



# **GRAY ROCK RESOURCES LTD.**

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Gray Rock Resources Ltd. (the "Company") are the responsibility of the Company's management. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and reflect management's best estimates and judgment based on information currently available.

Management has developed and is maintaining a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities and reviews the results of the audit and the annual consolidated financial statements prior to their approval.

The consolidated financial statements as at December 31, 2018 and 2017, and for the years then ended, have been audited by Manning Elliott LLP, an independent registered public accounting firm, and their report outlines the scope of their examination, and gives their opinion on the consolidated financial statements.

*"David Wolfin"*

David Wolfin  
President & CEO  
April 17, 2019

*"Nathan Harte"*

Nathan Harte, CPA  
Chief Financial Officer  
April 17, 2019



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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of  
Gray Rock Resources Ltd.

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Gray Rock Resources Ltd. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the related notes, including a summary of significant accounting policies and other explanatory information (collectively referred to as the "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying consolidated financial statements, which indicates that the Company has not generated revenue and has an accumulated deficit of \$3,999,864 and requires additional financing. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### **Other Information**

Management is responsible for the other information, which comprises the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and does not and will not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditor's Responsibilities for the Consolidated Financial Statements**

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Joseph Bonvillain, CPA, CA.

*Manning Elliott LLP*

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

April 17, 2019

**Gray Rock Resources Ltd.**  
**Consolidated Statements of Financial Position**  
**As at December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	2018	2017
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash		\$ 115,242	\$ 131,207
Sales taxes recoverable and other		1,089	13,101
		116,331	144,308
<b>Non-Current Assets</b>			
Investments	5	195,651	3,920
Exploration and evaluation assets	6	303,848	303,348
Reclamation deposit	7	3,000	3,000
Website development costs		7,627	11,440
<b>TOTAL ASSETS</b>		<b>\$ 626,457</b>	<b>\$ 466,016</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		\$ 15,894	\$ 14,754
		15,894	14,754
<b>Non-Current Liabilities</b>			
Promissory notes payable to related parties	9	162,876	177,457
Site restoration obligation		3,000	3,000
		181,770	195,211
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	8	4,297,472	4,172,472
Contributed surplus		576,092	648,092
Accumulated other comprehensive income (loss)		(429,014)	3,255
Deficit		(3,999,864)	(4,553,014)
		444,686	270,805
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 626,457</b>	<b>\$ 466,016</b>

Note 1 – Nature of operations and going concern

These consolidated financial statements are authorized for issue by the Board of Directors on April 17, 2019:

“David Wolfin” Director                      “Brian Johnston” Director

*The accompanying notes are an integral part of the consolidated financial statements*

**Gray Rock Resources Ltd.**  
**Consolidated Statements of Operations and Comprehensive Income (Loss)**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	December 31, 2018	December 31, 2017
<b>General and Administrative Expenses</b>			
Administrative salaries and benefits		\$ 37,695	\$ 33,541
Automobile		659	378
Consulting fees		30,000	45,000
Depreciation		3,813	-
Foreign exchange loss		15	172
Interest and bank charges		117	274
Listing and filing fees		10,997	16,805
Office and miscellaneous		11,321	12,487
Professional fees		32,042	25,990
Share-based compensation		-	642,800
Shareholder information		4,245	23,251
Transfer agent fees		6,589	8,405
Travel		91	14,752
<b>Loss Before Other Items</b>		<b>(137,584)</b>	<b>(823,855)</b>
<b>Other Items</b>			
Interest and other income		942	-
Fair value adjustment to promissory notes payable	<b>9</b>	(6,208)	7,766
Impairment write-down of exploration and evaluation assets	<b>6</b>	-	(1,898,399)
Settlement proceeds from mineral property costs	<b>5</b>	624,000	-
<b>Net Income (Loss) For the Year</b>		<b>481,150</b>	<b>(2,714,488)</b>
<b>Other Comprehensive Income (Loss)</b>			
<b>Items that will not subsequently be re-classified to net income</b>			
Unrealized gain (loss) on investments	<b>5</b>	(432,269)	611
<b>Total Comprehensive Income (Loss)</b>		<b>\$ 48,881</b>	<b>\$ (2,713,877)</b>
<b>Earnings (Loss) per Share</b>			
	<b>8(e)</b>		
Basic		\$ 0.02	\$ (0.13)
Diluted		\$ 0.02	\$ (0.13)
<b>Weighted Average Number of Shares Outstanding</b>			
	<b>8(e)</b>		
Basic		22,257,897	21,541,012
Diluted		22,539,872	21,541,012

