



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended April 30, 2018 and 2017

(Unaudited - Expressed in Canadian Dollars)

TSXV: TEN

**Notice of No Auditor Review of Interim Financial Statements**

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

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**TERRACO GOLD CORP.**

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# TERRACO GOLD CORP.

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (Unaudited - Expressed in Canadian Dollars)

	April 30, 2018	July 31, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 401,174	\$ 886,302
Receivables	26,930	36,346
Available-for-sale securities (Note 3)	-	16,530
Prepaid expenses and deposits	31,487	22,341
	<u>459,591</u>	<u>961,519</u>
Reclamation bonds	-	16,967
Royalty interests (Note 7)	23,691,708	23,691,708
Exploration and evaluation assets (Note 4)	19,791,919	19,643,237
	<u>\$ 43,943,218</u>	<u>\$ 44,313,431</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 91,593	\$ 96,722
Convertible debenture (Note 5)	10,330,770	9,119,230
Convertible debenture derivative (Note 6) <sup>(i)</sup>	2,213,958	3,494,651
Reclamation provision	-	10,925
	<u>12,636,321</u>	<u>12,721,528</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital (Note 8)	37,360,271	37,360,271
Contributed surplus	8,010,206	8,005,805
Accumulated other comprehensive income	-	4,450
Deficit	(14,063,580)	(13,778,623)
	<u>31,306,897</u>	<u>31,591,903</u>
	<u>\$ 43,943,218</u>	<u>\$ 44,313,431</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)  
COMMITMENTS (Notes 4 and 11)

These condensed interim consolidated financial statements were approved for issue by the Audit Committee of the Board of Directors on June 20, 2018 and are signed on its behalf by:

Signed: "Todd Hilditch", Director

Signed: "Alfred Fischer", Director

Footnotes:

- (i) The Convertible Debenture Derivative is valued at fair value in accordance with IFRS. There are no circumstances in which the Corporation would be required to pay cash upon conversion of the Convertible Debenture. See Note 6.

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

## TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME (LOSS)  
THREE AND NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

	Three-month Period Ended April 30, 2018	Three-month Period Ended April 30, 2017	Nine-month Period Ended April 30, 2018	Nine-month Period Ended April 30, 2017
Accounting and audit	\$ 2,750	2,750	\$ 5,114	\$ 5,066
Consulting fees	75,767	100,534	187,267	272,128
Insurance	5,101	4,690	14,531	16,424
Investor relations	1,838	197	4,002	39,019
Legal and professional fees	24,430	21,497	25,103	23,715
Salaries, wages, office and sundry	31,094	37,772	89,206	129,109
Property investigation	12,696	29,648	53,584	59,665
Reclamation costs	(450)	12	64	4,972
Shareholder information	(55)	(923)	2,494	3,937
Share-based compensation	785	17,226	4,401	141,818
Telephone	553	1,303	2,589	3,575
Transfer agent and filing fees	8,496	5,574	17,480	19,864
Travel	1,415	9,156	4,762	10,633
<b>INCOME (LOSS) BEFORE OTHER ITEMS</b>	<b>(164,420)</b>	<b>(229,436)</b>	<b>(410,597)</b>	<b>(729,925)</b>
<b>OTHER ITEMS</b>				
Change in fair value of convertible debenture derivative (Note 6) <sup>(i)</sup>	266,825	981,552	1,280,693	5,456,082
Impairment recovery	11,056	-	11,056	-
Finance fee	(309,312)	(283,817)	(940,079)	(845,524)
Foreign exchange	(406,516)	(394,099)	(251,571)	(373,212)
Interest income and other	703	2,210	3,051	5,585
Gain on Sale of Investment	-	-	23,170	-
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>(601,664)</b>	<b>76,410</b>	<b>(284,277)</b>	<b>3,513,006</b>
<b>INCOME TAXES</b>				
Deferred income tax recovery (expense)	-	1,662	(680)	1,662
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>(601,664)</b>	<b>78,072</b>	<b>(284,957)</b>	<b>3,514,668</b>
<b>EARNINGS (LOSS) PER SHARE, BASIC AND DILUTED</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.00</b>	<b>\$ 0.02</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>146,055,795</b>	<b>146,055,795</b>	<b>146,055,795</b>	<b>146,055,795</b>

Footnotes:

- (i) The Convertible Debenture Derivative is valued at fair value in accordance with IFRS. There are no circumstances in which the Corporation would be required to pay cash upon conversion of the Convertible Debenture. See Note 6.

