 2016 Financing valued at $Nil (2016 - $87,500) for share issue costs, as determined by their market prices when issued (Note13).

vi) The Company issued Nil (2016 - 210,000) compensation shares in connection with the 2015 Financing valued at $Nil (2016 - $30,450) for share issue costs, as determined by their market prices when issued (Note13).

vii) The issuance of Nil (2016 - 2,205,000) common shares pursuant to settlement of debt of $Nil (2016 - $176,400) (Note 13);

## 20. CONTINGENCIES

Due to the nature of the Company's foreign operations, various legal matters are outstanding from time to time. In the opinion of management, these matters will not have a material effect on the Company's condenses consolidated interim financial position or results of operations.

## 21. SEGMENT DISCLOSURES

The Company has one operating segment, being mineral exploration, with assets located in Canada and Mexico, as follows:

| | September 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Canada | Mexico | Total | Canada | Mexico | Total |
| Property, plant and equipment | $ 1,170 | $ 21,640 | $ 22,810 | $ - | $ 22,778 | $ 22,778 |
| Exploration and evaluation assets | $ - | 4,783,946 | 4,783,946 | $ - | 4,079,981 | $ 4,079,981 |
| | $ 1,170 | $ 4,805,586 | $ 4,806,756 | $ - | $ 4,102,759 | $ 4,102,759 |

## 22. EVENTS AFTER THE REPORTING DATE

**Stock Option**

On October 26, 2017 the Company granted 200,000 stock options at an exercise price of $0.12 for a period of five years pursuant to the engagement of Momentum Public Relations Inc. ("Momentum PR") to provide investor relations services (the "Agreement"). The agreement with Momentum PR is for a six-month term at monthly retainer of $7,500 for an initial period of 6 months.

**Private Placement**

On November 27, 2017 Company advised the non-brokered private placement of up to 20,000,000 units at a price of CAD$0.10 per unit, for aggregate gross proceeds of up to CDN $2,000,000 was increased to 24,000,000 units for gross proceeds of up to $2,400,000 (the "Financing"). Each Unit will consist of one common share and one non-transferable share purchase warrant. Each warrant will be exercisable by the holder to acquire one additional common share at a price of CAD$0.20 for a period of eighteen (18) months following the closing of the financing.

## 22. EVENTS AFTER THE REPORTING DATE (cont'd)

**Private Placement** (cont'd)

On November 29, 2017 the Company received TSX Venture Exchange approval to close the first tranche of its non-brokered private placement offering (the "Financing") by issuing 16,275,000 units in the capital of the Company ("Units") at an issue price of $0.10 per unit, for gross proceeds of $1,627,500. Each Unit consisted of one common share in the capital of the Company (a "Common Share") and one non-transferable Common Share Purchase Warrant entitling the holder thereof to acquire an additional Common Share at an exercise price of $0.20 for a period of 18 months expiring on May 29, 2019.

All of the Units issued in connection with the Financing and Common Shares issued on exercise of the Warrants will be subject to a restricted resale period that expires on March 30, 2018.

Finders' fees of 7% on a portion of the gross proceeds received by the Company from the sale of Units sold pursuant to the Financing shall include cash of $90,650, 906,500 warrants ("Agent Warrants"). Each Agent Warrant shall be exercisable in whole or in part at an exercise price of $0.20 for a period of 18 months expiring on May 29, 2019.

The Company expects to close the second tranche of the private placement in the next two weeks.
Proceeds will be used for the development of the Santana property in Mexico and general operating purposes.