TERRACO GOLD CORP

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2018 AND 2017

(Expressed in Canadian Dollars)

TSXV: TEN

TERRACO GOLD CORP.

INDEX

CONSOLIDATED FINANCIAL STATEMENTS

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Independent Auditor's Report

To the Shareholders of Terraco Gold Corp.

We have audited the accompanying consolidated financial statements of Terraco Gold Corp., which comprise the consolidated statements of financial position as at July 31, 2018 and July 31, 2017, and the consolidated statements of income (loss) and deficit, consolidated statements of cash flows, consolidated statements of comprehensive income (loss) and consolidated statements of changes in equity for the years ended July 31, 2018 and July 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Terraco Gold Corp. as at July 31, 2018 and July 31, 2017, and its financial performance and its cash flows for the years ended July 31, 2018 and July 31, 2017 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"D&H Group LLP"

Chartered Professional Accountants

Vancouver, B.C.
November 26, 2018

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

		July 31, 2018		July 31, 2017
ASSETS				
Current assets				
Cash	$	285,044	$	886,302
Receivables		33,130		36,346
Available-for-sale securities (Note 4)		-		16,530
Prepaid expenses and deposits		24,779		22,341
		342,953		961,519
Reclamation bonds (Note 9)		-		16,967
Royalty interests (Note 8)		23,691,708		23,691,708
Exploration and evaluation assets (Note 5)		19,817,496		19,643,237
	$	43,852,157	$	44,313,431
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	$	171,330	$	96,722
Convertible debenture (Note 6)		10,825,371		9,119,230
Convertible debenture derivative (Note 7) (i)		1,848,287		3,494,651
Reclamation provision (Note 9)		-		10,925
		12,844,988		12,721,528
SHAREHOLDERS' EQUITY				
Capital (Note 10)		37,360,271		37,360,271
Contributed surplus		8,010,735		8,005,805
Accumulated other comprehensive income		-		4,450
Deficit		(14,363,837)		(13,778,623)
		31,007,169		31,591,903
	$	43,852,157	$	44,313,431

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
COMMITMENTS (Notes 5 and 14)
EVENTS AFTER THE REPORTING PERIOD (Note 21)

These consolidated financial statements were approved for issue by the Board of Directors on November 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 7.

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

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND DEFICIT
YEARS ENDED JULY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Year Ended July 31, 2018	Year Ended July 31, 2017
Accounting and audit	$ 26,300	$ 32,066
Consulting fees (Note 11)	276,179	359,264
Insurance	17,996	19,301
Investor relations	5,841	42,013
Legal and professional fees	39,434	13,167
Property investigation	62,425	110,571
Reclamation costs	65	4,967
Salaries, wages, office and sundry (Note 11)	108,153	159,326
Shareholder information	2,944	4,456
Share-based compensation (Note 10 and 11)	4,930	115,985
Telephone	3,215	8,779
Transfer agent and filing fees	20,502	27,976
Travel	5,019	37,776
LOSS BEFORE OTHER ITEMS	(573,003)	(935,647)
OTHER ITEMS		
Change in fair value of convertible debenture derivative (Note 7) (i)	1,646,364	7,688,362
Foreign exchange	(394,907)	402,163
Interest income and other	3,572	(952)
Finance costs (Note 15)	(1,289,730)	(1,156,452)
Gain on sale of investment (Note 4)	23,170	-
NET INCOME (LOSS) BEFORE INCOME TAXES	(584,534)	5,997,474
INCOME TAXES		
Deferred income tax recovery (expense) (Note 18)	(680)	680
NET INCOME (LOSS) FOR THE YEAR	(585,214)	5,998,154
DEFICIT, BEGINNING OF YEAR	(13,778,623)	(19,776,777)
DEFICIT, END OF YEAR	$ (14,363,837)	$ (13,778,623)
EARNINGS (LOSS) PER SHARE, BASIC	$ (0.00)	$ 0.04
WEIGHTED AVERAGE SHARES OUTSTANDING	146,055,795	146,055,795
EARNINGS (LOSS) PER SHARE, DILUTED (Note 19)	$ (0.00)	(0.00)
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING (Note 19)	146,055,795	234,523,078

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 7.

