MEXICAN GOLD CORP

(formerly Source Exploration Corp.)

Consolidated Financial Statements

Years Ended June 30, 2017 and 2016

(Expressed in Canadian Dollars)

Grant Thornton

Independent Auditor's Report

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To the Shareholders of
Mexican Gold Corp.

We have audited the accompanying financial statements of Mexican Gold Corp., which comprise the consolidated statements of financial position as at June 30, 2017 and June 30, 2016, the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 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 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company'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 financial statements.

We believe that the audit evidence we have obtained 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 consolidated financial position of Mexican Gold Corp. as at June 30, 2017 and June 30, 2016, and its financial performance and its cash flows for the years ended June 30, 2017 and June 30, 2016 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 to the financial statements which indicates that the Corporation has not yet achieved profitable production and has accumulated losses of $23,829,503 at June 30, 2017. This condition, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast substantial doubt about the Corporation's ability to continue as a going concern.

Grant Thornton LLP

Thunder Bay, Canada
October 10, 2017

Chartered Professional Accountants
Licensed Public Accountants

(formerly Source Exploration Corp.)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at June 30, 2017	As at June 30, 2016
ASSETS		
Current assets		
Cash	$ **834,057**	$ 44,377
Accounts receivable	**35,854**	-
Prepaids and deposits	**524,908**	17,658
Total current assets	**1,394,819**	62,035
Non-current assets		
Equipment and leaseholds (note 4)	**-**	9,857
Total assets	$ **1,394,819**	$ 71,892
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	$ **136,189**	$ 716,105
Total liabilities	**136,189**	716,105
EQUITY (DEFICIENCY)		
Share capital (note 5)	**22,328,103**	17,660,298
Reserves	**2,758,568**	2,403,585
Foreign currency translation	**1,462**	(23,596)
Deficit	**(23,829,503)**	(20,684,500)
Total equity (deficiency)	**1,258,630**	(644,213)
Total liabilities and equity (deficiency)	$ **1,394,819**	$ 71,892

Nature of business and going concern (note 1)
Commitments (note 9)

Approved on behalf of the Board:

"Brian Robertson" Director

"Ali Zamani" Director

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

MEXICAN GOLD CORP

(formerly Source Exploration Corp.)
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

		Year Ended June 30, 2017		2016
REVENUE				
Interest income	**$**	**16,151**	$	3,430
EXPENSES				
Exploration and evaluation expenditures (note 7)		**1,857,636**		328,448
General and administrative		**794,332**		674,560
Depreciation		**9,857**		11,417
Professional fees		**66,970**		34,746
Share-based payments (note 5(d))		**269,158**		2,268
Loss on settlement of debt		**20,029**		-
Expense (recovery) of Value Added Tax		**143,172**		(102,851)
Total expenses		**3,161,154**		948,588
Loss for the year		**(3,145,003)**		(945,158)
Exchange differences on translation of foreign operations		**25,058**		(8,010)
Comprehensive loss for the year	**$**	**(3,119,945)**	$	(953,168)
Basic and diluted net loss per common share (note 6)	**$**	**(0.17)**	$	(0.11)
Weighted average number of common shares outstanding (note 6)		**18,811,404**		8,719,652

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

MEXICAN GOLD CORP

(formerly Source Exploration Corp.)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended June 30, 2017	Year Ended June 30, 2016
OPERATING ACTIVITIES		
Loss for the period	**$ (3,145,003)**	$ (945,158)
Adjustments for:		
Depreciation	**9,857**	11,417
Share-based payments	**269,158**	2,268
Loss on settlement of debt	**20,029**	-
Non-cash exploration expenses	**-**	15,843
	(2,845,959)	(915,630)
Non-cash working capital items:		
Accounts receivable	**(35,854)**	15,697
Prepaids and deposits	**(507,250)**	42,038
Accounts payable and accrued liabilities	**(101,006)**	537,953
Net cash used in operating activities	**(3,490,069)**	(319,942)
INVESTMENT ACTIVITY		
Sale of investments	**-**	163,393
Net cash provided by investment activity	**-**	163,393
FINANCING ACTIVITIES		
Issuance of common shares	**4,483,863**	-
Cost of issuance	**(229,172)**	-
Net cash provided by financing activities	**4,254,691**	-
Net change in cash	**764,622**	(156,549)
Cash, beginning of year	**44,377**	208,936
Effect of exchange rate on cash held	**25,058**	(8,010)
Cash, end of year	**$ 834,057**	$ 44,377

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

MEXICAN GOLD CORP

(formerly Source Exploration Corp.)
Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Share Capital		Reserves				
	Number of Shares	Amount	Warrants	Equity Settled Employee Benefits	Foreign Currency Translation	Deficit	Total
Balance, June 30, 2015	**8,711,399**	**$ 17,644,455**	**$ 81,135**	**$ 2,320,182**	**$ (15,586)**	**$ (19,739,342)**	**$ 290,844**
Shares issued for mineral properties (note 5(i))	52,970	15,843	-	-	-	-	15,843
Share-based payments (note 5(d))	-	-	-	2,268	-	-	2,268
Comprehensive loss for the year	-	-	-	-	(8,010)	(945,158)	(953,168)
Balance, June 30, 2016	**8,764,369**	**17,660,298**	**81,135**	**2,322,450**	**(23,596)**	**(20,684,500)**	**(644,213)**
Private placements (note 5(ii)(iii)(v))	23,516,103	4,425,956	-	-	-	-	4,425,956
Share issue cost	-	(314,997)	85,825	-	-	-	(229,172)
Shares issued to settle debt (note 5(iv))	1,663,129	498,939	-	-	-	-	498,939
Exercise of warrants	231,628	57,907	-	-	-	-	57,907
Share based payments (note 5(d))	-	-	-	269,158	-	-	269,158
Comprehensive loss for the year	-	-	-	-	25,058	(3,145,003)	(3,119,945)
Balance, June 30, 2017	**34,175,229**	**$ 22,328,103**	**$ 166,960**	**$ 2,591,608**	**$ 1,462**	**$ (23,829,503)**	**$ 1,258,630**

