



AZTEC MINERALS CORP.

Second Quarter Report

Condensed Consolidated Interim Financial Statements

(stated in Canadian dollars)

Three and Six Months ended June 30, 2017

(Unaudited – Prepared by Management)

**Notice of No Auditor Review of
Unaudited Condensed Consolidated Interim Financial Statements
For the Three and Six Months Ended June 30, 2017**

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

The accompanying unaudited condensed consolidated interim financial statements of Aztec Minerals Corp. (the “Company”) for the three and six months ended June 30, 2017 (the “Financial Statements”) have been prepared by and are the responsibility of the Company’s management, and have not been reviewed by the Company’s auditors. The Financial Statements are stated in Canadian dollars, unless otherwise indicated, and are prepared in accordance with International Accounting Standards 34 (“IAS 34”) and International Financial Reporting Standards (“IFRS”).

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes	June 30, 2017	December 31, 2016
ASSETS			
Current Assets			
Cash		\$ 3,617,605	\$ 582,142
Receivables and prepaids		35,055	2,450
Total Current Assets		3,652,660	584,592
Non-Current Assets			
Mineral property interests	6 and 10	526,566	452,915
Equipment	7	2,810	-
Total Non-Current Assets		529,376	452,915
Total Assets		\$ 4,182,036	\$ 1,037,507
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 37,375	\$ 90,342
Shareholders' Equity			
Share capital	8(b)	4,756,156	1,264,304
Reserve for share-based payments		366,076	-
Deficit		(977,571)	(317,139)
Total Shareholders' Equity		4,144,661	947,165
Total Liabilities and Shareholders' Equity		\$ 4,182,036	\$ 1,037,507

Refer to the accompanying notes to the condensed consolidated interim financial statements.

AZTEC MINERALS CORP.

(An Exploration Stage Company)

Condensed Consolidated Interim Statements of Comprehensive Loss

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes	Three Months ended June 30,		Six Months ended June 30,	
		2017	2016	2017	2016
Expenses:					
Accounting and audit		\$ 10,052	\$ -	\$ 17,024	\$ -
Employee and director remuneration	10	63,970	748	140,113	748
Legal		33,712	-	102,774	-
Office and sundry	9, 10	14,753	-	26,378	-
Project evaluation	9, 10	40,891	-	73,217	-
Regulatory		41,369	-	64,861	-
Shareholder relations		12,565	-	20,114	-
Share-based payments	8(c), 10	219,681	-	219,681	-
Loss before the undernoted		(436,993)	(748)	(664,162)	(748)
Foreign exchange loss		(1,945)	-	(147)	-
Interest income		3,877	-	3,877	-
Net loss and comprehensive loss for the period		\$ (435,061)	\$ (748)	\$ (660,432)	\$ (748)
Basic and diluted loss per share		\$ (0.02)	\$ (7.48)	\$ (0.03)	\$ (7.48)
Weighted average number of common shares outstanding		27,870,993	100	20,117,647	100

Refer to the accompanying notes to the condensed consolidated interim financial statements.

AZTEC MINERALS CORP.

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Condensed Consolidated Interim Statements of Shareholders' Equity

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Notes	Share Capital		Reserve for Share-Based Payments	Deficit	Total
		Number of Shares	Amount			
Balance, December 31, 2015		100	\$ 1	\$ -	\$ -	\$ 1
Property acquisition	8(b)(ii)	11,216,941	279,914	-	-	279,914
Private placement, net of share issue expenses	8(b)(ii)	5,150,000	984,389	-	-	984,389
Net loss for the year		-	-	-	(317,139)	(317,139)
Balance, December 31, 2016		16,367,041	1,264,304	-	(317,139)	947,165
Initial public offering, net of share issue costs	8(b)(i)	11,500,000	3,632,198	-	-	3,632,198
Fair value of compensation warrants	8(b)(i)	-	(146,455)	146,455	-	-
Exercise of compensation warrants		225	172	(60)	-	112
Exercise of warrants		23,750	5,937	-	-	5,937
Share-based payments		-	-	219,681	-	219,681
Net loss for the period		-	-	-	(660,432)	(660,432)
Balance, June 30, 2017		27,891,016	\$ 4,756,156	\$ 366,076	\$ (977,571)	\$ 4,144,661
Balance, December 31, 2015		100	\$ 1	\$ -	\$ -	\$ 1
Net loss for the period		-	-	-	(748)	(748)
Balance, June 30, 2016		100	\$ 1	\$ -	(748)	(747)

Refer to the accompanying notes to the condensed consolidated interim financial statements.