*The accompanying notes are an integral part of the consolidated financial statements*

**Gray Rock Resources Ltd.**  
**Consolidated Statements of Changes in Equity**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

	Note	Number of Common Shares	Share Capital	Contributed Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity
<b>Balance, January 1, 2017</b>		<b>16,394,961</b>	<b>\$ 2,033,711</b>	<b>\$ -</b>	<b>\$ (1,838,526)</b>	<b>\$ 2,644</b>	<b>\$ 197,829</b>
Common shares issued for cash:							
Private placement		1,640,500	556,200	-	-	-	556,200
Share-issuance costs		-	(25,897)	-	-	-	(25,897)
Compensation warrants for private placement			(5,292)	5,292	-	-	-
Exercise of warrants		925,000	53,750	-	-	-	53,750
Common shares issued for mineral property		4,000,000	1,560,000	-	-	-	1,560,000
Share-based compensation		-	-	642,800	-	-	657,700
Net loss for the year		-	-	-	(2,714,488)	-	(2,714,488)
Other comprehensive income for the year		-	-	-	-	611	611
<b>Balance, December 31, 2017</b>		<b>22,960,461</b>	<b>\$ 4,172,472</b>	<b>\$ 648,092</b>	<b>\$ (4,553,014)</b>	<b>\$ 3,255</b>	<b>\$ 270,805</b>
<b>Balance, January 1, 2018</b>		<b>22,960,461</b>	<b>\$ 4,172,472</b>	<b>\$ 648,092</b>	<b>\$ (4,553,014)</b>	<b>\$ 3,255</b>	<b>\$ 270,805</b>
Common shares issued for cash:							
Exercise of warrants	8(b)	2,500,000	125,000	-	-	-	125,000
Common shares returned to treasury	8(b)	(3,200,000)	-	-	-	-	-
Stock options cancelled or expired		-	-	(72,000)	72,000	-	-
Net income for the period		-	-	-	481,150	-	481,150
Other comprehensive loss for the period		-	-	-	-	(432,269)	(432,269)
<b>Balance, December 31, 2018</b>		<b>22,260,461</b>	<b>\$ 4,297,472</b>	<b>\$ 576,092</b>	<b>\$ (3,999,864)</b>	<b>\$ (429,014)</b>	<b>\$ 444,686</b>

*The accompanying notes are an integral part of the consolidated financial statements*

**Gray Rock Resources Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

	2018	2017
<b>Cash provided by (used in):</b>		
<b>Operating Activities</b>		
Net Income (Loss)	\$ 481,150	\$ (2,714,488)
Items not involving cash:		
Settlement proceeds from mineral property costs	(624,000)	-
Depreciation	3,813	-
Fair value adjustment on promissory notes payable	6,208	(7,766)
Impairment write-down of exploration and evaluation assets	-	1,898,399
Share-based compensation	-	642,800
Changes in non-cash working capital items:		
Sales taxes recoverable and other	12,012	(10,881)
Trade and other payables	1,140	(16,231)
	(119,677)	(208,167)
<b>Financing Activities</b>		
Issuance of common shares for cash, net	-	530,303
Issuance of common shares on exercise of warrants	125,000	53,750
Promissory notes issued (repaid) to related parties	(20,788)	26,006
	104,212	610,059
<b>Investing Activities</b>		
Exploration and evaluation expenditures	(500)	(315,039)
Website development costs	-	(6,933)
	(500)	(321,972)
<b>Change in Cash</b>	(15,965)	79,920
<b>Cash, Beginning of Year</b>	131,207	51,287
<b>Cash, End of Year</b>	\$ 115,242	\$ 131,207
<b>Supplementary Disclosure of Cash Flow Information</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
<b>Significant Non-Cash Transactions:</b>		
Issuance of common shares for mineral property (Note 8b)	\$ -	\$ 1,560,000