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

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Year Ended July 31, 2018	Year Ended July 31, 2017
CASH (USED IN) PROVIDED BY		
OPERATING ACTIVITIES		
Net income (loss)	$ (585,214)	$ 5,998,154
Items not affecting cash		
Deferred income tax expense (recovery)	680	(680)
Change in fair value of the convertible debenture derivative	(1,646,364)	(7,688,362)
Finance costs	1,289,730	1,156,452
Gain on marketable securities	(23,170)	-
Share based compensation	4,930	115,985
Unrealized foreign exchange loss (gain)	416,411	(432,803)
Change in reclamation provision	(10,925)	-
	(553,922)	(851,254)
Changes in non-cash working capital balances		
Receivables	3,216	174,295
Prepaid expenses and deposits	(2,438)	14,272
Accounts payable and accrued liabilities	68,738	(223,671)
	(484,406)	(886,358)
INVESTING ACTIVITIES		
Royalty interests	-	(767,182)
Reclamation bonds and deposits	16,967	-
Proceeds from the sale of marketable securities	34,570	-
Exploration and evaluation expenditures	(168,389)	(274,124)
	(116,852)	(1,041,306)
INCREASE (DECREASE) IN CASH	(601,258)	(1,927,664)
CASH, BEGINNING OF YEAR	886,302	2,813,966
CASH, END OF YEAR	$ 285,044	$ 886,302

SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)

Interest paid in cash	$ 7,661	$ 7,962
Income taxes paid in cash	$ -	$ -

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

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

YEARS ENDED JULY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

	Year Ended July 31, 2018	Year Ended July 31, 2017
NET INCOME (LOSS) FOR THE YEAR	$ (585,214)	$ 5,998,154
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized gain (loss) on available-for-sale securities	(4,450)	5,130
Deferred taxes on net unrealized fair value change in available-for-sale securities	680	(680)
COMPREHENSIVE INCOME (LOSS)	$ (588,984)	$ 6,002,604

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

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Number of Shares	Common Shares	Contributed Surplus	Accumulated Other Comprehensive Income	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	-	-	115,985	-	-	115,985
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	4,450	-	4,450
Net income for the period	-	-	-	-	5,998,154	5,998,154
Balance, July 31, 2017	146,055,795	$ 37,360,271	$ 8,005,805	$ 4,450	$ (13,778,623)	$ 31,591,903
Share-based compensation	-	-	4,930	-	-	4,930
Unrealized holding gain (loss) on available-for-sale securities, net of deferred income taxes	-	-	-	(4,450)	-	(4,450)
Net income for the period	-	-	-	-	(585,214)	(585,214)
Balance, July 31, 2018	146,055,795	$ 37,360,271	$ 8,010,735	$ -	$ (14,363,837)	$ 31,007,169

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

(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

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". 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 royalty and exploration 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 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.

		July 31, 2018		July 31, 2017
Deficit	$	14,363,837	$	13,778,623
Working capital	$	171,623	$	864,797

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value as explained in the Summary of Significant Accounting Policies set out in Note 3.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the Company's significant accounting policies:

(a) Details of the group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

As at July 31, 2018, the subsidiaries of the Company are as follows:

Company	Location of Incorporation	Ownership Interest
TGC Holdings Ltd.	United States of America	100%
Western Standard Metals Ltd.	Canada	100%
Western Standard Metals USA, Inc.	United States of America	100%
Terraco Royalties USA, Inc.	United States of America	100%

(b) Critical judgments and sources of estimation uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

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

(i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

(ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian Dollar is the functional currency of the parent and its subsidiaries, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant, the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

(iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets and royalty interests. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Management has determined that there were no triggering events present with respect to the Almaden property and royalty interests as at July 31, 2018 and 2017.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Critical judgments and sources of estimation uncertainty (Cont'd)

(iv) Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

(i) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ii) The assessment of any impairment of exploration and evaluation assets is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets.