AZTEC MINERALS CORP.

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Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

	Three Months ended June 30,		Six Months ended June 30,	
	2017	2016	2017	2016
Cash provided from (used by):				
Operations:				
Loss for the period	\$ (435,061)	\$ (748)	\$ (660,432)	\$ (748)
Items not involving cash:				
Foreign exchange loss (gain)	4,933	-	5,364	-
Share-based payments	219,681	-	219,681	-
	(210,447)	(748)	(435,387)	(748)
Changes in non-cash working capital items:				
Receivables and prepaids	(7,706)	-	(32,605)	-
Accounts payable and accrued liabilities	(79,956)	748	(52,967)	748
Cash used by operating activities	(298,109)	-	(520,959)	-
Financing:				
Proceeds from initial public offering, net of transaction costs	3,632,198	-	3,632,198	-
Exercise of warrants	6,050	-	6,050	-
Deferred financing costs	38,071	-	-	-
Share issue expenses	3,426	-	-	-
Cash provided from financing activities	3,679,745	-	3,638,248	-
Investing:				
Mineral property interests, net of recoveries	(53,447)	-	(73,651)	-
Acquisition of equipment	(2,810)	-	(2,810)	-
Cash used by investing activities	(56,257)	-	(76,461)	-
Foreign exchange (loss) gain on cash held in foreign currency	(4,934)	-	(5,365)	-
Increase in cash	3,320,445	-	3,035,463	-
Cash, beginning of period	297,160	-	582,142	-
Cash, end of period	\$ 3,617,605	\$ -	\$ 3,617,605	\$ -

Refer to the accompanying notes to the condensed consolidated interim financial statements.

AZTEC MINERALS CORP.

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Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

		Three Months ended June 30,		Six Months ended June 30,	
	Notes	2017	2016	2017	2016
Non-cash financing and investing activities:					
Fair value of compensation warrants	8(d)	\$ 146,455	\$ -	\$ 146,455	\$ -
Fair value of exercise of:					
Compensation warrants	8(b)(i)	60	-	60	-
Interest paid		-	-	-	-
Income taxes paid		-	-	-	-

Refer to the accompanying notes to the condensed consolidated interim financial statements.

AZTEC MINERALS CORP.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and Six Months ended June 30, 2017

(Unaudited – Prepared by Management)

(Stated in Canadian dollars)

1. Nature of Operations and Going Concern

Aztec Minerals Corp. (the “Company”) was incorporated on July 6, 2007 under the laws of British Columbia, Canada. The address of the Company’s registered office is #910 – 800 West Pender Street, Vancouver, BC, Canada, V6C 2V6 and its principal place of business is #1130 – 609 Granville Street, Vancouver, BC, Canada, V7Y 1G5.

From its date of incorporation in July 2007 to fiscal 2015, the Company was a dormant, wholly-owned subsidiary of Aztec Metals Corp., which share common directors with the Company, (“AzMet”). On October 13, 2016, AzMet issued all its 11,017,041 shares in the Company to AzMet shareholders on a pro rata basis by way of a reduction of AzMet’s paid up share capital on the basis of one (1) share of the Company for every two (2) shares held of AzMet, pursuant to Section 74 of the *Business Corporations Act* (British Columbia), after which the Company was no longer a subsidiary of AzMet.

The common shares of the Company were listed for trading on the TSX Venture Exchange (the “TSX-V”) on May 4, 2017 (the “Listing Date”), after completing its initial public offering (the “IPO”). (Note 8(b)(i)).

The Company is in the mineral exploration business and has not yet determined whether its properties contain reserves. The recoverability of amounts capitalized for mineral property interests is dependent upon the ability of the Company to arrange appropriate financing as needed, the discovery of reserves, the development of its properties, confirmation and maintenance of the Company’s interest in the underlying properties, the receipt of necessary permitting and upon future profitable production or proceeds from the disposition thereof.