*The accompanying notes are an integral part of the consolidated financial statements*



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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Gray Rock Resources Ltd. (“Gray Rock” or the “Company”) was incorporated under the laws of the Province of British Columbia, Canada. It is in the exploration stage with regards to its business of exploration and development of mineral properties. The Company owns the Silver Stream mineral claims in British Columbia, Canada. The Company’s head office and principal place of business is Suite 900, 570 Granville Street, Vancouver, BC, Canada.

Gray Rock is in the exploration stage and has not yet determined whether the properties contain ore reserves which are economically recoverable. The underlying carrying value of the mineral property interest and related exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, confirmation of Gray Rock’s interest in the mineral claims, the ability of Gray Rock to obtain necessary financing to complete the exploration and development, and future profitable production or proceeds from the sale of all or an interest in its mineral claims.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at December 31, 2018, the Company has accumulated losses of \$3,999,864. The Company has not yet generated any revenues from its operations, and requires financing through the sale of shares or issuance of debt to continue with its operations and to develop its mineral properties. Although management intends to secure additional financing, there is no assurance that management will be successful in its efforts to secure additional financing, or that it will ever develop a self-supporting business. These factors together form a material uncertainty that raises significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **2. BASIS OF PRESENTATION**

### **Statement of compliance**

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board.

### **Functional Currency**

The presentation and functional currency of the Company and its subsidiary is the Canadian dollar.

### **Foreign Currency Translation**

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the consolidated statement of financial position. Non-monetary items that denominated in foreign currencies are translated at historical rates.

### **Significant Accounting Judgments and Estimates**

The preparation of these consolidated financial statements requires management to make judgements and estimates 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 judgements and estimates. The consolidated financial statements include judgements and estimates, which, by their nature, are uncertain. The impacts of such judgements and 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 may affect both current and future periods.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**2. BASIS OF PRESENTATION (continued)**

**Significant Accounting Judgments and Estimates (continued)**

Significant assumptions about the future and other sources of judgements and estimates that management has made at the statement of financial position date, which could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

***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 expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period the new information becomes available.

***Site Closure and Reclamation Provisions***

The Company assesses its reclamation provision at each reporting date or when new material information becomes available. Exploration, development, and mining activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation obligations requires management to make estimates of the future costs that the Company will incur to complete the reclamation work required to comply with existing laws and regulations at each location. Actual costs incurred may differ from those amounts estimated. The Company's exploration work to date has resulted in no significant site disturbance and therefore the Company's reclamation provision is limited to the amount posted as a reclamation bond.

Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

***Title to Mineral Properties***

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.

***Share-Based Payments***

Management uses valuation techniques in measuring the fair value of share options granted. The fair value is determined using the Black Scholes option pricing model which requires management to make certain estimates, judgements, and assumptions in relation to the expected life of the share options, expected volatility, expected risk-free rate, and expected forfeiture rate. Changes to these assumptions for any share options granted could have a material impact on the Company's consolidated financial statements.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**2. BASIS OF PRESENTATION (continued)**

**Significant Accounting Judgments and Estimates (continued)**

***Deferred Income Taxes***

Judgement is required to determine which types of arrangements are considered to be a tax on income in contrast to an operating cost. Judgement is also required in determining whether deferred tax liabilities are recognized in the consolidated statement of financial position. Deferred tax assets, including those potentially arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable income in future periods, in order to recognise deferred tax assets. Assumptions about the generation of future taxable income depend on management's estimates of future operations and cash flows. These estimates of future taxable income are based on forecast cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditure, and other capital management transactions) and judgement about the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize deferred tax assets or offset these against any deferred tax liabilities recorded at the reporting date could be impacted.