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

1. NATURE OF BUSINESS AND GOING CONCERN

Mexican Gold Corp. (formerly Source Exploration Corp.) (the "Corporation" or "Mexican Gold") was incorporated under the Business Corporation's Act (Alberta) on October 5, 2006, and is engaged in the acquisition, exploration, and evaluation of mineral properties. On January 17, 2011 the Corporation received all necessary approvals to continue into the jurisdiction of Ontario. On April 20, 2017, the Corporation filed Articles of Amendment to change its name to Mexican Gold Corp. The Corporation's shareholders approved a special resolution to change the name of the Corporation at the Corporation's special meeting of shareholders held on April 12, 2017. Effective at the start of trading on April 26, 2017, the Corporation commenced trading on the TSX Venture Exchange ("TSXV") under the new name and the new stock symbol "MEX".

The Corporation is in the process of exploring and evaluating its mineral properties and, on the basis of the information to date, has not yet determined whether any of the properties contain economically recoverable reserves. The recovery of expenditures on the mineral properties is dependent upon the existence of economically recoverable mineralization, the Corporation securing and maintaining title and beneficial interest in the properties, and the ability of the Corporation to obtain the necessary financing to complete the exploration and development and future profitable production or, alternatively, on the sufficiency of proceeds from disposition.

Going concern

The Corporation has incurred a net loss of $3,145,003 and has an accumulated deficit of $23,829,503. The Corporation expects to incur further losses in the development of its business, all of which casts substantial doubt about the Corporation's ability to continue as a going concern. The Corporation will require additional financing in order to complete its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they become due.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Corporation be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Corporation's ability to continue as a going concern is dependent upon its ability to fund its exploration and evaluation programs. Management plans to secure the necessary financing through the issue of new equity. Nevertheless, there is no assurance that these initiatives will be successful.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. Measurement bases are more fully described in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The audited consolidated financial statements of the Corporation for the year ended June 30, 2017 were approved and authorized by the Board of Directors on October 10, 2017.

Basis of Consolidation

The Corporation's financial statements consolidate those of the parent Corporation and its subsidiary undertakings drawn up to June 30, 2017. Subsidiaries are all entities over which the Corporation has the power to control the financial and operating policies. The Corporation obtains and exercises control through more than half of the voting rights.

	Percentage of ownership	Jurisdiction	Principal activity
Roca Verde Exploracion Mexico, S.A. de C.V. ("Roca Verde")	100%	Mexico	Mineral exploration

All transactions and balances between the Corporation and its subsidiary are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Where unrealized losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of its subsidiary have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Corporation.

Profit or loss and other comprehensive income or loss of a subsidiary acquired or disposed of during the year are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the parent Corporation. The functional currency of the Corporation's subsidiary is Mexican Pesos ("Pesos").

Foreign currency transactions are translated into the functional currency of the respective Corporation, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items at year-end exchange rates are recognized in profit or loss.

In the Corporation's financial statements, all assets, liabilities and transactions of Corporation entities with a functional currency other than the Canadian dollars (the Corporation's presentation currency) are translated into Canadian dollars upon consolidation. The functional currency of the entities in the Corporation have remained unchanged during the reporting period.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency (continued)

On consolidation, assets and liabilities have been translated into Canadian dollars at the closing rate at the reporting date. Income and expenses have been translated into the Corporation's presentation currency at the average rate over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognized in the currency translation reserve in equity. On disposal of a foreign operation the cumulative translation differences recognized in equity are reclassified to profit or loss and recognized as part of the gain or loss on disposal. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Canadian dollars at the closing rate.

Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value adjusted by transactions costs, and subsequently accounted for at amortized cost, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- loans and receivables;
- financial assets at fair value through profit or loss ("FVTPL");
- held-to-maturity investments; and
- available-for-sale ("AFS") financial assets

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that the recoverable amount of a financial asset or a group of financial assets exceeds its carrying amount. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to financial assets that are recognized in profit or loss are presented within "general and administrative expenses", "investment income" or "other income".

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Financial assets **(continued)**

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Corporation's cash and accounts receivable fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty may default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets that are either classified as held for trading or that meet certain conditions and are designated at FVTPL upon initial recognition. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial liabilities

The Corporation's financial liabilities include accounts payable and accrued liabilities.

Financial liabilities are measured initially at the transaction amount and subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within "general and administrative expenses".

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Fair value hierarchy

IFRS 13 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each financial position reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decreases can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Exploration and evaluation

The Corporation is in the process of exploring its mineral properties and expenses acquisition costs for property rights. Mineral property acquisition costs include the cash consideration given, direct legal costs incurred for the acquisition, and non-cash issuance of shares for mineral property interests. Where the Corporation has entered into an option agreement for the acquisition of an interest in a mineral property which provides for periodic payments, such amounts unpaid are not recorded as a liability since they are payable entirely at the Corporation's discretion.

The Corporation has adopted the policy of expensing mineral exploration costs and periodic maintenance costs incurred prior to the determination that a property has economically recoverable reserves.

