MEGASTAR development corp.

MEGASTAR DEVELOPMENT CORP.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MAY 31, 2019

EXPRESSED IN CANADIAN DOLLARS
(Unaudited – Prepared by Management)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Company's independent auditor DAVIDSON & COMPANY LLP has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim condensed consolidated financial statements by an entity's auditor.

July 29, 2019

MEGASTAR DEVELOPMENT CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	May 31, 2019	Feburary 28, 2019
ASSETS			
Current assets			
Cash and cash equivalents	4	$ 533,332	$ 187,106
Taxes recoverable		9,668	3,542
Accounts receivable	7	3,337	3,277
Marketable securities	5	69,900	69,325
Prepaid expenses and deposits		5,326	5,050
Total current assets		621,563	268,300
Non-current assets			
Equipment	6	117	127
Exploration and evaluation assets	7, 11	410,482	403,945
Total non-current assets		410,599	404,072
TOTAL ASSETS		$ 1,032,162	$ 672,372
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		$ 23,528	$ 149,752
Due to related parties	11	10,743	63,139
Total current liabilities		34,271	212,891
Total liabilities		34,271	212,891
Shareholders' equity			
Share capital	8	5,862,795	5,238,678
Reserves		97,340	82,458
Deficit		(4,962,244)	(4,861,655)
Total shareholders' equity		997,891	459,481
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 1,032,162	$ 672,372

Subsequent events (Note 14)

Approved and authorised for issue on behalf of the Board on July 29, 2019

"Dusan Berka"	Director	*"Robert Archer"*	Director
Dusan Berka		Robert Archer	

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

MEGASTAR DEVELOPMENT CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPEREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	Three Months Ended May 31, 2019	Three Months Ended May 31, 2018
Expenses			
Accounting and audit fees	11	$ 2,500	$ 2,300
Consulting fees		6,196	-
Depreciation	6	10	19
Insurance		2,050	1,926
Investor relations and promotion		7	-
Legal fees		(288)	28,838
Management fees	11	15,000	15,000
Office, telephone and miscellaneous		3,382	936
Property investigation		-	32,127
Rent		3,000	3,000
Shareholder information		8,258	-
Transfer agent and filing fees		11,113	5,887
Loss before other income (expenses)		(51,228)	(90,033)
Other income (expenses):			
Unrealized loss on marketable securities	5	(19,425)	(13,925)
Loss on foreign exchange		(29,954)	-
Interest income		18	19
Total comprehensive loss for the period		(100,589)	(103,939)
Weighted average number of common shares Outstanding (basic and diluted)		33,421,064	28,996,716
Basic and diluted loss per share		$ (0.003)	$ (0.004)

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

MEGASTAR DEVELOPMENT CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Share Capital		Reserves		Accumulated other comprehensive income (loss)		
	Number of shares issued	Amount	Warrant reserve	Share based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total
Balance, February 28, 2018	28,996,716	5,141,178	52,573	29,885	28,600	(4,587,754)	664,482
Shares issued for exploration and evaluation assets	1,500,000	97,500	-	-	-	-	97,500
Net loss for the period	-	-	-	-	-	(302,501)	(302,501)
Reclassification on the adoption of IFRS 9	-	-	-	-	(13,925)	13,925	-
Balance, May 31, 2018	30,496,716	$ 5,238,678	$ 52,573	$ 29,885	$ 14,675	$ (4,876,330)	$ 459,481
Balance, February 28, 2019	30,496,716	5,238,678	52,573	29,885	-	(4,861,655)	459,481
Private placements	11,210,000	672,600	-	-	-	-	672,600
Share issuance costs	-	(48,483)	14,882	-	-	-	(33,601)
Net loss for the period	-	-	-	-	-	(100,589)	(100,589)
Balance, May 31, 2019	41,706,716	5,862,795	67,455	29,885	-	(4,962,244)	997,891

The accompanying noted are an integral part of these interim condensed consolidated financial statement