***Going Concern***

The assessment of the Company's ability to continue as a going concern involves judgement regarding future funding available for its projects and working capital requirements and whether there are events or conditions that may give rise to significant uncertainty.

**Basis of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Cortez, a company incorporated on June 21, 2006 in Nevada, USA.

Inter-company balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated on consolidation.

**3. SIGNIFICANT ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

Cash and cash equivalents in the statement of consolidated financial position comprise cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash. The Company does not hold any cash equivalents as at December 31, 2018 and 2017.

**Financial Instruments**

Measurement – initial recognition

All financial assets and financial liabilities are initially recorded on the Company's consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All financial asset and liabilities are initially recorded at fair value, net of attributable transaction costs, except for those classified as fair value through profit or loss ("FVTPL"). Subsequent measurement of financial assets and financial liabilities depends on the classifications of such assets and liabilities.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

Classification – financial assets

*Amortized cost*

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequent to initial recognition at amortized cost.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

Interest income is recognized using the effective interest method, and is recognized in interest and other income, on the consolidated statements of operations and comprehensive income (loss).

The Company has no financial assets recognized at amortized costs.

*Fair value through other comprehensive income (“FVTOCI”)*

Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and selling financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured 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 OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings.

The Company financial assets designated as FVTOCI includes investments.

*Fair value through profit or loss (“FVTPL”)*

By default, all other financial assets are measured subsequently at FVTPL, which includes cash, other receivables, and reclamation deposit.

Classification – financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method.

Financial liabilities at amortized cost include amounts due to related parties, trade and other payables, and promissory notes payable to related parties.

Financial liabilities classified FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the consolidated statements of operations. The Company has no financial liabilities designated at FVTPL.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial Instruments (continued)**

The Company has no hedging arrangements and does not apply hedge accounting.

Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets when necessary. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments.

**Exploration and Evaluation Assets**

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for, and development of mineral claims and crediting all proceeds received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as production commences at levels intended by management, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. General exploration costs not related to specific mineral property are expensed as incurred. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment.

An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

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

Incidental revenues and operating costs are included in mineral properties and development costs prior to production at levels intended by management. Accrued tax credits on eligible exploration expenditures are accounted for as deduction from mineral properties and development costs, on a property by property basis, and will be charged to operations on the same basis as the acquisition, exploration, and development expenditures. The exploration tax credits are accrued in the year when the exploration expenditures are incurred and the tax credit is applied for provided there is reasonable assurance that the tax credits will be realized.

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

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

The amounts shown for exploration and evaluation assets represent net costs incurred to the date of the consolidated financial statements and do not necessarily reflect present or future values.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment**

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

An asset's recoverable amount is the higher of fair value less 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 or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount. The revised increased carrying amount must 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**

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**Share-Based Payment Transactions**

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**Income Taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized as equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes (continued)**

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

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

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Provisions**

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

**Site Restoration Obligation**

An obligation to incur restoration, rehabilitation, and environmental costs arises when environmental disturbance is caused by the exploration, development, or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for 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 depreciation using either the unit-of-production or the straight-line method. The related liability is adjusted for each year for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. 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 evaluated its site restoration obligation to be \$3,000 as at December 31, 2018 (2017 - \$3,000).

### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Earnings or Loss per Share**

The Company presents basic and diluted earnings or loss per share data for its common shares, calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted earnings or loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. Diluted earnings or loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

#### **Comprehensive Income (Loss)**

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealized gains or losses on investments, gains or losses on certain derivative instruments, and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income and (loss), components of other comprehensive income and (loss) and cumulative translation adjustments are presented in the consolidated statements of operations and comprehensive loss and the consolidated statements of changes in equity.