Equipment and leaseholds

Equipment and leaseholds are recorded at historical cost less accumulated amortization and any provision for impairment in value. Amortization is recorded on a straight-line basis over the estimated useful life of the assets as follows:

Computer equipment	3 years
Office equipment	5 years
Leasehold Improvements	5 years

Those expenditures which extend the useful life of an asset are capitalized, whereas repairs and maintenance expenditures, which do not extend the useful life of an asset, are charged to operations during the period they are incurred. The Corporation evaluates the recoverability of equipment and leaseholds on a periodic basis.

Gains or losses arising on the disposal of equipment are determined as the difference between the disposal proceeds and the carrying amount of the equipment and are recognized in profit or loss within "other income" or "other expenses".

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and demand deposits, together with other short- term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Impairment of non-financial assets

At each financial position reporting date the carrying amounts of the Corporation's non-financial 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. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. 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 is estimated to be less that 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (continued)

When 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 so 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.

Share capital

Share capital represents the fair value of consideration received. Equity instruments are contracts that give a residual interest in the net assets of the Corporation. Financial instruments issued by the Corporation are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Corporation’s common shares, share options and share warrants are classified as equity instruments. Incremental costs directly attributable to the issue of new shares, options or warrants are shown in equity as a deduction, net of tax, from the proceeds.

The Corporation periodically issues units to investors consisting of common shares and warrants in non-brokered private placements. Each whole warrant issued entitles the holder to acquire a common share of the Corporation, at a fixed Canadian dollar price over a specified term. These warrants are not transferable from the original investor to a new investor. The Corporation’s investor warrants are equity instruments and not financial liabilities or financial derivatives. Accordingly, gross investor proceeds received from the issuance of units are accounted for as an increase in share capital. The Corporation periodically issues warrants to brokers as compensation. Each whole warrant issued entitles the holder to acquire a common share of the Corporation, at a fixed Canadian dollar price over a specified term. A separate valuation of broker warrants is done using the Black-Scholes model for valuation at the time of issuance and recorded as a cost of financing.

When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, no accounting entry is recorded.

Share-based payment transactions

The Corporation operates equity-settled share-based remuneration plans for its employees, directors and consultants. None of the Corporation's plans feature any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is determined at the grant date.

All share-based remuneration is ultimately recognized as an expense in profit or loss with a corresponding credit to "reserves".

If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods if share options ultimately exercised are different to that estimated on vesting.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit or other current tax activities, which differs from profit or loss in the financial statements. Calculation of current tax expense is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with investments in subsidiaries and joint ventures is not provided if reversal of these temporary differences can be controlled by the Corporation and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. To the extent that the Corporation does not consider it probable that a future tax asset will be recovered, it is not recognized in the financial statements.

Deferred tax assets and liabilities are offset only when the Corporation has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of taxable income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

Provisions

Provisions are recognized when the Corporation or its subsidiary have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Contingent liabilities are not recognized in the financial statements, if not estimable and probable, and are disclosed in notes to the financial information unless their occurrence is remote. Contingent assets are not recognized in the financial statements, but are disclosed in the notes if their recovery is deemed probable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Environmental rehabilitation

Provisions for environmental rehabilitation are made in respect of the estimated future costs of closure and restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the accounting period when the related environmental disturbance occurs. The provision is discounted using a pre-tax rate, and the unwinding of the discount is included in finance costs. At the time of establishing the provision, a corresponding asset is capitalized and is depreciated over future production from the mining property to which it relates. The provision is reviewed on an annual basis for changes in cost estimates, discount rates and operating lives. Changes to estimated future costs are recognized in the statement of financial position by adjusting the rehabilitation asset and liability. If, for mature mines, the revised mine assets net of rehabilitation provisions exceeds the carrying value, that portion of the increase is charged directly to expenses. For closed sites, changes to estimated costs are recognized immediately in the profit and loss.

Loss per share

The Corporation presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Segment reporting

An operating segment is a component of an entity (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (ii) whose operating results are regularly reviewed by the entity's management, and (iii) for which discrete financial information is available. The Corporation's operating segments are its separately identifiable exploration and evaluation properties.

Significant accounting judgments and estimates

Significant judgment

In the application of the Corporation’s accounting policies management is required to make judgment, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

<u>Functional currency of foreign subsidiary:</u>

A significant judgment that members of management have made in the process of applying the Corporation’s accounting policies and that have a significant effect on the amounts recognized in the consolidated financial statements is the policy on functional currency of the foreign subsidiary.

Management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to indicators like the currency that mainly influences costs and the currency in which those costs will be settled and the currency in which funds from financing activities are generated. Management also assesses the degree of autonomy the foreign operation has with respect to operating activities.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The 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 the revision affects both current and future periods. Significant estimates include:

- the inputs used in accounting for share based payment expense in the consolidated statements of loss and comprehensive loss; and
- the provision for income taxes which is included in the consolidated statements of loss and comprehensive loss and composition of any deferred income tax assets and liabilities included in the consolidated statement of financial position which have not yet been confirmed by the taxation authorities.

Interest

Interest income and expenses are reported on an accrual basis using the effective interest method.

Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

Recent accounting pronouncements

IFRS 9 Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Corporation is currently assessing the impact of this pronouncement.

IFRS 16 Leases ("IFRS 16") was issued by IASB in January 2016. IFRS 16 is effective for periods beginning on or after January 1, 2019, with early adoption permitted. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-statement of financial position finance leases and off statement of financial position operating leases. Instead, there is a single, on statement of financial position accounting model that is similar to current finance lease accounting. The extent of the impact of adoption of IFRS 16 has not yet been determined.