MEGASTAR DEVELOPMENT CORP.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended May 31, 2019	Three months ended May 31, 2018
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	$ (100,589)	$ (103,939)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	10	19
Interest income	(18)	(19)
Unrealized loss on marketable securities	19,425	13,925
Net changes in non-cash working capital accounts		
Decrease (increase) in taxes recoverable	(6,126)	110
Increase in accounts receivable	(60)	(561)
Increase in prepaid expenses and deposits	(276)	1,926
Increase in accounts payable and accrued liabilities	(126,224)	66,603
Increase in due to related parties	(52,396)	4,100
Cash used in operating activities	(266,254)	(17,836)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	18	19
Exploration and evaluation expenditures	(36,537)	(22,968)
Proceeds received for disposition of exploration and evaluation assets	10,000	5,000
Cash used in investing activities	(26,519)	(17,949)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares, net of share issuance costs	638,999	-
Cash provided by financing activities	638,999	-
Net change in cash and cash equivalents	346,226	(35,785)
Cash and cash equivalents, beginning balance for the period	187,106	448,943
Cash and cash equivalents, ending balance for the period	$ 533,332	$ 413,158

Supplemental cashflows information (Note 12)

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

1. NATURE OF OPERATIONS

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public company listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is assessing its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

On August 24, 2018, the Company incorporated a subsidiary, Minera Mazateca, S.A. de C.V. ("Minera Mazateca" or "Subsidiary"), under the laws of the United Mexican States.

The Company is listed as a Tier 2 mining exploration issuer. These interim condensed consolidated financial statements (the "Financial Statements") present the consolidated operations of the Company and its subsidiary. The Company is primarily engaged in the acquisition, exploration and development of mineral properties in Quebec, Canada and in the state of Oaxaca, Mexico (via its subsidiary). At May 31, 2019, the Company had no revenue producing operations and has an accumulated deficit of $4,962,244 (February 28, 2019 - $4,861,655) since its inception. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting year. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

These Financial Statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

The head office, and principal address of the Company is Suite 1450, 789 West Pender Street, Vancouver, British Columbia, Canada, V6C 1H2. The Company's registered and records address is at the corporate solicitor's office, Fasken Martineau DuMoulin LLP, 2900 – 550 Burrard Street, Vancouver, BC, V6C 0A3.

2. BASIS OF PRESENTATION

Basis of consolidation and preparation

These Financial Statements include the accounts of the Company and its subsidiary, Minera Mazateca. Details of the controlled entity are as follows:

	Country of incorporation	Percentage owned
Minera Mazateca, S.A. de C.V.	Mexico	100%

The Company's Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, and are presented in Canadian dollars, except where otherwise indicated. All intercompany transactions and balances have been eliminated.

2. BASIS OF PRESENTATION (cont'd...)

Statement of compliance

The interim condensed consolidated financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim condensed consolidated financial statements of the Company should be read in conjunction with the Company's 2019 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The interim condensed consolidated financial statements have been prepared using accounting policies consistent with those used in the Company's 2019 annual financial statements except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

Basis of measurement

These Financial Statements have been prepared on an accrual basis and are based on historical costs, as modified by the revaluation of available for sale financial assets. These Financial Statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise noted.

Approval of the audited consolidated financial statements

The Financial Statements of the Company for the three months ended May 31, 2019, were authorized for issue on June 29, 2019 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may differ from these estimates and assumptions. The loss effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income (loss) in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Significant accounting judgements

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

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

Significant accounting judgements (cont'd...)

ii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties 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.

iii) Income Taxes

The Company has not recognized a deferred tax asset as management believes it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

iv) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8.

Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks, and short-term highly liquid investments with original maturities of three months or less.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment are subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

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

Property and equipment (cont'd...)

Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount and are recognized net within other income in profit or loss.

Depreciation

Equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a declining balance basis at 30% per annum for office equipment. One half the normal depreciation is taken in the year of acquisition.

Depreciation is recognized in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Income taxes

Income tax expense is comprised of current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in equity or equity investments.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share options, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

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

Principles of consolidation

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Foreign currencies

The functional currency of the Company and its subsidiary is measured using the currency of the primary economic environment in which it operates. Management has determined that the functional currency of the Company and its subsidiary is the Canadian dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Gains and losses are included in net earnings.

Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

The financial results and position of foreign operations whose functional currency is different from the reporting currency are translated as follows:

i. assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
ii. income and expenses are translated at average exchange rates for the period.