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

## TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
THREE AND NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

	Three-month Period Ended April 30, 2018	Three-month Period Ended April 30, 2017	Nine-month Period Ended April 30, 2018	Nine-month Period Ended April 30, 2017
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	\$ (601,664)	\$ 78,072	\$ (284,957)	\$ 3,514,668
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Unrealized gain (loss) on available-for-sale securities	-	13,110	-	12,540
Deferred taxes on net unrealized fair value change in available-for-sale securities	-	(1,662)	-	(1,662)
<b>COMPREHENSIVE INCOME (LOSS)</b>	\$ <u>(601,664)</u>	\$ <u>89,520</u>	\$ <u>(284,957)</u>	\$ <u>3,525,546</u>

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

## TERRACO GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS  
THREE AND NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

	Period Ended April 30, 2018	Period Ended April 30, 2017
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (284,957)	\$ 3,514,668
Items not affecting cash		
Change in fair value of the convertible debenture derivative	(1,280,693)	(5,456,082)
Change in reclamation provision	(10,925)	-
Finance fees (Note 12)	940,079	845,524
Deferred income tax expense (recovery)	680	(1,662)
Stock based compensation	4,401	141,818
Gain on sale of available-for-sale securities	(23,170)	-
Unrealized foreign exchange loss (gain) on convertible debenture	<u>271,461</u>	<u>415,688</u>
	(383,124)	(540,046)
Changes in non-cash working capital balances		
Receivables	9,416	181,248
Prepaid expenses and deposits	(9,146)	7,505
Accounts payable and accrued liabilities	<u>1,096</u>	<u>(293,393)</u>
	<u>(381,758)</u>	<u>(644,686)</u>
<b>INVESTING ACTIVITIES</b>		
Sale of available-for-sale securities (Note 3)	34,570	-
Reclamation bonds and deposits	16,967	(823)
Exploration and evaluation expenditures	(154,907)	(246,809)
Royalty Interests	<u>-</u>	<u>(757,116)</u>
	<u>(103,370)</u>	<u>(1,004,748)</u>
<b>DECREASE IN CASH CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	(485,128)	(1,649,434)
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 401,174</u>	<u>\$ 1,164,532</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION (Note 10)</b>		
Interest paid in cash	\$ <u>-</u>	\$ <u>-</u>
Income taxes paid in cash	\$ <u>-</u>	\$ <u>-</u>

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

## TERRACO GOLD CORP.

### CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited - Expressed in Canadian Dollars)

	Number of Shares	Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance, July 31, 2016	146,055,795	\$ 37,360,271	\$ 7,889,820	\$ -	\$ (19,776,777)	\$ 25,473,314
Share-based compensation	-	-	141,818	-	-	141,818
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	10,878	-	10,878
Net income (loss) for the period	-	-	-	-	3,514,668	3,514,668
Balance, April 30, 2017	146,055,795	\$ 37,360,271	\$ 8,031,638	\$ 10,878	\$ (16,262,109)	\$ 29,140,678
Balance, July 31, 2017	146,055,795	\$ 37,360,271	\$ 8,005,805	\$ 4,450	\$ (13,778,623)	\$ 31,591,903
Share-based compensation	-	-	4,401	-	-	4,401
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	(4,450)	-	(4,450)
Net income (loss) for the period	-	-	-	-	(284,957)	(284,957)
Balance, April 30, 2018	146,055,795	\$ 37,360,271	\$ 8,010,206	\$ -	\$ (14,063,580)	\$ 31,306,897

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



# TERRACO GOLD CORP.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2018 AND 2017

(Unaudited - Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

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Terraco Gold Corp. (the “Company” or “Terraco”) was incorporated on November 28, 1995 under the Business Corporations Act (Alberta). The Company continued into British Columbia from Alberta on June 8, 2011 under the Business Corporations Act (British Columbia). The Company’s common shares are listed on the TSX Venture Exchange (the “Exchange”) under the trading symbol “TEN.V”. The Company’s principal office is located at #2390 – 1055 West Hastings Street, Vancouver, British Columbia, Canada, V6E 2E9.

The Company is a precious metals exploration and royalty company engaged in the acquisition and exploration of mineral properties and the acquisition of royalty assets. The Company currently has exploration properties and royalty assets in the United States of America. To date, no mineral development projects have been completed and no commercial development or production has commenced.