(Expressed in Canadian Dollars)

3. SEGMENTED INFORMATION

The Corporation currently operates in one operating segment, the exploration of mineral properties in Mexico. Management of the Corporation makes decisions about allocating resources based on the one operating segment. A geographic summary of identifiable assets, liabilities, and operating activities by country is as follows:

As at June 30, 2017

	Canada	Mexico	Total
Segmented Assets	$ 1,301,033	$ 93,786	$ 1,394,819
Segmented Liabilities	$ 118,757	$ 17,432	$ 136,189

For the Year ended June 30, 2017

	Canada	Mexico	Total
Operating activities			
Depreciation	$ 9,857	$ -	$ 9,857
Exploration and evaluation expenditures	219,443	1,638,193	1,857,636
General and administrative	775,601	18,731	794,332
Professional fees	63,934	3,036	66,970
Share-based payments	269,158	-	269,158
Loss on settlement of debt	20,029	-	20,029
Expense of Value Added Tax	-	143,172	143,172
Total	$ 1,358,022	$ 1,803,132	$ 3,161,154

As at June 30, 2016

	Canada	Mexico	Total
Segmented Assets	$ 43,598	$ 28,294	$ 71,892
Segmented Liabilities	$ 701,317	$ 14,788	$ 716,105

For the Year ended June 30, 2016

	Canada	Mexico	Total
Operating activities			
Depreciation	$ 11,417	$ -	$ 11,417
Exploration and evaluation expenditures	32,164	296,284	328,448
General and administrative	633,262	41,298	674,560
Professional fees	14,126	20,620	34,746
Share-based payments	2,268	-	2,268
Recovery of Value Added Tax	-	(102,851)	(102,851)
Total	$ 693,237	$ 255,351	$ 948,588

(Expressed in Canadian Dollars)

4. EQUIPMENT AND LEASEHOLDS

Cost		Office / Computer Equipment		Leasehold Improvements		Total
Balance, June 30, 2015	$	20,075	$	53,760	$	73,835
Balance, June 30, 2016	$	20,075	$	53,760	$	73,835
Balance, June 30, 2017	**$**	**20,075**	**$**	**53,760**	**$**	**73,835**

Accumulated depreciation		Office / Computer Equipment		Leasehold Improvements		Total
Balance, June 30, 2015	$	19,409	$	33,152	$	52,561
Depreciation for the year		666		10,751		11,417
Balance, June 30, 2016		20,075		43,903		63,978
Depreciation for the year		-		9,857		9,857
Balance, June 30, 2017	**$**	**20,075**	**$**	**53,760**	**$**	**73,835**

Carrying Value		Office / Computer Equipment		Leasehold Improvements		Total
Balance, June 30, 2016	**$**	**-**	**$**	**9,857**	**$**	**9,857**
Balance, June 30, 2017	**$**	**-**	**$**	**-**	**$**	**-**

5. CAPITAL AND RESERVES

a) *Authorized*

The Corporation is authorized to issue an unlimited number of common shares.

b) *Details of share issuances*

(i) On May 4, 2016, the Corporation issued 52,970 common shares of the Corporation valued at $15,843 (US$12,500) as an option payment on the Las Minas property.

(ii) On November 30, 2016, the Corporation closed the first tranche of a non-brokered private placement of 5,192,500 units of the Corporation (the "Units") at a price of $0.15 per Unit for gross proceeds of $778,875. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of $0.25 per common share until November 30, 2018.

In connection with the private placement, the Corporation paid an aggregate of $42,438 in finder's fees to certain arm's length parties, representing 8% of the proceeds received from subscribers that were introduced by such parties, and issued 270,920 finder’s warrants (“Finder’s Warrants”) on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of $44,973 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 240% based on the Corporation's historical volatility; share price of $0.185; risk-free interest rate of 0.70% and an expected life of two years.

5. CAPITAL AND RESERVES (Continued)

b) Details of share issuances (continued)

(ii) (continued) Pursuant to the terms of the Warrants and the Finder's Warrants, the Corporation has the right to accelerate the expiry date of the Warrants and the Finder's Warrants on notice to the holders of the Warrants and the Finder's Warrants, if at any time after March 31, 2017 the closing price of its common shares on a stock exchange in Canada is greater than $0.40 per common share for a period of 10 consecutive trading days, in which case the Warrants and the Finder's Warrants will expire 30 days after the date on which such notice is given. The securities issued under this tranche of the private placement are subject to a hold period under applicable Canadian securities laws which will expire on March 31, 2017.

(iii) On February 14, 2017, the Corporation closed the second tranche of a non-brokered private placement of 12,333,333 units of the Corporation at a price of $0.15 per Unit for gross proceeds of up to $1,850,000. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share for a period of twenty-four months from the closing date of the private placement (subject to acceleration of the expiry date) at a price of $0.25 per common share.

In connection with the private placement, the Corporation paid an aggregate of $57,724 in finder's fees to certain arm's length parties, representing 8% of the proceeds received from subscribers that were introduced by such parties, and issued 72,000 Finder’s Warrants on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of $16,776 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 176% based on the Corporation's historical volatility; share price of $0.29; risk-free interest rate of 0.76% and an expected life of two years.

Pursuant to the terms of the Warrants and the Finder's Warrants, the Corporation has the right to accelerate the expiry date of the Warrants and the Finder's Warrants on notice to the holders of the Warrants and the Finder's Warrants, if at any time after July 4, 2017 the closing price of its common shares on a stock exchange in Canada is greater than $0.40 per common share for a period of 10 consecutive trading days, in which case the Warrants and the Finder's Warrants will expire 30 days after the date on which such notice is given. The securities issued under this tranche of the private placement are subject to a hold period under applicable Canadian securities laws which will expire on July 4, 2017.