(iii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

(iv) The valuation of share-based compensation and the convertible debenture derivative are determined using the Black-Scholes Option Pricing Model. Option pricing models require the input of subjective assumptions including expected share price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Corporation's net loss and equity reserves.

(c) Cash

Cash consists of cash and money market instruments with terms to maturity not exceeding 90 days at date of acquisition.

(d) Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective-interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

(e) Accounts payable and accrued liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective-interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and, accordingly, follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. Any exploration expenditures that are not expected to be recovered are charged to the results of operations.

(g) Royalty interests

The Company capitalizes all costs relating to the acquisition of royalty interests. Acquisition costs of royalty interests on exploration stage mineral properties, where there are no proven and probable reserves, are not amortized. When the associated mineral property enters the production stage, royalty interests are depleted using the units of production method over the life of the mineral property, which is calculated using estimated reserves. All capitalized royalty interests are monitored for indications of impairment.

Where a potential impairment is indicated, assessments are performed for each area of interest. Any royalty interest that is not expected to be recovered are charged to the results of operations.

(h) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less cost of disposal and value in use. Fair value is determined by the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(h) Impairment (Cont'd)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(i) Decommissioning and rehabilitation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

(j) Financial instruments

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

Financial assets classified as fair-value-through-profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as fair-value-through-profit or loss.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost.

Receivables, and reclamation bonds are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. Available-for-sale securities are classified as available-for-sale.

Transaction costs associated with fair-value-through-profit or loss are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as fair-value-through-profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities and convertible debenture are classified as other financial liabilities.

Financial liabilities classified as fair-value-through-profit or loss are measured at fair value with unrealized gains and losses recognized through comprehensive loss. The Company has classified the convertible debenture derivative as fair-value-through-profit or loss.

(k) Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(l) Equity financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties or royalty acquisitions. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of the equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the price reservation date, if applicable, or the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

(m) Share-based payments

The fair value, at the grant date, of equity-settled share-based awards is recognized as an expense over the period for which the benefits of employee and others providing similar services are expected to be received using the graded-vesting method. The corresponding accrued entitlement is recorded in contributed surplus. The fair value of awards is calculated using an option pricing model which considers the following factors:

- Exercise price
- Expected volatility
- Risk-free interest rate
- Expected life of the award
- Current market price of the underlying shares
- Expected forfeitures

The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related service and vesting conditions are met. Consideration received on the exercise of share options is recorded as share capital and the related share-based payment reserve is transferred to share capital. Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee provides the goods or the services.

(n) Current and deferred income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or other comprehensive income. Current tax expense, if any, is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting or taxable loss, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) Current and deferred income taxes

Basic earnings per share is calculated by dividing the profit or loss attributable to the common shareholders of the Company divided by the weighted average number of common shares outstanding during the year. The diluted earnings per share is calculated based on the weighted average number of common shares outstanding during the year, plus the effects of the dilutive common share equivalents using the treasury stock method and if converted method, as applicable. The dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the year (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the year. The dilutive effect of the convertible debenture is calculated using the if-converted method. The if-converted method assumes that all convertible debt has been converted in determining fully diluted earnings or loss per share, except where such conversions would be anti-dilutive.

(p) Foreign currency translation

(i) Functional and presentation currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian Dollar. The consolidated financial statements are presented in Canadian Dollars.

(ii) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates published by the Bank of Canada prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive income (loss).

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

As at the date of these financial statements, the following standards have not been applied in these financial statements:

(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.

(Expressed in Canadian Dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(q) Accounting standards and interpretations issued but not yet adopted (Cont'd)

(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.

4. AVAILABLE-FOR-SALE SECURITIES

As at July 31, 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) $
			July 31, 2018			
Sama	-	-	-	-	-	-
			July 31, 2017			
Sama	114,000	11,400	16,530	5,130	(680)	4,450

During the year ended July 31, 2018, the Company sold 114,000 common shares of Sama for proceeds of $34,570, resulting in the net gain of $23,170.

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.