The Company is primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development programs and ultimately upon future profitable production.

These condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. Management believes the Company has sufficient funding available to continue exploration plans for the Company’s mineral property interests and to continue normal operations over the next 12 months. The continuing operations of the Company are dependent upon economic and market factors which involve uncertainties including the Company’s ability to raise adequate equity financing for future exploration programs and continuing operations. These uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern. There can be no assurance that capital will be available, as necessary, to meet the Company’s operating commitments and further exploration and development plans.

		April 30, 2018		July 31, 2017
Deficit	\$	14,063,580	\$	13,778,623
Working capital	\$	367,998	\$	864,797

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### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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(a) Statement of compliance

The Company’s condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim statements, including IAS 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”).

The accounting policies followed in these condensed interim consolidated financial statements are consistent with those applied in the Company’s annual consolidated financial statements for the year ended July 31, 2017. These condensed interim consolidated financial statements should be read in conjunction with the Company’s annual consolidated financial statements for the year ended July 31, 2017 which have been prepared according to IFRS as issued by the IASB. The Audit Committee of the Board of Directors authorized for publication the condensed interim consolidated financial statements on June 20, 2018.

(b) Accounting standards and interpretations issued but not yet adopted

As at the date of these financial statements, the following standard has not been applied in these financial statements:

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

### 2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

- (b) Accounting standards and interpretations issued but not yet adopted (Cont'd)
- (i) IFRS 9 *Financial Instruments*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. IFRS 9 replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 prohibits reclassifications except in rare circumstances when the entity's business model changes. The new standard removes the requirement to separate embedded derivatives from financial asset hosts. It requires a hybrid contract to be classified in its entirety at either amortized cost or fair value.
- (ii) IFRS 15 *Revenue from contracts with customers*. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. The new standard will apply to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts.
- (iii) IFRS 16 *Leases*. In January 2016, the IASB issued IFRS 16 which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15.

Management is currently assessing the impact of these new standards on the Company's accounting policies and consolidated financial statement presentation.

### 3. AVAILABLE-FOR-SALE SECURITIES

As at April 30, 2018, the Company owns Nil common shares of Sama Resources Inc. ("Sama"); a company listed on the Exchange with a director and officer in common. This investment is accounted for as an available-for-sale investment measured at fair value with changes in fair value recognized in accumulated other comprehensive income net of deferred income taxes. Management estimates the fair market value of these available-for-sale securities using the quoted market price of the securities at the reporting date.

	Number of shares	Cost \$	Fair value \$	Accumulated unrealized holding gain (loss) \$	Deferred income taxes on accumulated unrealized holding gain (loss) \$	Cumulative gains (losses) \$
	April 30, 2018					
Sama	-	-	-	-	-	-
	July 31, 2017					
Sama	114,000	11,400	16,530	5,130	(680)	4,450

During the nine months ended April 30, 2018, the Company sold 114,000 common shares of Sama for proceeds of \$34,570, resulting in the net gain of \$23,170.

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2018 AND 2017

(Unaudited - Expressed in Canadian Dollars)

#### 3. AVAILABLE-FOR-SALE SECURITIES (Cont'd)

The Company records a deferred income tax recovery in its financial statements where the Company has sufficient previously unrecognized tax loss carry forwards available to offset the deferred tax liability relating to unrealized gains included in other comprehensive income.

#### 4. EXPLORATION AND EVALUATION ASSETS

##### (a) Almaden (Nutmeg Mountain) Property

On January 25, 2011, the Company acquired all of the outstanding securities of Western Standard Metals Ltd. ("Western") in an all-share transaction by way of a plan of arrangement. Accordingly, the Company acquired a 100% interest in the Almaden (Nutmeg Mountain) Property comprising 12 leased patented lode mining claims (approximately 248 acres), 208 unpatented lode mining claims (approximately 4,150 acres) and approximately 280 acres of private fee ground located in Washington County, Idaho.

The Company has paid a total of US\$213,120 in future minimum payments to date.

The minimum future payments required to maintain the leased patented lode mining claims over the next 3 years are as follows:

- US\$35,520 cash before fiscal year ended July 31, 2018 (paid);
- US\$11,520 cash before fiscal year ended July 31, 2019; and
- US\$11,250 cash before fiscal year ended July 31, 2020

During the year ended July 31, 2012, the Company staked an additional 2 unpatented mining claims in the surrounding area.