The Company has no operating revenues, has incurred significant net losses of \$660,432 for the six months ended June 30, 2017 (June 30, 2016 - \$748), and has a deficit of \$977,571 (December 31, 2016 - \$317,139). These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise debt or equity financings, and the attainment of profitable operations. Management would need to raise the necessary capital to meet its planned business objectives. There can be no assurance that management’s plans will be successful. These matters indicate the existence of material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern. These condensed consolidated interim financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

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2. Basis of Presentation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and the interpretations of the International Financial Reporting Standards Interpretations Committee. These unaudited condensed consolidated interim financial statements do not include all of the information and disclosures required for full and complete annual financial statements, and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2016. The Company has consistently applied the same accounting policies for all periods as presented. Certain of the prior periods’ comparative figures may have been reclassified to conform to the presentation adopted in the current period.

(b) Approval of consolidated financial statements:

These condensed consolidated interim financial statements were approved by the Company’s Board of Directors on August 25, 2017.

(c) Basis of presentation:

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value, as disclosed in Note 5. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(d) Functional currency and presentation currency:

The functional and presentation currencies of the Company are the Canadian dollar. Amounts recorded in a foreign currency are translated into Canadian dollars as follows:

- monetary assets and liabilities at the exchange rate at the condensed consolidated interim statement of financial position date;
- non-monetary assets and liabilities at historical exchange rates, unless such items are carried at fair value, in which case they are translated at the exchange rate in effect on the condensed consolidated interim statement of financial position date; and
- revenue and expense items at the rate of exchange in effect on the transaction date.

Exchange gains and losses are recorded in profit or loss in the period in which they occur.

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2. Basis of Presentation (continued)

(e) Critical accounting estimates:

The preparation of the condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates, assumptions and judgements that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements along with the reported amounts of revenues, if any, and expenses during the period. Actual results may differ from these estimates and, as such, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to determining the recoverability of mineral property interests; the determination of accrued liabilities; the variables used in the determination of the fair value of stock options granted and compensation warrants or finder's fees warrants issued or modified; and the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future financial performance and cash flows.

The Company applies judgment in assessing whether material uncertainties exist that would cast significant doubt as to whether the Company could continue as a going concern.

The Company applies judgment in assessing the functional currency of each entity consolidated in these condensed consolidated interim financial statements. The functional currency of the Company and its subsidiary is determined using the currency of the primary economic environment in which that entity operates.

At the end of each reporting period, the Company assesses each of its mineral resource properties to determine whether any indication of impairment exists. Judgment is required in determining whether indicators of impairment exist, including factors such as: the period for which the Company has the right to explore; expected renewals of exploration rights; whether substantive expenditures on further exploration and evaluation of resource properties are budgeted or planned; and results of exploration and evaluation activities on the exploration and evaluation assets.

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2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements:

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

(i) The following standard became effective in the current period:

Disclosure Initiative (*Amendments to IAS 1 Presentation of Financial Statements*)

The amendments:

- Clarify the existing presentation and disclosure requirements in IAS 1, including the presentation of line items, subtotals and notes; and
- Provide guidance to assist entities to apply judgment in determining what information to disclose, and how that information is presented in their financial statements.

The change had no effect to these condensed consolidated interim financial statements.

(ii) The following standards will become effective in future periods:

Classification and Measurement of Share-based Payment Transactions (*Amendments to IFRS 2 Share-based Payment*)

The amendments provide guidance on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The standard is applicable to the Company's annual period beginning January 1, 2018.

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2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) The following standards will become effective in future periods: (continued)

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.

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).

The standards are applicable to the Company's annual period beginning January 1, 2018.

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(Stated in Canadian dollars)

2. Basis of Presentation (continued)

(f) New accounting standards and recent pronouncements: (continued)

(ii) The following standards will become effective in future periods: (continued)

IFRS 16 *Leases*

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers*.

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.

The new standard supersedes the requirements in IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is applicable to the Company's annual period beginning January 1, 2019.

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(Stated in Canadian dollars)

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

(a) Basis of consolidation:

These condensed consolidated interim financial statements include the accounts of the Company and its wholly-owned Mexican subsidiary, Minera Azteca Dorada S.A. de C.V.

All significant intercompany transactions and balances have been eliminated.

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or had rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(b) Financial instruments:

(i) Financial assets:

The Company classifies its financial assets in the following categories: fair value through profit or loss (“FVTPL”), loans and receivables, held-to-maturity (“HTM”) and available-for-sale (“AFS”). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Financial assets at FVTPL

Financial assets at FVTPL include derivative financial asset, and are initially recognized at fair value with changes in fair value recorded through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity dates. Loans and receivables are carried at amortized cost less any impairment.