### **4. RECENT ACCOUNTING PRONOUNCEMENTS**

#### **Application of new and revised accounting standards:**

##### ***IFRS 9 - Financial Instruments***

On January 1, 2018, the Company adopted the requirements of IFRS 9. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected-loss" impairment model. The Company adopted a retrospective approach, other than for hedge accounting, which is applied prospectively.

IFRS 9 did not impact the Company's classification and measurement of financial assets and liabilities, and there was no significant impact on the carrying amounts of the Company's financial instruments at the transition date. The Company had the option to designate its current investments as financial assets at fair value through other comprehensive income or loss, and has done so.

The introduction of the new 'expected credit loss' impairment model had negligible impact on the Company, given the Company has minimal receivables, with the majority being from GST recoverable from government agencies.

The Company currently has no hedging arrangements, and will apply the new accounting requirements under IFRS 9 as required.



**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

**Application of new and revised accounting standards (continued):**

***IFRS 15 - Revenue from Contracts with Customers***

On January 1, 2018, the Company adopted the requirements of IFRS 15. IFRS 15 covers principles that an entity shall apply to report useful information to users of the financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. As the Company does not have revenue and cash flows arising from a contract with a customer, there is no material impact to the condensed consolidated interim financial statements.

**Changes in accounting standards not yet effective:**

The Company has not early adopted any amendment, standard or interpretation that has been issued by the IASB but is not yet effective. The following accounting standards were issued but not yet effective as of December 31, 2018:

***IFRS 16 – Leases***

In January 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”) which replaces IAS 17 – Leases and its associated interpretative guidance, and will be effective for accounting periods beginning on or after January 1, 2019. Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. A lessee can choose to apply IFRS 16 using either a full retrospective approach or a modified retrospective approach. The Company plans to apply IFRS 16 at the date it becomes effective and has not yet selected a transition approach.

The Company is in the process of identifying and collecting data relating to existing agreements that may contain right-of-use assets. At this time, the Company believes it has no right-of-use assets, and that there will be no impact to the consolidated financial statements.

**5. INVESTMENTS**

Investments consist of the following:

	Number of Shares	Cost	Accumulated Unrealized Loss	December 31, 2018 Fair Value	December 31, 2017 Fair Value
Levon Resources Ltd.	6,400	\$ 126	\$ 1,200	\$ 928	\$ 2,128
SciVac Therapeutics Inc.	332	539	1,069	723	1,792
Garibaldi Resources Corp	200,000	624,000	430,000	194,000	-
		\$ 624,665	\$ 432,269	\$ 195,651	\$ 3,920

During the year ended December 31, 2018, the Company recognised an unrealized loss of \$432,269 (2017 – gain of \$611) on its investment.

During the year ended December 31, 2018, the Company received 200,000 shares of Garibaldi Resources Corp (“Garibaldi”), trading under stock symbol “GGI” on the TSX-V, as part of the settlement of the agreements with DeCoors Mining (“DeCoors”). See Note 6 for further details on the settlement.

The closing price of Garibaldi on June 15, 2018, the day of the transaction approval, was \$3.12 per share, and thus settlement proceeds from mineral property costs of \$624,000 were recorded in income for the year ended December 31, 2018.

The Company has elected to designate these investments as financial assets at fair value through other comprehensive income or loss, in accordance with IFRS 9.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**6. EXPLORATION AND EVALUATION ASSETS**