The Almaden Property is subject to a 4% net proceeds royalty interest payable to underlying property owners, a 1% net smelter return ("NSR") royalty (for gold prices equal to or less than US\$425/oz.) or 2% (for gold prices greater than US\$425/oz.) payable to Royal Gold Inc. and a 0.5% NSR royalty payable to a strategic investor (Note 7).

Exploration and evaluation asset activity during the period/year:

	Period Ended April 30, 2018	Activity	Year Ended July 31, 2017	Activity	Year Ended July 31, 2016
Almaden (Nutmeg Mountain Gold) Property					
Property acquisition costs and option payments	\$ 14,045,558	\$ -	\$ 14,045,558	\$ -	\$ 14,045,558
Property maintenance costs	609,266	85,735	523,531	88,978	434,553
Engineering and consulting	1,267,056	35,579	1,231,477	56,780	1,174,697
Assays, surveys and analysis	361,855	-	361,855	26,608	335,247
Environmental	40,057	-	40,057	-	40,057
Drilling	2,486,933	-	2,486,933	-	2,486,933
PEA	77,333	-	77,333	41,137	36,196
Communications, field supplies and expenses	903,861	27,368	876,493	54,034	822,459
Total exploration and evaluation assets	\$ <u>19,791,919</u>	\$ <u>148,682</u>	\$ <u>19,643,237</u>	\$ <u>267,537</u>	\$ <u>19,375,700</u>

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2018 AND 2017

(Unaudited - Expressed in Canadian Dollars)

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#### 5. CONVERTIBLE DEBENTURE

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On June 15, 2016, TGC Holdings Inc. ("TGC") issued a senior unsecured convertible debenture (the "Debenture") for gross proceeds of approximately \$15.53 (USD\$12.03) million. The Debenture bears interest at a rate of 0.05% per annum, payable annually in cash, and has a maturity date of June 15, 2021 (the "Maturity Date"). On the Maturity Date, the outstanding amount of the Debenture is due and payable in either cash or by converting the outstanding amount into common shares of the Company at the market price on the Maturity Date. The Company has guaranteed all amounts under the Debenture.

The holder of the Debenture ("Holder") may convert any portion of the Debenture into:

- common shares of the Company at a price of C\$0.18 per share (the "Parent Conversion Option");
- common shares of TGC based on the following formula: (amount to be converted) multiplied by (45) divided by US\$12.03 million (the "Subsidiary Conversion Option"). Assuming full conversion, the holder of the Debenture can convert into a maximum of 45% of TGC; or
- any combination of the Parent Conversion Option or the Subsidiary Conversion Option.

From June 15, 2016 to June 15, 2020, the Holder will be prohibited from owning greater than 19.99% of the Company. During the term of the Debenture, Company shareholder approval will be required should the holder wish to exercise the Parent Conversion Option to acquire 20% or more of the Company's common shares.

The Holder will not be permitted to exercise the Parent Conversion Option or the Subsidiary Conversion Option until June 15, 2018 unless the Company's common shares trade at or above \$0.40 for twenty consecutive days prior to June 15, 2018.

Further, commencing on June 15, 2019, provided the Company's common shares trade at or above \$0.40 for twenty consecutive days, TGC shall be permitted to redeem all or any portion of the Debenture in exchange for the Company's common shares. The Holder has the right to participate in any future equity or convertible debt offerings of the Company to maintain its pro-rata ownership as long as the Holder owns (or can convert into) less than 5% of the issued and outstanding shares of the Company.

The Holder additionally agrees for a period of three years from June 15, 2016, to vote all Company common shares held in accordance with the recommendations of the Company's Board of Directors except in the event that: (i) an event of default under the Debenture has occurred; or (ii) a change of control of the Company has been proposed or announced.

The Debenture has been deemed to contain an embedded derivative ("Debenture Derivative") relating to the Parent Conversion Option. The Debenture Derivative was valued upon initial recognition using the residual approach at approximately \$6.99 million (Note 6). At inception, the gross proceeds of the Debenture were reduced by the estimated fair value of the Debenture Derivative (approximately \$6.99 million) and the transaction costs related to the Debenture of (approximately \$0.40 million) resulting in a balance of approximately \$8.14 million. The Debenture is measured at amortized cost and will be accreted to maturity over the term using the effective interest method.