Held to maturity

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company’s management has the positive intention and ability to hold to maturity. HTM investments are initially recognized on their trade-date at fair value, and subsequently measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

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3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(i) Financial assets: (continued)

Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS financial assets include investments in equities of other entities.

Management assesses the carrying value of AFS financial assets at each reporting date and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit or loss.

(ii) Financial liabilities:

The Company classifies its financial liabilities in the following categories: FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include derivative financial liabilities, and are initially recognized at fair value with changes in fair value recorded through profit or loss.

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit or loss.

Other financial liabilities

Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit or loss over the period to maturity using the effective interest method. Other financial liabilities are classified as current or non-current based on their maturity date.

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3. Significant Accounting Policies (continued)

(b) Financial instruments: (continued)

(iii) Fair value hierarchy:

The Company categorizes financial instruments measured at fair value at one of three levels according to the reliability of the inputs used to estimate fair values. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and liabilities in Level 2 are valued using inputs other than quoted prices for which all significant inputs are based on observable market data. Level 3 valuations are based on inputs that are not based on observable market data.

(iv) Impairment of financial assets:

The Company assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An evaluation is made as to whether a decline in fair value is “significant” or “prolonged” based on indicators such as significant adverse changes in the market, economic or legal environment.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

(v) Derecognition of financial assets and liabilities:

Financial assets are derecognized when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognized in profit or loss.

4. Management of Capital

The Company is an exploration stage company and its activities involve a high degree of risk. The Company has not yet determined whether its mineral property interests contain reserves and currently has not earned any revenues from its mineral property interests and does not generate cash flows from operations. The Company’s primary sources of funds are from debt capital and the issuance of share capital.

The Company defines its capital as debt and share capital. Capital requirements are driven by the Company’s exploration activities on its mineral property interests. To effectively manage the Company’s capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses on all exploration projects and overhead to manage its costs, commitments and exploration activities.

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4. Management of Capital (continued)

The Company invests its excess capital in liquid investments to obtain adequate returns. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Management reviews the capital availability and needs on a regular basis to ensure the above-noted objectives are met. There have been no changes to the Company's approach to capital management during the period.

Although the Company has raised funds in the past from the issuance of share capital, it is uncertain whether it would be able to continue this financing in the future. The Company will continue to rely on debt and equity financings to meet its commitments as they become due, to continue exploration work on its mineral property interests, and to meet its administrative overhead costs for the coming periods.

As at June 30, 2017, the Company was not subject to any externally imposed capital requirements.

5. Financial Instruments and Management of Financial Risk

The Company has classified its cash as FVTPL; receivables as loans and receivables; and accounts payable and accrued liabilities as other financial liabilities.

The fair values of the Company's receivables and accounts payable and accrued liabilities approximate their carrying values due to the short terms to maturity. Cash is measured at fair value using Level 1 inputs.

The Company is exposed in varying degrees to a variety of financial instrument related risks, including credit risk, liquidity risk, and market risk which includes foreign currency risk, interest rate risk and other price risk. The types of risk exposure and the way in which such exposure is managed are as follows.

(a) Credit risk:

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash with high-credit quality Canadian financial institutions. Non-contractual taxes receivables from government agencies are not considered financial instruments.

Management has reviewed the items comprising the accounts receivable balance, and determined that all accounts are collectible; accordingly, there has been no allowance for doubtful accounts recorded.

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5. Financial Instruments and Management of Financial Risk (continued)

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due.

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash and its ability to raise debt and equity financings. As at June 30, 2017, the Company had a working capital of \$3.6 million (December 31, 2016 - \$494,250). The Company will require significant additional funding to meet its short-term liabilities and administrative overhead costs, and to maintain its mineral property interests in 2017.

Accounts payable and accrued liabilities are due in less than 90 days.

(c) Market risk:

The significant market risk exposures to which the Company is exposed are foreign currency risk, interest rate risk and other price risk.

(i) Foreign currency risk:

The Company has certain cash and accounts payable stated in United States dollars and Mexican pesos, mineral property interests which are in Mexico, and a portion of its operations are in Mexico, resulting in expenditures subject to foreign currency fluctuations. Fluctuations in the United States dollar and Mexican peso would impact the losses of the Company and the values of its assets and liabilities as the Company's functional and presentation currencies are the Canadian dollar. The Canadian dollar fluctuates and floats with the United States dollar and Mexican peso.