(Expressed in Canadian Dollars)

5. 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$248,640 in future minimum payments to date.

The minimum future payments required to maintain the leased patented lode mining claims over the next 5 years are as follows:

- US$35,520 cash before fiscal year ended July 31, 2019;
- US$35,520 cash before fiscal year ended July 31, 2020;
- US$24,000 cash before fiscal year ended July 31, 2021;
- US$24,000 cash before fiscal year ended July 31, 2022;
- US$24,000 cash before fiscal year ended July 31, 2023; and
- US$384,000 thereafter

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 year:

	Year Ended July 31, 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	1,281,962	50,485	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	914,532	38,039	876,493	54,034	822,459
Total exploration and evaluation assets	$ 19,817,496	$ 174,259	$ 19,643,237	$ 267,537	$ 19,375,700

(Expressed in Canadian Dollars)

6. CONVERTIBLE DEBENTURE

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 (the "Ownership Limit"). 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 7). 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		1,289,730
Foreign exchange adjustments		416,411
Balance, July 31, 2018	$	10,825,371

(Expressed in Canadian Dollars)

7. CONVERTIBLE DEBENTURE DERIVATIVE

The Convertible Debenture Derivative related to the Convertible Debenture (Note 6) 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	(1,646,364)
Balance, July 31, 2018	$ 1,848,287

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:

	July 31, 2018
Risk-free interest rate	2.10%
Expected term (years)	2.88
Share Price	$0.08
Expected share price volatility	72.10%

8. 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.

(Expressed in Canadian Dollars)

8. 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 Gold Project ("Spring Valley Project") located in Pershing County, Nevada, 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.

(Expressed in Canadian Dollars)

8. 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 nest surface acres and 8,056 net mineral acres).

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

(Expressed in Canadian Dollars)

9. RECLAMATION PROVISION

The reclamation provision is the estimated cost of reclaiming a disturbed area relating to the Company's mining claims. An amount equal to the undiscounted obligation plus accrued interest is held with the Bureau of Land Management of the States of Nevada and Idaho in the form of reclamation bonds. All of the accrued reclamation costs are long-term in nature. No portion of these costs has been classified as a current liability.

The following table reconciles the estimated beginning and ending carrying amounts of the reclamation provision related to reclamation costs at the Company's properties.

	July 31, 2018	July 31, 2017
Reclamation provision, beginning of the year	$ 10,925	$ 11,425
Change in estimate	(10,925)	(500)
Reclamation provision, end of the year	$ -	$ 10,925

The assumptions used for the calculation of the provision are as follows:

	July 31, 2018	July 31, 2017
Estimated cash flows to settle the obligations (undiscounted)	$ -	$ 16,967
Time range for settling the obligation for all active projects	-	10 years
Risk adjusted discount rate for all projects	-	4.5%

10. 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 July 31, 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	250,000	$0.13	December 29, 2021
12,576,000	12,576,000		

(Expressed in Canadian Dollars)

10. CAPITAL (Cont'd)

(b) Share purchase options (Cont'd)

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

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

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 in the year is $0.10.

Subsequent to year-end 2,925,000 options expired without exercise and 3,900,000 options were granted to certain directors, officers, employees and consultants of the Company. The options have an exercise price of $0.07 per common share and expire on October 30, 2023.

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

	Year ended July 31, 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

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.

(Expressed in Canadian Dollars)

10. CAPITAL (Cont'd)

(c) Share purchase warrants

As at July 31, 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 TSX Venture 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 year are as follows:

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

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.

(Expressed in Canadian Dollars)

11. RELATED PARTY DISCLOSURES

(a) Transactions with key management personnel

During the year ended July 31, 2018, the Company paid consulting fees of $225,000 (July 31, 2017 – $287,000) and salaries, wages, office and sundry fees of $18,000 (July 31, 2017 – $18,500) to officers and/or directors or companies controlled by officers and/or directors of the Company.