The components of the Debenture are summarized as follows:

	Convertible Debenture
Balance, July 31, 2017	\$ 9,119,230
Accretion	940,079
Foreign exchange adjustments	271,461
Balance, April 30, 2018	\$ 10,330,770

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

### 6. CONVERTIBLE DEBENTURE DERIVATIVE

The Convertible Debenture Derivative related to the Convertible Debenture (Note 5) was valued upon initial recognition at a fair value of approximately \$6.99 million using the residual value approach, and is subsequently at each period end re-measured at fair value through the statement of net loss and comprehensive loss using the Black Scholes valuation method. The fair value upon initial recognition was reduced by the transaction costs related to the Debenture Derivative of approximately \$0.32 million, resulting in a balance of approximately \$6.67 million.

The components of the Debenture Derivative are summarized as follows:

	Convertible Debenture Derivative
Balance, July 31, 2017	\$ 3,494,651
Fair value adjustments including foreign exchange	(1,280,693)
<u>Balance, April 30, 2018</u>	<u>\$ 2,213,958</u>

Upon conversion of the Debenture, the fair value of the Debenture Derivative and the carrying value of the Debenture will be reclassified to share capital. There are no circumstances in which the Company would be required to pay any cash upon conversion of the Debenture.

The fair value of the Debenture Derivative was calculated using the Black Scholes valuation method. The assumptions used in the valuation model include:

	April 30, 2018	July 31, 2017
Risk-free interest rate	1.99%	1.52%
Expected term (years)	3.13	3.88
Share Price	\$0.09	\$0.10
Expected share price volatility	72.45%	75.31%

### 7. ROYALTY INTERESTS

#### Spring Valley Royalty #1

On December 21, 2011, the Company entered into an Assignment and Option Agreement ("Assignment and Option Agreement") pursuant to which a wholly-owned subsidiary acquired an option to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Gold Project ("Spring Valley Project") located in Pershing County, Nevada and received in cash US\$5,000,000. The Spring Valley Project is 100% owned and controlled by Waterton Global Resource Management ("Waterton"). The terms of the option provide the Company with the ability to purchase a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project for US\$12,500,000 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company. In exchange for the option, the Company issued a 1% NSR royalty on its Moonlight Property; a 0.5% NSR royalty (and up to a 1.0% NSR royalty in certain circumstances) on its Almaden Property; an off-take for 30% of the minerals produced from the Almaden (Nutmeg Mountain) Property during the life of the mine; and 1,000,000 share purchase warrants with an exercise price of \$0.35 per share for a period of 5 years, subject to early expiry at the discretion of the Company, if the Company shares trade at \$0.70 or higher for 20 consecutive trading days. The fair value attributed to the share purchase warrants was estimated to be \$228,399 using the Black-Scholes option-pricing model with the following assumptions: expected warrant life of 5 years, risk-free interest rate of 1.15%, dividend yield of 0% and expected volatility of 151%. The Company incurred a success fee of \$300,000 (paid) in conjunction with this transaction.

## TERRACO GOLD CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
NINE MONTHS ENDED APRIL 30, 2018 AND 2017  
(Unaudited - Expressed in Canadian Dollars)

### 7. ROYALTY INTERESTS (cont'd)

#### Spring Valley Royalty #1 (cont'd)

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.71%
\$300-\$399	1.07%
\$400-\$499	1.43%
\$500-\$599	1.79%
\$600-\$699	2.14%
\$700+	2.50%

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #1, under the Assignment and Option Agreement dated December 21, 2011. As a result of the exercise of the Spring Valley Royalty Option #1, the Company has paid US\$12,500,000, and in return the Company received a 2.5% NSR sliding scale royalty on a portion of the Spring Valley Project.

#### Spring Valley Royalty #2

On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement pursuant to which a wholly-owned subsidiary acquired an option to acquire a 0.5% NSR royalty on a portion of the Spring Valley Project. The terms of the option provide the Company with the ability to purchase a 0.5% NSR royalty on a portion of the Spring Valley Project for US\$983,211 for a period of 5 years from the closing of the transaction or within 1 year of a change of control of the Company.

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #2 under the Royalty Assignment, Purchase and Option Agreement dated March 8, 2012. As a result of the exercise of the Spring Valley Royalty Option #2, the Company has paid US\$983,211, and in return the Company received a 0.5% NSR royalty on a portion of the Spring Valley Project.