Exchange gains and losses arising on translation are recognized in accumulated other comprehensive loss.

Earnings/Loss per share

Basic (loss) earnings per share is computed by dividing the net loss or income applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted (loss) earnings per share is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments, which includes stock options and common share purchase warrants, as if their dilutive effect was at the beginning of the period. The calculation of the diluted number of common shares assumes that proceeds received from the exercise of "in-the-money" stock options and common share purchase warrants are used to purchase common shares of the Company at their average market price for the period.

In periods that the Company reports a net loss, per share amounts are not presented on a diluted basis as the result would be anti-dilutive.

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

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of operations and comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted.

As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations and comprehensive loss over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss except where these are issued to consultants directly involved in the sourcing of finance in which case they are measured at the fair value of the equity instruments granted. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in share-based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payment reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital.

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

Valuation of equity units issued in private placements (cont'd…)

If the warrants are issued as share issuance costs, the fair value will be recorded as warrant reserve using the Black-Scholes option pricing model. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Exploration and Evaluation Assets

Pre-exploration costs are expensed in the period in which they are incurred.

Costs incurred to acquire the legal right to explore a property are capitalized. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property-by-property basis. These direct expenditures include such costs as surveying costs, drilling costs, labour and contractor costs, materials used and licensing and permit fees.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

Once commercial production has commenced all capitalized costs related to the property are transferred to producing properties and the costs of acquisition, exploration and development will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in other income for the period. If a property is abandoned, the acquisition, deferred exploration and development costs will be written off to other expenses.

Currently, all mineral properties of the Company are exploration stage.

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

Management reviews capitalized costs on its mineral properties when facts and circumstances suggest that the carrying amount of an asset may be impaired. If the recorded amount is higher than the asset's fair value less cost to sell, management will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

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

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded as incurred.

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

Mining tax credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Impairment of non-financial assets

The carrying amount of intangible assets with indefinite useful economic lives is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of operations and comprehensive loss, except to the extent they reverse gains previously recognized in accumulated other comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Environmental rehabilitation

An obligation to incur restoration, rehabilitation and environmental costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The estimated costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are determined, and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted at each period-end for the unwinding of the discount rate, for changes to the current market-based discount rate, and for changes to the amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no known restoration, rehabilitation or environmental costs related to its mineral property interests.

Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") and at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. A financial asset is measured at amortized cost if it is held within a business model whose objective is to hold assets and collect contractual cash flows, its contractual terms give rise on specified dates that are solely payments of principle and interest on the principle amount outstanding, and it is not designated as FVTPL.

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

Financial instruments (cont'd...)

(i) Financial assets (cont'd…)

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, the Company can make an irrevocable election (on an instrument by-instrument basis) on the day of acquisition to designate them as at FVTOCI.

Financial assets at FVTPL
Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations and comprehensive loss in the period in which they arise. The Company's marketable securities, being in equity securities of other listed entities, are classified as FVTPL.

Financial assets at FVTOCI
Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. None of the Company's financial assets are classified as FVTOCI.

Financial assets at amortized cost
Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date. The Company's financial assets at amortized cost comprise cash and cash equivalents and receivables.

Financial assets are derecognized when they mature or are sold, and substantially all the risks and rewards of ownership have been transferred. Gains and losses on derecognition of financial assets classified as FVTPL or amortized cost are recognized in the statement of operations and comprehensive loss. Gains or losses on financial assets classified as FVTOCI remain within accumulated other comprehensive income.

(ii) Financial liabilities

The Company classified its financial liabilities as subsequently measured at amortized cost which include trade and other payables. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or they expire.

(iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decreases can be objectively related to an event occurring after the impairment was recognized. Given the nature and balances of the Company's receivables the Company has no material loss allowance as at May 31, 2019 and February 28, 2019.

(EXPRESSED IN CANADIAN DOLLARS)

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

New accounting policies

New standard IFRS 9 *Financial Instruments* ("IFRS 9") was issued by IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss model" for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting. The standard became effective for annual periods beginning on or after January 1, 2018.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS, so the Company's accounting policy with respect to financial liabilities is substantially unchanged.