	Silver Stream Claims	Surprise Lake Claims	Hot Bath Claims	Total Mineral Property Claims
<b>Balance, January 1, 2017</b>	\$ 300,506	\$ -	\$ -	\$ 300,506
Acquisition costs	-	1,623,497	4,300	1,627,797
Exploration costs incurred during the period:				
Camp	-	-	31,920	31,920
Drilling	-	-	77,532	77,532
Geological and consulting	2,342	42,190	-	44,532
Taxes and licensing	500	-	30,000	30,500
Travel and transportation	-	-	88,960	88,960
Impairment write-down	-	(1,665,687)	(232,712)	(1,898,399)
<b>Balance, December 31, 2017</b>	\$ 303,348	\$ -	\$ -	\$ 303,348
Exploration costs incurred during the period:				
Taxes and licensing	500	-	-	500
<b>Balance, December 31, 2018</b>	\$ 303,848	\$ -	\$ -	\$ 303,848

**a) Silver Stream Claims**

The Company has a 100% interest in two mineral claims in the Lillooet mining district of British Columbia, subject to a 3% net smelter returns royalty, known as Silver Stream 1 and Silver Stream 2 claims, collectively the Silver Stream Claims.

The Company has entered into a mining lease agreement for the Silver Stream 2 property with David R. Deering (“Deering”) and Saxifrage Geological Services Ltd. (“Saxifrage”). In accordance with the terms of the agreement, Deering and Saxifrage have agreed to pay the Company an annual rental of \$10,000 for a term of seven years, with the first payment due on December 12, 2015. On December 12, 2015, the parties agreed that the first annual rental payment of \$10,000 would be postponed, added to the succeeding annual rentals, and paid in equal annual installments of \$2,000 starting December 12, 2016. In addition, the Company granted Deering and Saxifrage an option to purchase the property for \$500,000 payable at any time during the term of the agreement, subject to a 5% Net Smelter Returns Royalty on metals and a 5% Gross Overriding Royalty on any jade production. Any future royalty payments due to the Company from Deering and Saxifrage after the exercise of option shall be reduced by \$500,000. On May 2, 2016, the parties further agreed that Deering and Saxifrage would perform exploration and development work of at least \$12,000 in value in lieu of the \$12,000 payment due on December 12, 2016.

In October 2017, the Company amended the existing mineral lease claim agreement for the Silver Stream I and II properties, by assigning and transferring to Marshall Creek Jade Inc. all rights, titles, interest and obligations from Saxifrage Geological Services Ltd.

During the year ended December 31, 2018, the Company received a notice from David Deering and Marshall Creek Jade Inc. to terminate the mineral claims lease agreement, as amended and assigned, for the Silver Stream Property. The claims comprising the Silver Stream Claims remain in good standing until July 29, 2021.

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**6. EXPLORATION AND EVALUATION ASSETS (continued)**

**b) Surprise Lake Property**

In June 2018, the Company transferred the Surprise Lake and Hot Bath Properties back to DeCoors. In consideration for the transfer, DeCoors returned 3.2 million common shares of the Company for cancellation, and delivered 200,000 common shares of Garibaldi Resources Inc.

At December 31, 2017, the Company conducted a comprehensive review of the property, and made the determination not to continue with exploration work at Surprise Lake. As such, the Company has written the property off and recorded an impairment expense of \$1,665,687. During the year ended December 31, 2018, the Company disposed of the Surprise Lake Property.

In February 2017, the Company announced closing of a definitive agreement (the "Agreement") with DeCoors Mining ("DeCoors") to acquire the Surprise Lake Property. The Agreement covers six early-stage mineral exploration properties comprising of 82 mineral claims. As consideration, the Company issued to DeCoors four million common shares and reimbursed DeCoors \$30,000 for its location and exploration costs on the Surprise Lake Property. In addition, DeCoors will retain a 1.5% net smelter returns royalty (the "NSR") on each of the purchased properties, until the Company has paid \$2.0 million under the NSR of any property placed into commercial production. Each NSR will be subject to the Company's exclusive option to purchase all of any part of the NSR at any time at the rate of \$666,667 for every one-third of a NSR (i.e., 0.5% NSR), or \$2.0 million in the aggregate for the total NSR.