#### Spring Valley Royalty #3

On March 8, 2012, the Company entered into a Royalty Assignment, Purchase and Option Agreement ("Royalty Assignment, Purchase and Option Agreement") pursuant to which the Company acquired a 0.5% NSR royalty from a strategic partner on a portion of the Spring Valley Project in exchange for 2,500,000 common shares with an estimated fair value of \$587,500. The Company issued 2,500,000 common shares as consideration for the full purchase price.

#### Spring Valley Royalty #4

On April 21, 2013, the Company entered into a Royalty Purchase Agreement ("RPA") and a Royalty Purchase and Option Agreement ("RPOA") pursuant to which a wholly-owned subsidiary acquired for US\$4,200,000 and sold for US\$5,200,000 a 1.0% NSR sliding scale royalty on a portion of the Spring Valley Project while retaining an option to acquire a NSR sliding scale royalty on a portion of the Spring Valley Project.

The terms of the option provide the Company with the ability to purchase a 0.5% NSR sliding scale royalty on a portion of the Spring Valley Project for US\$2,600,000 for a period of 3.7 years from the closing of the transaction (expiring on December 30, 2016) or within 1 year of a change of control of the Company. Pursuant to the RPA and RPOA, the Company issued 800,000 common shares as consideration with an estimated fair value of \$88,000 and received a net cash infusion of US\$1,000,000.

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### 7. ROYALTY INTERESTS (cont'd)

#### Spring Valley Royalty #4 (cont'd)

NSR sliding scale royalty:

Gold Price (US\$ per oz)	Terraco Royalty Option
<\$300	0.14%
\$300-\$399	0.21%
\$400-\$499	0.29%
\$500-\$599	0.36%
\$600-\$699	0.43%
\$700+	0.50%

On June 15, 2016, the Company exercised the Spring Valley Royalty Option #4 under the Royalty Purchase Agreement ("RPA") and a Royalty Purchase and Option Agreement ("RPOA") dated April 21, 2013. As a result of the exercise of the Spring Valley Royalty Option #4, the Company has paid US\$2,600,000, and in return has received a 0.5% NSR sliding scale royalty on a portion of the Spring Valley Project.

#### Spring Valley Royalty #5

On December 21, 2011, the Company issued 4,000,000 common shares at an estimated fair value of \$1,020,000 to acquire a right of first refusal ("ROFR") on a separate 1% area of interest royalty located on the Spring Valley Project.

On February 1, 2017, the Company exercised its ROFR to acquire, from the Schmidt Family Mining Partnership LLC, an additional 1% net smelter returns royalty on certain lands within a one-half mile perimeter ("Perimeter NSR") of the Schmidt Claim Block included in the Spring Valley Project. The ROFR, upon exercise, was subject to an option with RK Mine Finance ("Red Kite") whereby Red Kite's wholly owned subsidiary, EXP2 LLC, could purchase 50% of the 1% Perimeter NSR from TGC (net 0.5% NSR royalty) on the same terms of the TGC purchase price. Red Kite has concurrently exercised its option and has purchased 50% of the Perimeter NSR with TGC retaining the other 50% or 0.5% NSR royalty.

In conjunction with the acquisition of the Perimeter NSR, both the Company and Red Kite have each separately paid \$742,466 (US\$567,895) for 0.5% of the Perimeter NSR.

#### Moonlight Property Royalty

On June 15, 2016, the Company entered into definitive agreements with Solidus Resources, LLC (Solidus"), a wholly-owned subsidiary of Waterton, pursuant to which Solidus acquired 100% of the Company's claims, leases, title and mineral rights proximate to the Spring Valley Project, including the Company's previously owned Moonlight Property located adjacent to the north of the Spring Valley Project but excluding certain royalties held by the Company, in exchange for US\$7,000,000 in cash and a 2% NSR on the Moonlight Property.

The Moonlight Property is comprised of 95 parcels of private fee lands for 3,760 gross acres (including 1,170 net surface acres and 2,952.5 net mineral acres) as well as 3 mineral leases of private fee lands comprising 180 acres and 3 leases of patented mining claims amounting to 393.8 acres, plus 230 unpatented lode mining claims totaling approximately 4,560 acres for a total property position of approximately 8,894 gross acres (including 6,304 net surface acres and 8,056 net mineral acres).

As at April 30, 2018, the Company had capitalized acquisition costs of \$23,691,708 (July 31, 2017 - \$23,691,708) under royalty interests.