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5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk: (continued)

(i) Foreign currency risk: (continued)

At June 30, 2017, the Company was exposed to currency risk for its Canadian dollar equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars as follows:

	Stated in Canadian Dollars		
	Held in		Total
	United States		
	Dollars	Mexican Pesos	
Cash	\$ 197,706	\$ 5,534	\$ 203,240
Receivables	-	616	616
Accounts payable and accrued liabilities	(18,372)	(110)	(18,482)
Net financial assets (liabilities), June 30, 2017	179,334	6,040	185,374
Cash	\$ 4,912	\$ -	\$ 4,912
Receivables	-	-	-
Accounts payable and accrued liabilities	(18,508)	-	(18,508)
Net financial assets (liabilities), December 31, 2016	(13,596)	-	(13,596)

Based upon the above net exposure as at June 30, 2017 and assuming all other variables remain constant, a 10% (December 31, 2016 – 15%) depreciation or appreciation of the Canadian dollar relative to the United States dollar and the Mexican peso could result in a decrease/increase of approximately \$18,500 (December 31, 2016 - \$2,040) in the Company's net losses.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(ii) Interest rate risk:

In respect of financial assets, the Company's policy is to invest excess cash at floating rates of interest in cash equivalents, in order to maintain liquidity, while achieving a satisfactory return. Fluctuations in interest rates impact on the value of cash equivalents. Interest rate risk is not significant to the Company as it has no cash equivalents at period-end.

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(Unaudited – Prepared by Management)

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5. Financial Instruments and Management of Financial Risk (continued)

(c) Market risk: (continued)

(iii) Other price risk:

Other price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices. The Company does not have any investments in marketable securities.

6. Mineral Property Interests

	Six months ended June 30, 2017	
	Mexico	
	Cervantes	Total
Acquisition Costs:		
Balance, December 31, 2016	\$ 282,994	\$ 282,994
Acquisition (Notes 6(a) and 8(b)(ii))	13,438	13,438
Balance, June 30, 2017	296,432	296,432
Deferred Exploration Expenditures:		
Balance, December 31, 2016	169,921	169,921
Geophysics	4,176	4,176
Legal	15,823	15,823
Salaries and local labour	31,665	31,665
Sundry	878	878
Transportation and travel	7,671	7,671
Balance, June 30, 2017	\$ 230,134	\$ 230,134
Mineral Property Interests:		
December 31, 2016	\$ 452,915	\$ 452,915
June 30, 2017	\$ 526,566	\$ 526,566

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6. Mineral Property Interests (continued)

	Year ended December 31, 2016	
	Mexico	
	Cervantes	Total
Acquisition Costs:		
Balance, December 31, 2015	\$ -	\$ -
Acquisition (Notes 6(a) and 8(b)(ii))	282,994	282,994
Balance, December 31, 2016	282,994	282,994
Deferred Exploration Expenditures:		
Balance, December 31, 2015	-	-
Geology	23,204	23,204
Geophysics	101,266	101,266
Sundry	32,176	32,176
Salaries	12,488	12,488
Transportation and travel	787	787
Balance, December 31, 2016	\$ 169,921	\$ 169,921
Mineral Property Interests:		
December 31, 2015	\$ -	\$ -
December 31, 2016	\$ 452,915	\$ 452,915

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6. Mineral Property Interests (continued)

(a) Cervantes property (Mexico):

On September 30, 2016, the Company entered into the Option Amendment and Assignment Agreement for the Cervantes Property (“Option Assignment Agreement”) for the Cervantes Property with AzMet and Kootenay Silver Inc. (“Kootenay”), whereby AzMet assigned to the Company all of its rights and interests in the Property Option Agreement dated July 25, 2015 between AzMet and Kootenay (the “Option Agreement”). All obligations of AzMet under the Option Agreement were transferred to the Company. Pursuant to the Option Assignment Agreement, the Company issued 200,000 of its common shares to Kootenay at a value of \$0.02495 per share. The Company can earn a 65% interest in the Cervantes Property by:

- the issuance of 800,000 common shares,
- cash payments totalling US\$120,000, and
- exploration expenditures of US\$1.2 million over the next 3 years.