As a result of adopting this standard, the Company has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. An assessment has been made and the impact to the Company's financial statements was to reclassify its available-for-sale marketable securities to fair value through profit or loss. The Company adopted IFRS 9 retrospectively without restatement of comparative amounts resulting in a reclassification of $28,600 from accumulated other comprehensive income to deficit on March 1, 2018. Future changes in the fair value of these marketable securities have and will be recorded directly in profit or loss. No other differences of any significance have been noted in relation to the adoption of IFRS 9.

The accounting policy disclosure on financial instruments above describes the new accounting policies under IFRS 9.

The Company completed an assessment of its financial instruments as at March 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9.

	Original classification under IAS 39	**New classification under IFRS 9**
Cash and cash equivalents	Loans and receivables – amortized cost	Amortized cost
Marketable securities	Available-for-sale – fair value through other comprehensive income	FVTPL
Receivables	Loans and receivables – amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities – amortized cost	Amortized cost
Due to related parties	Other financial liabilities – amortized cost	Amortized cost

Accounting standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRIC during the year but are not yet effective. None of these are expected to have a significant effect on the financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 16, Leases - IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 16 is applicable to annual reporting periods beginning on or after January 1, 2019.

The Company does not expect that the new and amended standards will have a significant impact on its financial statements.

(EXPRESSED IN CANADIAN DOLLARS)

4. CASH AND CASH EQUIVALENTS

	May 31, 2019	February 28, 2019
Cash at bank	$ 522,322	$ 167,476
Term deposit	11,010	11,063
Cash and cash equivalents	$ 533,332	$ 187,106

The term deposit of $11,010 earns interest at an annual interest rate of 0.65%.

5. MARKETABLE SECURITIES

	May 31, 2019		February 28, 2019	
	Fair Value	Cost	Fair Value	Cost
Zincx Resources Corp.	$ 14,025	$ 104,975	$ 16,575	$ 104,975
Eloro Resources Ltd.	7,875	116,260	12,750	116,260
DeepRock Minerals Inc.	48,000	49,500	40,000	49,500
	$ 69,900	$ 270,735	$ 69,325	$ 270,735

On April 5, 2018 and January 29, 2019, the Company received 200,000 and 600,000 DeepRock Minerals Inc.'s common shares as per the option agreement for DeepRock Minerals Inc. to acquire 50% interest in the Ralleau Project (Note 7).

During the three months ended May 31, 2019, the Company recorded $19,425 as an unrealized loss (May 31, 2018 – unrealized loss of $13,925) on its marketable securities.

6. EQUIPMENT

	Office equipment
Cost:	
At February 28, 2019	$ 3,439
Additions	-
Disposals	-
At May 31, 2019	$ 3,439
Depreciation:	
At February 28, 2019	3,312
Charges for the year	10
Eliminated on disposal	-
At May 31, 2019	$ 3,322
Net book value:	
At May 31, 2018	$ 127
At May 31, 2019	$ 117

	Office equipment
Cost:	
At February 28, 2018	$ 3,439
Additions	-
Disposals	-
At February 28, 2019	$ 3,439
Depreciation:	
At February 28, 2018	3,173
Charges for the year	139
Eliminated on disposal	-
At February 28, 2019	$ 3,312
Net book value:	
At Febraury 28, 2018	$ 266
At February 28, 2019	$ 127

(EXPRESSED IN CANADIAN DOLLARS)

7. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Rama de Oro Project Oaxaca, Mexico	Magdalena Project Oaxaca, Mexico	Yautepec Project Oaxaca, Mexico	Total
Total acquisition costs	$ 235,000	$ 96,543	$ -	$ -	$ -	$ 331,543
Total exploration advance	(183,500)	-	-	-	-	(183,500)
Total proceeds received from optionees	-	(5,000)	-	-	-	(5,000)
Total cost recovery	(112,000)	(129,507)	-	-	-	(241,507)
Total deferred exploration costs	105,857	660,765	-	-	-	766,622
Total cumulative impairment charge	(45,357)	(436,944)	-	-	-	(482,301)
Opening Balance, February 28, 2018	**-**	**185,857**	**-**	**-**	**-**	**185,857**
Acquistion costs:						
Cash	-	-	45,703	6,529	6,529	58,761
Shares	-	-	71,500	13,000	13,000	97,500
Total acquisition costs	-	-	117,203	19,529	19,529	156,261
Exploration costs:						
Consulting fees	-	-	28,237	4,939	42,674	75,850
Staking fees	-	-	15,280	3,357	6,268	24,905
Supplies	-	-	18,537	-	-	18,537
Others	-	-	-	422	1,613	2,035
Deferred exploration costs	-	-	62,054	8,718	50,555	121,327
Proceeds received from optionees	-	(10,000)	-	-	-	(10,000)
Shares received from optionees		(49,500)	-	-	-	(49,500)
Balance of costs:						
Total acquisition costs	235,000	96,543	117,203	19,529	19,529	487,804
Total exploration advance	(183,500)	-	-	-	-	(183,500)
Total proceeds received from optionees	-	(15,000)	-	-	-	(15,000)
Total shares received from optionees	-	(49,500)	-	-	-	(49,500)
Total cost recovery	(112,000)	(129,507)	-	-	-	(241,507)
Total deferred exploration costs	105,857	660,765	62,054	8,718	50,555	887,949
Total cumulative impairment charge	(45,357)	(436,944)	-	-	-	(482,301)
Ending Balance, February 28, 2019	**$ -**	**$ 126,357**	**$ 179,257**	**$ 28,247**	**$ 70,084**	**$ 403,945**

(EXPRESSED IN CANADIAN DOLLARS)

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Rama de Oro Project Oaxaca, Mexico	Magdalena Project Oaxaca, Mexico	Yautepec Project Oaxaca, Mexico	Total
Balance of costs:						
Total acquisition costs	235,000	96,543	117,203	19,529	19,529	487,804
Total exploration advance	(183,500)	-	-	-	-	(183,500)
Total proceeds received from optionees	-	(15,000)	-	-	-	(15,000)
Total shares received from optionees	-	(49,500)	-	-	-	(49,500)
Total cost recovery	(112,000)	(129,507)	-	-	-	(241,507)
Total deferred exploration costs	105,857	660,765	62,054	8,718	50,555	887,949
Total cumulative impairment charge	(45,357)	(436,944)	-	-	-	(482,301)
Ending Balance, February 28, 2019	**$ -**	**$ 126,357**	**$ 179,257**	**$ 28,247**	**$ 70,084**	**$ 403,945**
Acquistion costs:						
Cash	-	-	-	-	-	-
Shares	-	-	-	-	-	-
Total acquisition costs	-	-	-	-	-	-
Exploration costs:						
Consulting fees	-	-	-	3,544	-	3,544
Staking fees	-	-	-	13,508	-	13,508
Supplies	-	-	-	-	-	-
Others	-	-	310	-	19,175	19,485
Deferred exploration costs	-	-	310	17,052	19,175	36,537
Proceeds received from optionees	-	(10,000)	-	-	-	(10,000)
Shares received from optionees	-	(20,000)	-	-	-	(20,000)
Total acquisition costs	235,000	96,543	117,203	19,529	19,529	487,804
Total exploration advance	(183,500)	-	-	-	-	(183,500)
Total proceeds received from optionees	-	(25,000)	-	-	-	(25,000)
Total shares received from optionees	-	(69,500)	-	-	-	(69,500)
Total cost recovery	(112,000)	(129,507)	-	-	-	(241,507)
Total deferred exploration costs	105,857	660,765	62,364	25,770	69,730	924,486
Total cumulative impairment charge	(45,357)	(436,944)	-	-	-	(482,301)
Ending Balance, May 31, 2019	**$ -**	**$ 222,714**	**$ 358,824**	**$ 73,546**	**$ 159,343**	**$ 410,482**

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

1) Ralleau Project, Quebec, Canada

At February 28, 2019, the Company had a 100% interest in 59 mineral claims, situated in the Quevillon area of Quebec that are subject to a 2% net smelter return royalty of which 1% can be purchased by the Company at any time for $1,000,000.

On April 5, 2017, the Company entered into an option agreement with Deeprock Minerals Inc. ("optionee") on the Company's wholly owned Ralleau Property. Under the terms of the option agreement, the optionee will be deemed to have exercised its option to acquire a 50% interest in the property by making cash payments of $100,000, issuing 750,000 common shares and incurring exploration expenditures of $250,000.