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## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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**8. CAPITAL**

- (a) Authorized:  
 Unlimited number of voting common shares  
 Unlimited number of non-voting preferred shares, none issued and outstanding

- (b) Share purchase options

As at April 30, 2018, the Company had outstanding share purchase options enabling holders to acquire common shares of the Company as follows:

Number	Vested	Price per share	Expiry date
2,925,000	2,925,000	\$0.11	October 29, 2018
5,051,000	5,051,000	\$0.16	June 9, 2019
4,050,000	4,050,000	\$0.12	November 26, 2020
300,000	300,000	\$0.18	August 15, 2021
250,000	187,500	\$0.13	December 29, 2021
<b>12,576,000</b>	<b>12,513,500</b>		

A summary of the Company's options and the changes for the period/year are as follows:

	April 30, 2018		July 31, 2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	12,576,000	\$0.14	14,001,000	\$0.15
Granted	-	-	550,000	0.16
Exercised	-	-	-	-
Expired	-	-	(1,975,000)	0.26
<b>Outstanding, end of the period/year</b>	<b>12,576,000</b>	<b>\$0.14</b>	<b>12,576,000</b>	<b>\$0.14</b>

During the year ended July 31, 2017, the Company granted 550,000 stock options to consultants of the Company and 1,975,000 options expired. The weighted average grant-date fair value of the stock options granted during the year ending July 31, 2017 is \$0.10.

The weighted average fair value of the stock options granted was determined by using the Black-Scholes option pricing model with the following assumptions:

	Period ended April 30, 2018	Year ended July 31, 2017
Risk-free interest rate	-	0.57% – 0.96%
Estimated volatility	-	83.86% - 88.79%
Expected life	-	3.72 – 3.79 years
Expected dividend yield	-	nil



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## 8. CAPITAL (Cont'd)

### (b) Share purchase options (Cont'd)

The Company has a share purchase option plan under which directors, officers, employees and consultants of the Company are eligible to receive share purchase options. The aggregate number of shares available to be issued upon the exercise of all share purchase options granted under the plan shall not exceed 10% of the issued and outstanding shares of the Company. The plan limits the maximum number of share purchase options issuable in any one 12-month period to any one optionee to 5% of the total common shares outstanding. The Board of Directors shall determine the terms and provisions of the options at the time of grant. The exercise price of each share purchase option shall not be less than the market price of the common shares on the date of the grant less the discount permitted by the Exchange. The maximum term of share purchase options shall not exceed 10 years or such other term as permitted by the Exchange.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measures of the fair value of the Company's share purchase options.

### (c) Share purchase warrants

As at April 30, 2018, the Company had outstanding share purchase warrants enabling holders to acquire common shares of the Company as follows:

Expiry date	Exercise price per share	Number
July 31, 2019 (i)	\$0.10	4,420,698
		4,420,698

(i) On July 28, 2017, the Company announced that it received Exchange acceptance to extend the expiry date of 4,420,698 warrants to July 31, 2019 from July 31, 2017.

A summary of the Company's share purchase warrants and the changes for the period/year are as follows:

	April 30, 2018		July 31, 2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of the period/year	4,420,698	\$0.10	5,420,698	\$0.15
Expired	-	-	(1,000,000)	\$0.35
Outstanding, end of the period/year	4,420,698	\$0.10	4,420,698	\$0.10

### (d) Shareholder rights plan

On April 16, 2013, the board of directors approved the adoption of a shareholder rights plan (the "Plan"). The Plan is designed to provide shareholders and the Company's board of directors with adequate time to consider and evaluate any unsolicited bid made for the Company, to provide the board of directors with adequate time to identify, develop and negotiate value-enhancing alternatives, if considered appropriate, to any such unsolicited bid, to encourage the fair treatment of shareholders in connection with any take-over bid for the Company and to ensure that any proposed transaction is in the best interests of the Company's shareholders.

The rights issued under the Plan will become exercisable only if a person, together with its affiliates, associates and joint actors, acquires or announces its intention to acquire beneficial ownership of shares which when aggregated with its current holdings, total 20% or more of the Company's outstanding common shares (determined in the manner set out in the Plan), other than by a permitted bid (as described in the Plan).

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### 8. CAPITAL (Cont'd)

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##### (d) Shareholder rights plan (Cont'd)

Permitted bids must be made by way of a take-over bid circular prepared in compliance with applicable securities laws and, among other conditions, must remain open for 60 days.

In the event that a take-over bid does not meet the permitted bid requirements of the Plan, the rights will entitle shareholders, other than any shareholder or shareholders making the take-over bid, to purchase additional common shares of the Company at a substantial discount to the market price of the common shares at that time.