(iv) On May 10, 2017, the Corporation issued an aggregate of 1,052,129 common shares at a deemed price of $0.31 per common share and an aggregate of 611,000 common shares at a deemed price of $0.25 per common share to certain of its officers and/or directors in settlement of outstanding debt in the aggregate amount of $478,910.

(v) On May 25, 2017, the Corporation closed a non-brokered private placement of 5,990,270 units of the Corporation at a price of $0.30 per Unit for gross proceeds of up to $1,797,081. Each Unit consists of one common share of the Corporation and one common share purchase warrant ("Warrant"). Each Warrant entitles the holder to purchase one common share at a price of $0.45 per common share until May 25, 2019.

In connection with the private placement, the Corporation paid an aggregate of $22,785 in finder's fees to certain arm's length parties, representing 7% of the proceeds received from subscribers that were introduced by such parties, and issued 75,950 Finder’s Warrants on the same terms as the Warrants. The Finder's Warrants were assigned a fair value of $24,076 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 174% based on the Corporation's historical volatility; share price of $0.41; risk-free interest rate of 0.71% and an expected life of two years. The securities issued under the private placement are subject to a hold period under applicable Canadian securities laws which will expire on September 26, 2017.

(Expressed in Canadian Dollars)

5. CAPITAL AND RESERVES (Continued)

c) Warrants

The following table reflects the continuity of warrants for the periods below:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, June 30, 2015	**1,863,005**	**1.52**
Expired	(110,000)	(1.30)
Balance, June 30, 2016	**1,753,005**	**1.54**
Issued (note 5(ii)(iii)(v)	23,934,973	0.30
Exercised	(231,628)	(0.25)
Expired	(675,550)	(0.80)
Balance, June 30, 2017	**24,780,800**	**0.38**

The following table reflects the warrants issued and outstanding as at June 30, 2017:

Expiry Date	Number of Warrants Outstanding	Exercise Price ($)
November 30, 2018	4,987,172	0.25
November 30, 2018 [1]	270,920	0.25
March 3, 2019	12,307,033	0.25
March 3, 2019 [1]	72,000	0.25
May 15, 2019	1,025,717	2.00
May 15, 2019 [1]	51,738	2.00
May 25, 2019	5,990,270	0.45
May 25, 2019 [1]	75,950	0.45
	24,780,800	**0.38**

[1] Finder's warrants

d) Share purchase option compensation plan

The following tables reflect the continuity of stock options for the periods below:

	Number of Stock Options	Weighted Average Exercise Price ($)
Balance, June 30, 2015	**856,750**	**1.51**
Granted (i)	14,000	0.80
Expired / Cancelled	(195,750)	2.05
Balance, June 30, 2016	**675,000**	**1.34**
Granted (ii)(iii)(iv)(v)(vi)	3,150,000	0.35
Expired / Cancelled	(236,500)	0.79
Balance, June 30, 2017	**3,588,500**	**0.50**

5. CAPITAL AND RESERVES (Continued)

d) Share purchase option compensation plan (continued)

(i) On September 1, 2015, the Corporation granted 14,000 options to an officer of the Corporation at a price of $0.80 per share. The fair value of these options at the date of grant of $0.162 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 146% expected volatility based on historical share prices; risk free interest rate of 0.72%; share price at the date of grant of $0.20; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $2,268. These options vested immediately and will expire on September 1, 2020. For the year ended June 30, 2016, the Corporation recorded share-based payments of $2,268.

(ii) On March 7, 2017, the Corporation granted 1,450,000 options to officers, directors and consultants of the Corporation at a price of $0.30 per share and an expiry date of March 7, 2027. 200,000 of these options were cancelled. The options will vest one-third after twelve, eighteen and twenty-four months respectively from the date of the grant. The fair value of these options at the date of grant of $0.278 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 164% expected volatility based on historical share prices; risk free interest rate of 1.73%; share price at the date of grant of $0.28; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $347,500. For the year ended June 30, 2017, the Corporation recorded share-based payments of $79,007.

(iii) On May 24, 2017, the Corporation granted 400,000 options to a consultant of the Corporation at a price of $0.35 per share and an expiry date of May 24, 2022. The options will vest quarterly over twelve months from the date of the grant. The fair value of these options at the date of grant of $0.266 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 150% expected volatility based on historical share prices; risk free interest rate of 0.98%; share price at the date of grant of $0.295; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $106,400. For the year ended June 30, 2017, the Corporation recorded share-based payments of $22,309.

(iv) On May 29, 2017, the Corporation granted 100,000 options to a consultant of the Corporation at a price of $0.36 per share and an expiry date of May 29, 2022. The options vested immediately. The fair value of these options at the date of grant of $0.407 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 150% expected volatility based on historical share prices; risk free interest rate of 0.95%; share price at the date of grant of $0.36; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $40,700. For the year ended June 30, 2017, the Corporation recorded share-based payments of $40,700.

(v) On May 29, 2017, the Corporation granted 950,000 options to officers, directors and consultants of the Corporation at a price of $0.36 per share and an expiry date of May 29, 2027. The options will vest one-third after twelve, eighteen and twenty-four months respectively from the date of the grant. The fair value of these options at the date of grant of $0.410 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 164% expected volatility based on historical share prices; risk free interest rate of 1.41%; share price at the date of grant of $0.36; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $389,500. For the year ended June 30, 2017, the Corporation recorded share-based payments of $24,642.