On September 11, 2017, the optionee changed its share capital structure by 1:2 forward split. Consequently, the 750,000 common shares to be issued to the Company will be prorated proportionally, aligning with the split.

On March 15, 2018, the Company and the optionee amended the terms of the option agreement for the Ralleau Property. Under the amended agreement, the Company will receive 1,700,000 post-split (850,000 pre-split) common shares instead of 1,500,000 post-split (750,000 pre-split) common shares.

On June 30, 2018, the Company and the optionee entered the second amendment agreement to amend the terms of the option agreement for the Ralleau Property. Under the second amended agreement, the Company will receive 600,000 post-split common shares, which is due on the earlier of August 31, 2018 and the date the optionee's common shares are listed and begin trading on the Canadian Securities Exchange ("exchange listing date"). Moreover, the total exploration expenditure of $25,000 is due on or before October 31, 2018 in lieu of June 15, 2018 under the first amended agreement. As a result of the amendments, the optionee is required to fulfill the following terms:

(a) Cash payment of $100,000 and issuance of 1,700,000 post-split common shares as follows:

i. $5,000 (paid) on or before the execution of this agreement;
ii. $5,000 (paid) and 600,000 post-split (300,000 pre-split) common shares (issued 600,000 shares on January 29, 2019 at a fair value of $0.07 per share) on or before the exchange listing date (November 16, 2018);
iii. $5,000 (paid) and 200,000 post-split (100,000 pre-split) common shares (issued 200,000 shares on April 5, 2018 at a fair value of $0.0375 per share) on or before the first anniversary date of this agreement;
iv. $10,000 (paid on April 9, 2019) and 400,000 (200,000 pre-split) (issued 400,000 shares on April 5, 2019) common shares on or before the second anniversary date of this agreement (April 5, 2019);
v. $75,000 and 500,000 (250,000 pre-split) common shares on or before the third anniversary date of this agreement (April 5, 2020).

(b) Exploration expenditures of $250,000 on the Property as follows:

i. $40,000 on or before May 30, 2017 (incurred);
ii. $15,000 on or before July 31, 2017 (incurred);
iii. $25,000 on or before October 31, 2018 (incurred);
iv. $50,000 on or before the second anniversary date of this agreement (April 5, 2019) (incurred);
v. $120,000 on or before the third anniversary date of this agreement (April 5, 2020).

As at May 31, 2019, the Company had a receivable balance of $3,337 from the optionee.

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

1) Ralleau Project, Quebec, Canada (cont'd…)

During the three months ended May 31, 2019, the Company received $10,000 (May 31, 2018 - $5,000) from the optionee pursuant to the option agreement.

2) Sedex Zinc Property, British Columbia, Canada

On December 20, 2017, the Company abandoned seven mineral claims for its SEDEX property. On February 14, 2018, one remaining mineral claim in SEDEX property also expired. At February 28, 2018, the Company no longer has interest or ownership in any SEDEX claims, located in the Omineca Mining Division, BC.

The Company decided not to pursue this property as a result of market constraints and economic feasibility of the project. The nominal carrying value of this property was written off entirely.

3) Rama de Oro Project, Oaxaca, Mexico

On May 9, 2018, the Company entered into an option agreement to acquire a 100% interest in the Rama de Oro Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$35,000, issue a total of 2,900,000 common shares of the Company, and incur total work expenditures of US$350,000 over a two-year period as follows:

i. Pay US$35,000 (paid) ($45,703) and issue 1,100,000 common shares (issued on August 8, 2018 with a fair value of $71,500) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.
ii. Issue 600,000 common shares (subsequently issued) to the optionor and incur US$150,000 work expenditures (incurred $62,367 (US$47,356) as of May 31, 2019) on or before the first anniversary of the agreement (May 9, 2019).
iii. Issue 1,200,000 common shares to the optionor and incur US$200,000 work expenditures on or before the second anniversary of the agreement (May 9, 2020).

A 2% net smelter return royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

As of the date of the report, parties to the option agreement were negotiating amended terms of work expenditures.