During the year ended July 31, 2018, the Company paid engineering and consulting fees of US$71,857 (July 31, 2017 - US$110,916) to companies controlled by an officer or director of the Company. Of these fees, US$23,500 (July 31, 2017 - US$43,416) has been capitalized under exploration and evaluation assets as the fees were incurred directly for exploration and evaluation projects.

As at July 31, 2018, $139,813 (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 July 31, 2018, the Company incurred share-based payments of $Nil (July 31, 2017 – $60,947) to officers and directors of the Company.

(b) Transactions with other related parties

As at July 31, 2018, $1,098 (July 31, 2017 – $5,884) is due from a director of the Company and a company with a director and officers in common. This amount is included in receivables.

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

12. OPERATING SEGMENTS

The Company operates in one reportable business segment: the exploration and development of unproven exploration and evaluation assets and royalty assets. Details on a geographic basis are as follows:

	July 31, 2018		
	Canada	US	Total
Current assets	$ 257,8308	$ 85,645	$ 342,3953
Exploration and evaluation assets	-	19,817,496	19,817,496
Royalty interests	-	23,691,708	23,691,708
Property and equipment	-	-	-
	$ 257,8308	$ 43,594,849	$ 43,852,7157

	July 31, 2017		
	Canada	US	Total
Current assets	$ 853,808	$ 107,711	$ 961,519
Exploration and evaluation assets	-	19,643,237	19,643,237
Royalty interests	-	23,691,708	23,691,708
Property and equipment	-	-	-
Reclamation bonds	-	16,967	16,967
	$ 853,808	$ 43,459,623	$ 44,313,431

(Expressed in Canadian Dollars)

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

As at July 31, 2018, exploration and evaluation expenditures incurred of $6,055 (July 31, 2017 – $185) are included under accounts payable and accrued liabilities.

14. COMMITMENTS

The Company has an operating lease commitment for office premises in Vancouver, British Columbia 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$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):

2019	$	85,275
2020	$	85,275
2021	$	69,460
2022	$	39,575
2023	$	39,575

15. FINANCE COSTS

The Company's finance fees for the period ended July 31, 2018 were $1,289,730, which were comprised of accretion costs associated with the convertible debenture (Note 6).

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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	July 31, 2018	July 31, 2017
Cash	FVTPL	$ 285,044	$ 886,302
Receivables	Loans and receivables	33,130	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	(171,330)	(96,722)
Convertible debenture	Other liabilities	(10,825,371	(9,119,230)
Convertible debenture derivative	FVTPL	(1,848,287)	(3,494,651)

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

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.

- 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.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's receivables and subscriptions receivable predominately relate to receivables from goods and services input tax credits and subscription receivables from the recent financing, respectively. Accordingly, the Company views credit risk on receivables as minimal, as it is primarily from an agency of the Government of Canada. The Company is also exposed to credit concentration risk by holding cash. This risk is minimized by holding the investments in large financial institutions or with the Government of Canada.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties meeting its financial obligations as they become due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities and property commitments when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company prepares annual expenditure budgets, which are regularly monitored and updated as considered necessary. Management attempts to ensure sufficient cash or liquid investments are available to satisfy budgeted expenditures.

(c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the exploration stage and has not yet developed commercial mineral interests, the underlying market prices in Canada for minerals are impacted by changes in the exchange rate between the Canadian and the United States Dollar. The Company's exploration and evaluation costs are denominated in Canadian Dollars and United States Dollars. The Company has not entered into any arrangements to hedge its currency risk but does maintain cash balances within each currency.

16. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Cont'd)

(i) Currency risk (cont'd)

During the year, the Company maintained a portion of its cash balance and a significant portion of its debt in United States Dollars. There is a risk that the Company's cash balance may be reduced and that the amount owing at maturity of the Company's debt may be increased on a fluctuation in the relevant exchange rate.

(ii) Commodity price risk

Commodity price risk is the risk that the fair value of financial assets and financial liabilities or expected future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States Dollars, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time. However, the Company is exposed to commodity price risk as it impacts the Company's access to capital and funding.

(iii) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of cash and term deposits is limited because of their short-term investment nature. A variable rate of interest is earned on cash; changes in market interest rates at the year-end would not have a material impact on the Company's financial statements.

17. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the continued development of its mineral properties. Therefore, the Company monitors the level of risk associated with its mineral property expenditures relative to its capital structure.

The Company considers its capital structure to include working capital and shareholders' equity. The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets and capital markets. In order to facilitate the management of capital and the development of its mineral properties, the Company prepares annual expenditure budgets which are regularly monitored and updated as considered necessary.

To maintain or adjust the capital structure, the Company may issue new equity, if available, on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold cash and term deposits in interest-bearing bank accounts and highly liquid short-term, interest-bearing investments with maturities of one year or less which can be liquidated at any time without penalties. The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended July 31, 2018.

(Expressed in Canadian Dollars)

18. INCOME TAXES

(a) Temporary timing differences between the income tax basis and accounting cost result in the Company's potential deferred income tax assets and liabilities. Significant components of the Company's deferred income tax assets (liabilities) at July 31, 2018 and 2017 are as follows:

		2018		2017
Tax values of mineral properties and deferred costs compared to book values	$	(8,268,244)	$	(7,296,034)
Tax values of property and equipment in excess of net book value		52,229		52,229
Net book value of available-for-sale securities in excess of tax value		-		(5,130)
Finance fees		3,257		6,515
Capital loss carry forwards		4,344,714		4,344,714
Non-capital loss carry forwards		16,938,793		15,322,314
		13,070,749		12,424,608
Estimated corporate income tax rate		20.97%		27.35%
Deferred income assets (liabilities)		2,741,583		3,397,598
Valuation allowance		(2,741,583)		(3,397,598)
Multijurisdictional deferred income tax liabilities		-		-
Deferred income tax assets (liabilities)	$	-	$	-

(b) The Company has available non-capital tax losses of approximately $16,938,792 (2017 - $15,322,314), which expire at varying dates up to 2038. The Company has available capital losses of approximately $4,344,714 (2017 – $4,344,714). The potential benefit of the losses has been reduced to Nil in the consolidated financial statements by management's determination of a valuation allowance.

(c) The actual income tax provision differs from the expected amount calculated by applying the combined Canadian and United States corporate income tax rate to the Company's income before income taxes. The components of these differences are as follows:

		2018		2017
Net income (loss) before income taxes	$	(585,214)	$	5,997,474
Expected tax recovery at 27.0% (2017 – 26.0%)		(158,008)		1,559,343
Permanent and other differences		(25,288)		(2,136,621)
Change in valuation allowance		(619,014)		577,958
Impact of tax rate changes		547,830		-
Other		253,800		-
	$	(680)	$	680

(Expressed in Canadian Dollars)

19. EARNINGS/(LOSS) PER SHARE

		July 31, 2018		July 31, 2017
Income/(loss)				
Net income/(loss) for the year	$	(585,214)	$	5,998,154
Interest on convertible debenture		(i)		1,156,452
Fair value gain/(loss) on convertible debenture		(i)		(7,688,362)
Foreign exchange gain		(i)		(433,079)
Interest paid		(i)		7,962
Diluted income/(loss) for the year	$	(585,214)	$	(958,873)
Number of shares				
Weighted average number of shares		146,055,795		146,055,795
Convertible debenture		(i)		88,467,283
Diluted weighted average number of shares		146,055,795		234,523,078
Diluted income/(loss) per share		(0.00)		(0.00)

(i) The convertible debenture was anti-dilutive for this period.

Potentially dilutive items not included in the calculation of diluted earnings/(loss) per share for the year ended July 31, 2017, were 12,576,000 share purchase options and 4,420,698 share purchase warrants that were anti-dilutive.

20. COMPARATIVE FIGURES

Certain of the 2018 comparative figures have been reclassified to conform to current presentation.

21. EVENTS AFTER THE REPORTING PERIOD

Subsequent to year-end 2,925,000 options expired without exercise.

On October 31, 2018, 3,900,000 options were granted to certain directors, officers, employees and consultants of the Company. The options have an exercise price of $0.07 per common share and expire on October 30, 2023.