(vi) On May 29, 2017, the Corporation granted 250,000 options to an officer and director of the Corporation at a price of $0.55 per share and an expiry date of May 29, 2027. The options vested immediately. The fair value of these options at the date of grant of $0.410 was estimated using the Black-Scholes valuation model with the following assumptions: a five year expected term; a 164% expected volatility based on historical share prices; risk free interest rate of 1.41%; share price at the date of grant of $0.36; and an expected dividend yield of 0%. The grant date fair value assigned to these options was $102,500. For the year ended June 30, 2017, the Corporation recorded share-based payments of $102,500.

(Expressed in Canadian Dollars)

5. CAPITAL AND RESERVES (Continued)

d) Share purchase option compensation plan (continued)

The following table reflects the stock options issued and outstanding as at June 30, 2017:

Expiry Date	Exercise Price ($)	Weighted Average Remaining Contractual Life (years)	Number of Options Outstanding	Number of Options Vested (exercisable)
August 29, 2017	2.00	0.16	51,500	51,500
June 20, 2019	1.35	1.97	374,000	374,000
March 20, 2020	0.80	2.72	199,000	199,000
September 1, 2020	0.80	3.18	14,000	14,000
May 24, 2022	0.35	4.90	400,000	-
May 29, 2022	0.36	4.92	100,000	100,000
March 7, 2027	0.30	9.69	1,250,000	-
May 29, 2027	0.36	9.92	950,000	-
May 29, 2027	0.55	9.92	250,000	250,000
		7.75	**3,588,500**	**988,500**

6. NET LOSS PER COMMON SHARE

The basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Fully diluted loss per share is the same as basic loss per share. The effect of common share purchase options and warrants on the net loss is not reflected as to do so would be anti-dilutive.

The following table sets forth the computation of basic and diluted loss per share:

	Year Ended June 30, 2017	Year Ended June 30, 2016
Numerator		
Loss for the year	**$ (3,145,003)**	$ (945,158)
Denominator		
Weighted average number of common shares	**18,811,404**	8,719,652
Weighted average loss per share	**$ (0.17)**	$ (0.11)

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION EXPENDITURES

Accumulated costs with respect to the Corporation's interest in mineral properties owned, leased or under option, consist of the following:

	Year Ended June 30, 2017	Year Ended June 30, 2016	Inception to date
Analytical	**$ 1,288**	$ -	$ 376,149
Geological and consulting	**307,996**	35,700	3,259,483
Transportation and accommodation	**22,123**	-	177,174
Drilling	**434,540**	-	5,613,980
Geophysical	**-**	-	74,679
Operational support	**-**	-	275,966
Other	**96,196**	38,782	400,959
Subtotal	**862,143**	74,482	10,178,390
Acquisition costs / Option payments	**995,493**	253,966	1,836,698
Total expenditures	**$ 1,857,636**	$ 328,448	$ 12,015,088

Las Minas and La Miqueta

On October 13, 2010, the Corporation's 100% owned Mexican subsidiary Roca Verde Exploracion de Mexico entered into exclusive Letters of Intent to acquire the Las Minas and La Miqueta properties, collectively named the Las Minas Project. The project is comprised of five privately held mineral concessions covering approximately 1,271 hectares in the core of the Las Minas district in the State of Veracruz, Mexico. The Project is located approximately 270 kilometres east of Mexico City and is accessible by road.

Pursuant to the terms of the original Las Minas property agreement the Corporation was granted the right to enter into an exclusive purchase and sale agreement to earn a 100% interest in three concessions by making staged cash payments totaling US$190,000 plus VAT over the next 36 months and a final payment of US$1,000,000 plus VAT upon exercising the option. The Vendors retained a 1.5% Net Smelter Return (NSR) subject to an exclusive buyback provision allowing the Corporation to purchase one third or a 0.5% NSR for US$500,000. The Corporation retained a Right of First Refusal to buy the remaining 1.0 % NSR. The Corporation also agreed to complete a work program which required $200,000 in expenditures to maintain the concessions in good standing during the three year term of the agreement.

Pursuant to the terms of the original La Miqueta property agreement the Corporation was granted the right to enter into an exclusive purchase and sale agreement to earn a 100% interest in three concessions by making staged cash payments totaling US$95,000 plus VAT over 36 months beginning October 13, 2010 and a final payment of US$500,000 plus VAT upon exercising the option. The Vendors retained a 1.5% Net Smelter Return (NSR) subject to an exclusive buyback provision that allowed the Corporation to purchase one third or a 0.5% NSR for US$500,000. The Corporation retained a Right of First Refusal to buy the remaining 1.0 % NSR. The Corporation also agreed to keep the property in good standing with respect to concession taxes. During 2012, an extension agreement was executed to extend the deadline for the final payment by 12 months.

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Option agreement extended to 2016

On June 6, 2013, the Corporation extended the option agreement to acquire the Pepe, Pepe Tres, and San Jose concessions located at the Las Minas property in Veracruz State, Mexico, and further revised on November 20, 2013. The amended agreement extended the term of the option agreement by an additional two years to December 5, 2015. Scheduled payments as per the terms of the amended agreement were US $130,000 over a 6 month period ending May 5, 2014, US $150,000 on December 5, 2014, with a final payment of US $1,300,000 on December 5, 2015. All payments are subject to VAT. The Corporation also retained the right to exercise the option at the latest on December 5, 2013 upon payment of US $1,000,000 as per the terms of the original option agreement on October 13, 2010.