4) Yautepec Project, Oaxaca, Mexico

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Yautepec Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$5,000, issue a total of 1,550,000 common shares of the Company, and incur total work expenditures of US$310,000 over a three-year period as follows:

i. Pay US$5,000 (paid) ($6,529) and issue 200,000 common shares (issued on August 8, 2018 with a fair value of $13,000) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.

7. EXPLORATION AND EVALUATION ASSETS (cont'd...)

4) Yautepec Project, Oaxaca, Mexico (cont'd…)

ii. Issue 450,000 common shares (subsequently issued) to the optionor and incur US$40,000 work expenditures (incurred $68,759 (US$51,850) as of May 31, 2019) on or before the first anniversary of the agreement (June 1, 2019).
iii. Issue 900,000 common shares to the optionor and incur US$80,000 work expenditures on or before the second anniversary of the agreement (June 1, 2020).
iv. Incur US$190,000 work expenditures on or before the third anniversary of the agreement (June 1, 2021).

A 2% net smelter return royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

5) Magdalena Project, Oaxaca, Mexico

On June 1, 2018, the Company entered into an option agreement to acquire a 100% interest in the Magdalena Project, located in the state of Oaxaca, Mexico.

To earn the 100% interest, the Company is required to make total cash payments of US$5,000, issue a total of 1,550,000 common shares of the Company, and incur total work expenditures of US$230,000 over a three-year period as follows:

i. Pay US$5,000 (paid) ($6,529) and issue 200,000 common shares (issued on August 8, 2018 with a fair value of $13,000) to the optionor within 15 days following the execution of the agreement, approved by TSX-V Exchange.
ii. Issue 450,000 common shares (subsequently issued) to the optionor and incur US$40,000 (incurred $25,768 (US$19,226) as of May 31, 2019) work expenditures on or before the first anniversary of the agreement (June 1, 2019)
iii. Issue 900,000 common shares to the optionor and incur US$70,000 work expenditures on or before the second anniversary of the agreement (June 1, 2020).
iv. Incur US$120,000 work expenditures on or before the third anniversary of the agreement (June 1, 2021).

A 2% net smelter return royalty is payable to the optionor, of which the Company will have the right to purchase 1% of the royalty at any time for US$1,650,000.

All securities to be issued in connection with the transactions will be subject to a hold period of 4 months and one day from their date of issuance.

As of the date of the report, parties to the option agreement were negotiating amended terms of work expenditures on the project.

8. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

(EXPRESSED IN CANADIAN DOLLARS)

8. SHARE CAPITAL (cont'd...)

Issuance of share capital

<u>During the three months ending May 31, 2019</u>

On May 8, 2019, the Company closed its non-brokered private placement financing for total gross proceeds of $672,600. The Company issued 11,210,000 units (the "Units") at a price of $0.06 per Unit. Each Unit is comprised of one common share and one non-transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 24 months at a price of $0.10.

In addition, the Company paid $33,600 in finders' fees and issued 560,000 finders' warrants (the "Finders Warrants"). Each Finders Warrant is exercisable into one common share for a period of up to 24 months at a price of $0.06.

The 560,000 Finders Warrants have an estimated fair value of $14,882, which has been included in warrant reserve. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 2 years, volatility 110.36%, risk-free rate 1.53%, dividend yield 0%.

<u>During the year ended February 28, 2019:</u>

On August 8, 2018, the Company issued 1,500,000 common shares valued at $97,500 for the acquisition of Rama de Ore project, Yautepec project, and Magdalena project.

Share Options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, or consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

A summary of share options outstanding as at May 31, 2019, and February 28, 2019 is as follows:

	Grant date	Number of Options	Weighted Average Exercise Price	Weighted Average Number of Years to Expiry
Balance, February 28, 2018		825,000	$0.05	1.49
No options granted, expired or exercised		-	-	
Balance, February 28, 2019		825,000	$0.05	0.49
No options granted, expired or exercised		-	-	
Balance, May 31, 2019		825,000	$0.05	0.24

(EXPRESSED IN CANADIAN DOLLARS)

8. SHARE CAPITAL (cont'd...)

Share Options (cont'd...)