Upon earning a 65% interest, the Company can earn an additional 35% interest for a total of 100% interest in the Cervantes Property by:

- completing a preliminary economic assessment by July 25, 2020,
- paying an amount equal to the estimated recoverable equivalent gold ounces of contained metal in resources multiplied by US\$5 per equivalent gold ounce which amount shall be payable in combination of cash and/or shares, and
- granting a 2.5% net smelter return (“NSR”) to Kootenay which can be reduced to 2% NSR for a cash payment of US\$500,000.

If the Company elects not to earn the additional 35% interest in the Cervantes Property, or fails to fulfill the requirements to earn such 35% interest, then a joint venture will be formed between the Company and Kootenay with the Company acting as the operator.

On September 30, 2016, the Company entered into the Transfer Agreement with AzMet whereby the Company issued 11,016,941 of its common shares to AzMet to acquire AzMet’s interest in the Cervantes Property. Note 8(b)(ii) provides further details.

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6. Mineral Property Interests (continued)

(b) Expenditure options:

As at June 30, 2017, to maintain the Company's interest and/or to fully exercise the options under various property agreements covering its properties, the Company must incur exploration expenditures on the properties and/or make payments in the form of cash and/or shares to the optionor as follows:

	Cash Payments (US\$)	Exploration Expenditures (US\$)	Number of Shares	Net Smelter Return
Cervantes Project:				
Stage One (to earn a 65% interest):				
July 25, 2017 ⁽²⁾	\$ 30,000	\$ -	100,000	-
July 25, 2018	40,000	417,548	200,000	-
July 25, 2019	50,000	750,000	250,000	-
September 23, 2019	-	-	250,000	-
Stage Two (to earn additional 35% interest, for total interest of 100% interest):				
July 25, 2020 ⁽¹⁾	-	-	-	2.50%
	\$ 120,000	\$ 1,167,548	800,000	2.50%

(1) The Company can earn an additional 35% interest for a total of 100% interest in the Cervantes Property by completing a preliminary economic assessment by July 25, 2020, paying an amount equal to the estimated recoverable equivalent gold ounces of contained metal in resources multiplied by US\$5 per equivalent gold ounce which amount shall be payable in combination of cash and/or shares, and granting a 2.5% NSR to Kootenay which can be reduced to 2% NSR for a cash payment of US\$500,000. Note 6(a) provides further details.

(2) The Company paid US\$30,000 in cash and issued 100,000 common shares at a fair value of \$0.08 per share to Kootenay in July 2017.

These amounts may be reduced in the future as the Company determines which mineral property interests to continue to explore and which to abandon.

(c) Title to mineral property interests:

The Company has investigated rights of ownership of all of its mineral properties/concessions and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, all properties/concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

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6. Mineral Property Interests (continued)

(d) Realization of assets:

The Company's investment in and expenditures on its mineral property interests comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful commercial production or from the proceeds of their disposal. The recoverability of the amounts shown for mineral property interests is dependent upon the existence of reserves, the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production or proceeds from the disposition thereof.

(e) Environmental matters:

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous materials and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former mineral property interests that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation of the Company's operation may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

7. Equipment

	Office Equipment	Total
Cost:		
Balance, December 31, 2015 and 2016	\$ -	\$ -
Add: Acquisitions	2,810	2,810
Balance, June 30, 2017	2,810	2,810
Accumulated amortization:		
Balance, December 31, 2015 and 2016	-	-
Add: Amortization	-	-
Balance, June 30, 2017	-	-
Net book value:		
Balance, December 31, 2016	\$ -	\$ -
Balance, June 30, 2017	\$ 2,810	\$ 2,810

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8. Share Capital

(a) Authorized:

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

(b) Issued:

- (i) On May 2, 2017, the Company closed its IPO for 11.5 million units at \$0.35 per unit for gross proceeds of \$4.03 million. Each unit was comprised of one common share and one-half of a whole share purchase warrant. Each warrant is exercisable to purchase one common share at an exercise price of \$0.50 per share and has an expiry date of May 2, 2019.

The Company paid to the agent a cash commission of \$194,250, corporate finance fee of \$75,000, and expenses of \$47,500 for legal and out-of-pocket expenses related to the IPO. The Company also issued 555,000 compensation warrants related to the IPO of which 549,360 compensation warrants were issued to the agent; each compensation warrant is exercisable to acquire one common share at an exercise of \$0.50 and has an expiry date of May 2, 2019.