On October 1, 2015, the Corporation announced the successful negotiation of a one year extension to its option agreement to acquire the Pepe, Pepe Tres and San Jose concessions located at its Las Minas property. These concessions are part of the six concessions held under option or wholly owned by Mexican Gold at Las Minas, Veracruz State, Mexico.

The new agreement extended the term of the option agreement by an additional one year to December 5, 2016. The payment for granting the extension was US$165,000, payable in equal monthly installments over a six month period and commencing at the latest on December 7, 2015.

On November 21, 2016, the Corporation announced another successful negotiation of a one year extension to its option agreement to acquire the Pepe, Pepe Tres and San Jose concessions located at its Las Minas property.

The new agreement extends the term of the option agreement by an additional one year to December 5, 2017 for consideration equal to US$180,000, payable in equal monthly installments over a six month period and commencing no later than December 7, 2016 (Cdn$246,482).

All other terms of the original agreement of November 30, 2010 and prior extension agreement of May 21, 2013 remained unchanged.

Extension of Las Minas option agreement to 2017

On April 23, 2015, the Corporation signed a two year extension to its option agreement to acquire the Pueblo Nuevo and La Luz 1 concessions located at its Las Minas property. These concessions are part of the concessions held under option or wholly owned by Roca Verde, (the wholly owned subsidiary of Mexican Gold) at Las Minas, Veracruz State, Mexico.

The new agreement extends the term of the option agreement by an additional two years to May 3, 2017. Scheduled payments per the terms of the agreement are as follows:

- US $12,500 (paid) cash consideration and $12,500 (issued) in common shares of Mexican Gold as soon as is practicable following acceptance of the extension of the option agreement by the TSXV;
- US $12,500 (paid) cash consideration and US $12,500 (issued) in common shares of Mexican Gold on April 22, 2016 (see note 5(ii)); and
- Final option payment due on May 3, 2015 extended to May 3, 2017 and reduced from US $500,000 to US $150,000 (Cdn$195,723).

All payments are subject to VAT. All other terms of the original agreement remain unchanged.

7. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Acquisition of Pepe, Pepe Tres and San Jose concessions

On June 8, 2017, the Corporation through its wholly-owned subsidiary, Roca Verde, entered into a definitive purchase and sale agreement (the "Purchase Agreement") to acquire a 100% interest in the Pepe, Pepe Tres and San Jose concessions (the "Concessions") at its Las Minas property from the current owners (the "Owners"). The Concessions form the core of the Las Minas property and encompass six highly mineralized zones, including the El Dorado/Juan Bran and Santa Cruz zones.

Pursuant to the terms of the Purchase Agreement, Roca Verde has agreed to acquire the Concessions in consideration for the following payments to the Owners:

- an initial payment of US$433,333 (Cdn$553,288) plus Value Added Tax, payable upon execution of the Purchase Agreement (the "Initial Payment");
- six equal payments of US$22,000 plus Value Added Tax, payable monthly commencing on December 5, 2017 with the final payment due on May 7, 2018 (the "Monthly Payments"); and
- a final payment of US$866,666 plus Value Added Tax, payable on or before December 5, 2018 (the "Final Payment" and, together with the Initial Payment and the Monthly Payments, the "Consideration").

The Initial Payment has been paid in full. If the Final Payment is made prior to the date on which any of the Monthly Payments are due, any Monthly Payment that would have been due after the date upon which the Final Payment is made shall no longer be payable. Upon payment of the Consideration, ownership and full title to the Concessions shall be automatically transferred to Roca Verde.

Pursuant to the terms of the Purchase Agreement, upon the transfer of the Concessions, the Owners shall retain a 1.5% NSR royalty (the "Royalty"), of which one third may be purchased by Roca Verde for US$500,000 plus Value Added Tax. Roca Verde has a right of first refusal on the Royalty in the event that the Owners intend to transfer all or part of the Royalty.

8. RELATED PARTY TRANSACTIONS

The Corporation's related parties include directors and key management personnel and entities over which they have control or significant influence. The following are the related party transactions, recorded at the exchange amount as agreed to by the parties:

- Included in general and administrative expenses for the year ended June 30, 2017 are amounts totaling $14,261, (year ended June 30, 2016 - $8,456) for corporate secretarial and filing services provided by DRAX, a company related to the Corporation through Shaun Drake, Corporate Secretary of the Corporation. As at June 30, 2017, DRAX was owed $1,700 (June 30, 2016 - $1,697) and this amount was included in accounts payable and accrued liabilities.

- Included in general and administrative expenditures for the year ended June 30, 2017 are amounts totaling $nil (year ended June 30, 2016 - $4,286) for office rental and $63,750 (year ended June 30, 2016 - $90,000) for investor relations and consulting services provided by 0702232 B.C. Ltd. (o/a D. Baker Capital Limited), a company related to the Corporation through David Baker, the former Chairman and director of the Corporation. As at June 30, 2017, D. Baker Capital Inc. was owed $nil (June 30, 2016 - $100,804) and this amount was included in accounts payable and accrued liabilities. The Corporation received a short-term loan of $195,000 from D. Baker Capital Inc. which was fully repaid during the year ended June 30, 2017.

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (Continued)

Remuneration of directors and key management

		Year Ended June 30,		
		2017		**2016**
Salaries and wages (i)	**$**	**154,777**	$	308,701
Directors fees (i)		**20,417**		30,000
Share-based payments		**164,253**		2,268
	$	**339,447**	$	340,969

(i) As at June 30, 2017, the directors and key management were owed $79,824 (June 30, 2016 - $341,313) and this amount was included in accounts payable and accrued liabilities.