**c) Hot Bath Property**

In June 2018, the Company transferred the Surprise Lake and Hot Bath Properties back to DeCoors. In consideration for the transfer, DeCoors returned 3.2 million common shares of the Company for cancellation, and delivered 200,000 common shares of Garibaldi Resources Inc.

At December 31, 2017, the Company conducted a comprehensive review of the property, and made the determination not to continue with exploration work at Hot Bath. As such, the Company has written the property off and recorded an impairment expense of \$232,712. During the year ended December 31, 2018, the Company disposed of the Hot Bath Property.

In August 2017, the Company announced that it had closed a binding option agreement (the "Option Agreement") with DeCoors to acquire the Hot Bath Property, located near Dease Lake, British Columbia, comprising eleven mineral claims covering a total area of 3,634 hectares.

The Option Agreement allows that the Company may make three option payments to DeCoors by the issuance of common shares of Gray Rock in three installments up to a total of 1,500,000 shares over three years. The first 150,000 of the 1,500,000 shares should be issued on or before the first anniversary of the Approval Date (being August 3, 2018). The next 450,000 shares should be issued on or before the second anniversary of the Approval Date, and the balance of 900,000 shares should be issued on or before the third anniversary of the Approval Date. DeCoors will retain a 1.5% net smelter return royalty (the "NSR") from commercial production. The Company may elect to reduce DeCoors' NSR to only 0.5% at any time prior to the commencement of commercial production, upon the payment of \$1,000,000 to DeCoors.

**7. RECLAMATION DEPOSIT**

As at December 31, 2018 and 2017, the Company has hypothecated a term deposit in the amount of \$3,000 as security to the Province of British Columbia for future mineral claims site reclamation costs.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**8. SHARE CAPITAL**

(a) Authorized: Unlimited common shares without par value.

(b) Issued during 2018 and 2017:

In July 2018, the Company issued 2,500,000 common shares upon the exercise of 2,500,000 share purchase warrants for gross proceeds of \$125,000.

In June 2018, the Company had 3,200,000 common shares returned to treasury for cancellation, subsequent to the settlement and return of the Surprise Lake and Hot Bath Properties to DeCoors Mining ("DeCoors").

In September 2017, the Company closed a non-brokered private placement of 640,500 units at a price of \$0.40 per unit for gross proceeds of \$256,200. Each unit consists of one common share and one half non-transferrable share purchase warrant. Each full warrant will entitle the investor to purchase one additional common share at \$0.60 for a term of one year expiring on September 15, 2018.

In February 2017, the Company issued 4,000,000 common shares valued at \$1,560,000 as part of the consideration to DeCoors for the acquisition of the Surprise Lake Property.

In February 2017, the Company closed a non-brokered private placement of 1,000,000 units at a price of \$0.30 per unit for gross proceeds of \$300,000. Each unit consists of one common share and one half non-transferrable share purchase warrant. Each full warrant will entitle the investor to purchase one additional common share at \$0.50 for a term of one year expiring on February 15, 2018.

(c) Share purchase warrants

At December 31, 2018, the Company had 1,725,250 (2017 - 4,250,450) share purchase warrants outstanding and exercisable.

	Number of Warrants	Weighted Average Exercise Price
Outstanding and exercisable, January 1, 2017	4,330,000	\$0.06
Granted	845,450	\$0.54
Exercised	(925,000)	\$0.06
Outstanding and exercisable, December 31, 2017	4,250,450	\$0.16
Forfeited	(25,200)	\$0.60
Exercised	(2,500,000)	\$0.05
Outstanding and exercisable, December 31, 2018	1,725,250	\$0.31

At December 31, 2018, weighted average remaining contractual life of warrants outstanding was 1.50 years (2017 – 0.74 years).