In June 2017, 225 compensation warrants with a fair value of \$60 and exercise price of \$0.50 and 23,750 warrants with exercise price of \$0.25 were exercised for proceeds of \$6,050.

Pursuant to the escrow agreement dated April 19, 2017, 4,571,123 shares of the Company are held in escrow (the “Escrowed Shares”). The Escrowed Shares will be released under the following schedule:

On the Listing Date	1/10 of the Escrow Shares
6 months after the Listing Date	1/6 of the remaining Escrow Shares
12 months after the Listing Date	1/5 of the remaining Escrow Shares
18 months after the Listing Date	1/4 of the remaining Escrow Shares
24 months after the Listing Date	1/3 of the remaining Escrow Shares
30 months after the Listing Date	1/2 of the remaining Escrow Shares
36 months after the Listing Date	the remaining Escrow Shares

On June 30, 2017, 4.1 million common shares were held in escrow.

On July 20, 2017, the Company issued 100,000 common shares at a fair value of \$0.35 per share to Kootenay (Note 6(a)).

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Three and Six Months ended June 30, 2017

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(Stated in Canadian dollars)

8. Share Capital (continued)

(b) Issued: (continued)

- (ii) On September 30, 2016, the Company issued 200,000 common shares to Kootenay at a fair value of \$0.02495 per share pursuant to the Option Assignment Agreement for the Cervantes Property. Note 6(a) provides further details.

On September 30, 2016, the Company entered into the Transfer Agreement with AzMet whereby the Company issued 11,016,941 common shares at a fair value of \$0.02495 per share to AzMet to acquire AzMet's property option interest in the Cervantes Property. Note 6(a) provides further details.

On October 21, 2016, the Company closed a private placement for 5,150,000 units at \$0.20 per unit for total proceeds of \$1.03 million. Each unit was comprised of one common share and one-half of a whole common share purchase warrant. Each whole warrant is exercisable to acquire one common share at an exercise price of \$0.25 and has an expiry date of October 21, 2018. Finders fee of \$42,700 were paid in cash.

(c) Stock option plan:

In January 20, 2017, the Company adopted a stock option plan that allows it to grant stock options to its directors, officers, employees and consultants, provided that the aggregate number of stock options granted shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company. The exercise price of each stock option shall be based on the market price of the Company's shares as traded on the TSX Venture Exchange at the time of grant. Stock options have a maximum term of ten years and terminate 30 days following the termination of the optionee's employment, except in the case of death, in which case they terminate one year after the event. Vesting of stock options is made at the discretion of the Board at the time the stock options are granted.

On January 20, 2017, the Company granted stock options for 2,000,000 common shares with an exercise price of \$0.35 and expiry date of May 4, 2022. The stock options are subject to vesting provisions in which 20% vested on the date of the Company's listing of its common shares on the TSX Venture Exchange on May 4, 2017 and 20% vest every 6 months thereafter.

The continuity of stock options for the six months ended June 30, 2017 is as follows:

	June 30, 2017	
	Number of Shares	Weighted average exercise price
Outstanding balance, beginning of period	-	n/a
Granted	2,000,000	\$0.35
Outstanding balance, end of period	2,000,000	\$0.35

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8. Share Capital (continued)

(c) Stock option plan: (continued)

The following table summarizes information about stock options outstanding and exercisable at June 30, 2017:

Exercise Prices	Options Outstanding			Options Exercisable		
	Number Outstanding at June 30, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices	Number Exercisable at June 30, 2017	Weighted Average Remaining Contractual Life (Number of Years)	Weighted Average Exercise Prices
\$0.35	2,000,000	4.84	\$0.35	400,000	4.84	\$0.35
	2,000,000	4.84	\$0.35	400,000	4.84	n/a

During the six months ended June 30, 2017, the Company recognized share-based payments of \$219,681 (June 30, 2016 - \$Nil), net of forfeitures, based on the fair value of options that were earned by the provision of services during the period. Share-based payments are segregated between directors and officers, employees and consultants, as applicable, as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Directors and officers	\$ 214,189	\$ -	\$ 214,189	\$ -
Employees	5,492	-	5,492	-
	\$ 219,681	\$ -	\$ 219,681	\$ -

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8. Share Capital (continued)

(c) Stock option plan: (continued)

The weighted average fair value of stock options granted and the weighted average assumptions used to calculate share-based payments for stock option grants are estimated using the Black-Scholes option pricing model as follows:

	June 30,	
	2017	2016
Number of stock options granted	2,000,000	Nil
Fair value of stock options granted (CAD\$)	\$0.33	n/a
Market price of shares on grant date (CAD\$)	\$0.35	n/a
Pre-vest forfeiture rate	0.00%	n/a
Risk-free interest rate	1.12%	n/a
Expected dividend yield	0%	n/a
Expected stock price volatility	171.05%	n/a
Expected option life in years	5.00	n/a

Expected stock price volatility is based on the historical price volatility of ten companies which are comparable to the profile of the Company.