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#### 9. RELATED PARTY TRANSACTIONS

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##### (a) Transactions with key management personnel

During the period ended April 30, 2018, the Company paid consulting fees of \$150,000 (April 30, 2017 – \$212,000) and salaries, wages, office and sundry fees of \$13,500 (April 30, 2017 - \$14,000) to officers and companies controlled by officers and/or directors of the Company.

During the period ended April 30, 2018, the Company paid engineering and consulting fees of US\$53,857 (April 30, 2017 - US\$88,488) to companies controlled by an officer or director of the Company. Of these fees, US\$12,100 (April 30, 2017 - US\$44,945) has been capitalized under exploration and evaluation assets as the fees were incurred directly for exploration and evaluation projects.

As at April 30, 2018, \$62,713 (July 31, 2017 – \$60,119) is payable to companies controlled by officers and/or directors of the Company, which is included in accounts payable and accrued liabilities.

During the period ended April 30, 2018, the Company incurred share-based payments of \$Nil (April 30, 2017 – \$11,477) to officers and directors of the Company.

##### (b) Transactions with other related parties

As at April 30, 2018, \$1,196 (July 31, 2017 – \$5,884) is due from a company with a director and officers in common. This amount is included in receivables.

Included in available-for-sale securities as at April 30, 2018 is Nil common shares with a market value of \$Nil. (July 31, 2017 - \$16,530) received from a company with a director and officer in common.

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#### 10. SUPPLEMENTAL CASH FLOW INFORMATION

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The following significant non-cash transactions have been excluded from the condensed interim consolidated statements of cash flows:

As at April 30, 2018, exploration and evaluation expenditures incurred of \$6,039 (April 30, 2017 – \$202) are included under accounts payable and accrued liabilities.

## TERRACO GOLD CORP.

### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED APRIL 30, 2018 AND 2017

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#### 11. COMMITMENTS

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The Company has an operating lease commitment for office premises in Vancouver, British Columbia annual rent payments of \$50,522 to July 31, 2018, annual rent payments of \$38,219 to July 31, 2021, and annual rent payments of \$39,575 to July 31, 2023.

The Company has an operating lease commitment for office premises in Weiser, Idaho, requiring basic annual rent payments of US\$43,200 to March 31, 2016 and basic annual rent payments of US\$36,150 subject to the closing price of gold (COMEX) per ounce ("oz") payable to March 31, 2021 as follows:

Annual rent If the closing price of gold on the last trading day of each month exceeds US\$1,400/oz	US\$42,150
Annual rent If the closing price of gold on the last trading day of each month exceeds US\$1,800/oz	US\$48,150
Annual rent If the closing price of gold on the last trading day of each month exceeds US\$2,200/oz	US\$54,150

Minimum payments relating to the above commitments in each of the next five fiscal years are as follows (based on the closing price of gold of less than US\$1,400/oz):

2018	\$	24,183
2019	\$	84,621
2020	\$	84,621
2021	\$	69,025
2022	\$	39,575

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#### 12. FINANCE FEES

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The Company's finance fees for the period ended April 30, 2018 were \$940,079, which were comprised of accretion costs associated with the convertible debenture (Note 5).

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#### 13. FINANCIAL INSTRUMENTS – FAIR VALUE

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Financial instruments are classified into one of the following four categories: fair-value-through-profit or loss ("FVTPL"); held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	April 30, 2018	July 31, 2017
Cash	FVTPL	401,174	\$ 886,302
Receivables	Loans and receivables	26,930	36,346
Available-for-sale securities	Available-for-sale	-	16,530
Reclamation bonds	Loans and receivables	-	16,967
Accounts payable and accrued liabilities	Other liabilities	(91,593)	(96,722)
Convertible debenture	Other liabilities	(10,330,770)	(9,119,230)
Convertible debenture derivative	FVTPL	(2,213,958)	(3,494,651)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

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### NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### 13. FINANCIAL INSTRUMENTS – FAIR VALUE (Cont'd)

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- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The Company's fair value of cash and available-for-sale securities under the fair value hierarchy are measured using Level 1 inputs. The recorded amounts for receivables, accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amount for the reclamation bonds approximates its fair value. The convertible debenture derivative under the fair value hierarchy is measured using level 2 inputs.

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#### 14. COMPARATIVE FIGURES

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Certain of the 2017 comparative figures have been reclassified to conform to current presentation.