As at May 31, 2019, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
825,000	$0.05	August 25, 2019
825,000		

Warrants

A summary of changes in warrants outstanding as at May 31, 2019 and February 28, 2019 is as follows:

	Warrants Outstanding	Weighted average Exercise price	Weighted Average number of years to expiry
Balance, February 28, 2019 and February 28, 2018	-	-	-
Warrants issued	11,770,000	0.098	2.94
Balance, May 31, 2019	11,770,000	0.098	2.94

9. CAPITAL DISCLOSURE

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital comprises the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term.

The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital was mostly from proceeds from the issuance of common shares.

The Company is not subject to externally imposed capital restrictions nor were there any changes to the Company's capital management provisions during the period.

10. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Per IFRS 7, a three-level hierarchy that reflects the significance of inputs used in making fair value measurements is required. The three levels of fair value hierarchy are as follows:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 – Inputs for assets or liabilities that are not based on observable market data.

(EXPRESSED IN CANADIAN DOLLARS)

10. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair value measurement.

As at May 31, 2019	
Assets	
Cash and cash equivalents	$ 533,332
Marketable securities	69,900
Total	$ 603,232

As at February 28, 2019	
Assets	
Cash and cash equivalents	$ 187,106
Marketable securities	69,325
Total	$ 256,431

The Company's cash and cash equivalents and marketable securities are valued using quoted market prices in active markets for identical assets, and therefore are classified as Level 1.

The fair value of accounts payable and accrued liabilities and due to related parties approximates their carrying values due to their short term to maturity.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash, cash equivalents and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at May 31, 2019, the Company had a working capital of $587,292 (February 28, 2019 - $55,409). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's marketable securities bear market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

10. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd…)

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 Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of May 31, 2019, the Company had cash and cash equivalents balance of $533,332 of which $11,010 was in a term deposit, earning interest at a rate of 0.65% per annum. The Company had no interest-bearing debt.

Foreign currency risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company is exposed to foreign currency risk on fluctuations related to amounts payable and Mexican property expenditures that are denominated in US dollars and Mexican pesos. 10% fluctuations in the Mexican peso against the Canadian dollar will affect comprehensive loss for the year by approximately $4,100.

11. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment.

As at May 31, 2019, $10,743 (February 28, 2019 - $63,139) was due to directors and officers of the Company.

		May 31, 2019		February 28, 2019
Company controlled by CFO	$	7,500	$	5,000
Company controlled by a Director		3,243		58,139
	$	10,743	$	63,139

During the three ended May 31, 2019 and 2018, the Company entered into the following transactions with related parties:

	Three months ended			
		May 31, 2019		May 31, 2018
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors:				
Management fees	$	15,000	$	15,000
Professional fees		2,500		2,000
Consulting fees		1,596		-
Mineral exploration expenditures		19,674		-
	$	38,770	$	17,000

(EXPRESSED IN CANADIAN DOLLARS)

11. RELATED PARTY TRANSACTIONS (cont'd…)

Management compensation consisted of the following:

	Three months ended May 31, 2019	Three months ended May 31, 2018
Company controlled by CEO	$ 9,000	$ 9,000
Company controlled by CFO	6,000	6,000
	$ 15,000	$ 15,000

12. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended May 31, 2018 and 2017, the Company incurred non-cash financing and investing activities as follows:

	Three months ended May 31, 2019 $	Three months ended May 31, 2018 $
Non-cash financing activities:		
Share issuance costs	14,882	-
Non-cash investing activities:		
Shares issued for exploration and evaluations assets	-	97,500

13. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration and development of mineral properties. Geographical information is as follows:

	Canada	**Mexico**	**Total**
	$	**$**	**$**
Balance, as at May 31, 2019			
Exploration and evaluation assets	252,616	157,866	410,482
Balance, as at February 28, 2019			
Exploration and evaluation assets	282,616	121,329	403,945

14. SUBSEQUENT EVENTS

On June 27, 2019, the Company granted 1,850,000 stock options to members of its Board and management. The stock options are exercisable for a period of three years from the date of grant at a price $0.11 per share and vest over a period of three years.

On July 24, 2019, pursuant to the agreements with respect to its Mexican properties, the Company issued an aggregate of 1,500,000 common shares which comprises of 450,000 common shares towards Magdalena property, 450,000 common shares towards Yautepec property, and 600,000 common shares towards Rama de Oro property.