(d) Warrants:

Exercise Prices	Expiry Dates	Outstanding at December 31, 2016	Issued	Exercised	Expired	Outstanding at June 30, 2017
\$0.25	October 21, 2018	2,575,000	-	(23,750)	-	2,551,250
\$0.50	May 2, 2019	-	5,750,000	-	-	5,750,000
\$0.50	May 2, 2019 ⁽¹⁾	-	555,000	(225)	-	554,775
		2,575,000	6,305,000	(23,975)	-	8,856,025

⁽¹⁾ As these warrants are compensation options, a fair value of \$146,455 was originally recorded as share issuance expense as applied to share capital with a corresponding credit to reserve for share-based payments calculated using the Black-Scholes option pricing model with the following assumptions: volatility 178%, risk-free rate 0.67%, expected life 2 years, and expected dividend yield 0%.

Warrants for 6.3 million common shares were issued upon the closing of the Company's IPO on May 2, 2017. Note 8(b)(i) provides further details.

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8. Share Capital (continued)

(d) Warrants: (continued)

Exercise Prices	Expiry Dates	Outstanding at December 31, 2015	Issued	Exercised	Expired	Outstanding at December 31, 2016
\$0.25	October 21, 2018	-	2,575,000	-	-	2,575,000
		-	2,575,000	-	-	2,575,000

9. Office and Sundry and Project Evaluation

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Office and Sundry:				
Insurance	\$ 3,413	\$ -	\$ 5,119	\$ -
Office and sundry	7,205	-	9,456	-
Rent	1,949	-	3,898	-
Telecommunications	2,186	-	7,905	-
	<u>\$ 14,753</u>	<u>\$ -</u>	<u>\$ 26,378</u>	<u>\$ -</u>
Project Evaluation:				
Assays and sampling	\$ 1,290	\$ -	\$ 2,122	\$ -
Camp and field supplies	-	-	123	-
Legal	6,461	-	6,461	-
Local labour	206	-	519	-
Salaries	27,029	-	54,568	-
Sundry	469	-	726	-
Transportation and travel	5,436	-	8,698	-
	<u>\$ 40,891</u>	<u>\$ -</u>	<u>\$ 73,217</u>	<u>\$ -</u>

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10. Related Party Transactions

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is disclosed in the table below.

Except as disclosed elsewhere in the condensed consolidated interim financial statements, the Company had the following transactions with related parties:

	Six months ended June 30,		Net balance receivable (payable)	
			June 30,	December 31,
	2017	2016	2017	2016
Key management compensation:				
Executive salaries and remuneration ⁽¹⁾	\$ 175,123	\$ -	\$ -	\$ -
Share-based payments	214,189	-	-	-
	<u>\$ 389,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net office, sundry, rent and salary allocations recovered from (incurred to) company(s) sharing certain common director(s) ⁽²⁾	\$ (8,745)	\$ -	\$ (1,155)	\$ (941)

⁽¹⁾ Includes key management compensation which is included in mineral property interests, employee remuneration and project evaluation.

⁽²⁾ The companies are Canarc Resource Corp. and Endeavour Silver Corp. which share one common director with the Company.

Notes (1), 6(a) and 8(b)(ii) provide further details of the acquisition of the Cervantes property from AzMet.

The above related party transactions are incurred in the normal course of business.

11. Segment Disclosures

The Company has one operating segment, being mineral exploration, with mineral property interest located only in Mexico.

	June 30, 2017			December 31, 2016		
	Canada	Mexico	Total	Canada	Mexico	Total
Mineral property interests	\$ -	\$ 526,566	\$ 526,566	\$ -	\$ 452,915	\$ 452,915
Equipment	2,810	-	2,810	-	-	-

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Philip Yee ~ Chief Financial Officer
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