(ii) On May 10, 2017, the Corporation issued an aggregate of 1,052,129 common shares at a deemed price of $0.31 per common share and an aggregate of 611,000 common shares at a deemed price of $0.25 per common share to certain of its officers and/or directors in settlement of outstanding debt in the aggregate amount of $478,910.

To the knowledge of the directors and senior officers of the Corporation, as at June 30, 2017, no person or corporation beneficially owns or exercises control or direction over common shares of the Corporation carrying more than 10% of the voting rights attached to all of the common shares of the Corporation other than as set out below:

	Number of common shares	**Percentage of outstanding shares**
Palisade Global Investments Ltd.	4,370,000	12.8 %

The remaining 87.2% of the shares are widely held, which includes various small holdings which are owned by directors and officers of the Corporation. The holding can change at any time at the discretion of the owner.

9. COMMITMENTS

The Corporation has commitments relating to property payment obligations related to the Concessions held by the Corporation's subsidiary. The annual payments for the next fiscal years are as follows:

2018	$	171,296
2019		1,124,672
	$	1,295,968

(Expressed in Canadian Dollars)

10. INCOME TAXES

The income tax recovery attributable to loss before income taxes differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates of 26.5% (2016 - 26.5%) to pre-tax loss as a result of the following:

	Year Ended June 30, 2017	Year Ended June 30, 2016
Loss before income taxes	**$ (3,145,003)**	$ (945,158)
Expected income tax recovery	**$ (833,426)**	$ (250,467)
Increase (decrease) from:		
Share-based payments	**71,327**	601
Deferred tax assets not recognized	**835,805**	280,340
Non-deductible expenses	**6,408**	69
Adjustment to opening deferred tax assets	**(85,161)**	-
Other	**5,047**	(30,543)
Income tax expense reflected in the statement of loss	**$ -**	$ -

Significant components of the Corporation's future income tax assets, after applying Canadian Federally enacted corporate income tax rates, 2017 - 26.50% (2016 - 26.50%) and Mexican income tax rate, 2017 - 30.00% (2016 - 28.00%), is as follows:

	June 30 2017	June 30, 2016
Equipment	**$ 19,052**	$ 19,052
Mineral property interest	**4,254,236**	3,737,390
Non-capital losses	**2,451,235**	2,166,013
Share issue costs	**58,421**	24,685
	6,782,944	5,947,140
Deferred tax assets not recognized	**(6,782,944)**	(5,947,140)
	$ -	$ -

Subject to confirmation by income tax authorities, the Corporation has the following undeducted tax pools:

	June 30 2017	June 30, 2016
Non-capital losses	**$ 9,208,029**	$ 8,141,054
Undepreciated capital cost	**71,893**	71,893
Share issue costs	**220,458**	93,152
Mineral property interest	**15,448,966**	13,591,330
Net deferred income tax assets	**$ 24,949,346**	$ 21,897,429

11. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Corporation's operations include the acquisition and exploration of mineral properties in Mexico. The Corporation examines the various financial risks to which it is exposed and assesses the impact and likelihood of occurrence. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and other risks. Where material, these risks are reviewed and monitored by the Board of Directors.

(a) Credit risk

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Corporation by those counterparties, less any amounts owed to the counterparty by the Corporation where a legal right of set-off exists and also includes the fair values of contracts with individual counterparties which are recorded in the financial statements.

i) Trade credit risk
The Corporation is in the exploration stage and has not yet commenced commercial production or sales. Therefore, the Corporation is not exposed to significant credit risk and overall the Corporation's credit risk has not changed significantly from the prior year.

ii) Cash
In order to manage credit and liquidity risk the Corporation invests only in highly rated investment grade instruments that have maturities of three months or less. Limits are also established based on the type of investment, the counterparty and the credit rating.

(b) Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk through the management of its capital structure. At June 30, 2017, the Corporation had a working capital of $1,258,630 which is sufficient to meet its liabilities (2016 - $654,070 working capital deficiency).

Accounts payable and accrued liabilities are due within the current operating period.

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Corporation will realize a significant loss as a result of a decline in the fair market value of investments and other items held within cash and cash equivalents is limited given that the majority of investments have a relatively short maturity. The Corporation manages its interest rate risk with investments by investing the majority of funds in short-term investments and therefore is not exposed to significant fluctuations in interest rates.

(d) Currency risk

The Corporation is exposed to the financial risk related to the fluctuation of foreign exchange rates. The functional and reporting currency of the Corporation is the Canadian dollar. The functional currency of the subsidiary is the Mexican Peso. As at June 30, 2017, there are no significant financial instruments denominated in Mexican Pesos. Changes in the currency exchange rates between the Canadian dollar relative to Mexican Pesos could have an effect on the Corporation's results of operations, financial position or cash flows. The Corporation has not hedged its exposure to currency fluctuations. At June 30, 2017, a one percent decrease/increase in the Mexican Peso would result in a foreign exchange gain/loss of $800 (2016 - $5,889). The Corporation does not invest in derivatives to mitigate these risks.

12. MANAGEMENT OF CAPITAL RISK

The Corporation manages its common shares as capital. The Corporation's objectives when managing capital are to safeguard the Corporation's ability to continue as a going concern in order to pursue the exploration of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Corporation may attempt to issue new shares and, acquire or dispose of assets.

In order to maximize ongoing exploration efforts, the Corporation does not pay out dividends. The Corporation's investment policy is to invest its short-term excess cash in highly liquid short-term interest bearing investments with short-term maturities, selected with regard to the expected timing of expenditures from continuing operations.