During the year ended December 31, 2018, the Company extended the terms of all its warrants expiring in 2018 to 2020.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**8. SHARE CAPITAL (continued)**

(c) Share purchase warrants (continued)

The following table summarizes information about the Company's warrants outstanding at December 31, 2018:

Expiry Date	Exercise Price	Warrants Outstanding and Exercisable
February 15, 2020	\$0.50	500,000
August 15, 2020	\$0.10	905,000
September 15, 2020	\$0.60	320,250
		<b>1,725,250</b>

(d) Stock option plan

The Company established a stock option plan, under which it may grant stock options totalling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis, and to any one optionee in a 12 month period not to exceed 5% of the total number of shares issued and outstanding on a non-diluted basis. The stock option plan limits the options issuable within a one year period to regular employees and persons providing investor-relation or consulting services to 5% and 2% respectively of the Company's total number of issued and outstanding shares on a non-diluted basis on the date of grant.

The stock options are to be vested in stages over at least a one-year period and no more than one-quarter of such options may be vested in any three month period. The option price must be greater or equal to the discounted market price on the grant date, and the option expiry date can not exceed ten years after the grant date.

Continuity of stock options for the year ended December 31, 2018, is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable, January 1, 2017	-	-
Granted	1,985,000	\$0.40
Forfeited	(45,000)	\$0.39
Outstanding and exercisable, December 31, 2017	1,940,000	\$0.40
Forfeited	(225,000)	\$0.39
Outstanding and exercisable, December 31, 2018	1,715,000	\$0.40

As at January 1, 2017, no stock options were outstanding. The Company's first stock option grant was in February 2017.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**8. SHARE CAPITAL (continued)**

(d) Stock option plan (continued)

Details of stock options outstanding and exercisable are as follows:

Expiry Date	Exercise Price	Options Outstanding and Exercisable
May 19, 2019	\$0.39	50,000
June 26, 2019	\$0.44	70,000
February 23, 2022	\$0.39	1,195,000
June 23, 2022	\$0.44	400,000
		<b>1,715,000</b>

As at December 31, 2018, the weighted average remaining contractual life of stock options outstanding was 3.04 years (2017 – 4.05).

Option pricing requires the use of highly subjective estimates and assumptions including the expected stock price volatility. The expected volatility used in valuing stock options is based on volatility observed in historical periods. Changes in the underlying assumptions can materially affect the fair value estimates.

The fair value of the options granted during the year ended December 31, 2017 was calculated using the Black-Scholes model with the following weighted average assumptions:

	2017
Weighted average assumptions:	
Share price	0.40
Risk-free interest rate	1.11%
Expected dividend yield	0%
Expected option life (years)	4.81
Expected stock price volatility	124.06%
Weighted average fair value at grant date	\$0.33

(e) Earnings per share

The calculations for basic and diluted earnings per share are as follows:

	2018	2017
Net income (loss) for the year	\$ 481,150	\$ (2,714,488)
Basic weighted average number of shares outstanding	22,257,897	21,541,012
Effect of dilutive share options and warrants	281,975	-
Diluted weighted average number of shares outstanding	22,539,872	21,541,012
Basic earnings per share	\$ 0.02	\$ (0.13)
Diluted earnings per share	\$ 0.02	\$ (0.13)

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**9. RELATED PARTY TRANSACTIONS AND BALANCES**

(a) Key management compensation

The Company has identified its directors and certain senior officers as its key management personnel. The compensation costs for key management personnel for the years ended December 31, 2018 and 2017 are as follows:

	2018		2017	
Consulting fees, wages and benefits	\$	39,554	\$	36,240
Share-based compensation		-		476,000
	\$	39,554	\$	512,240

(b) Promissory notes payable to related parties

	Intermark Capital Corp.		Oniva	
	2018	2017	2018	2017
Beginning balance	\$ 12,888	\$ 21,042	\$ 164,569	\$ 138,175
Borrowing	10,500	18,375	24,718	37,631
Repayment of the note	(18,375)	(30,000)	(37,632)	-
Loss on repayment of the note	4,702	8,327	9,630	-
Unwinding of the discount	785	631	18,950	17,613
Fair market interest adjustment	(3,136)	(5,487)	(24,723)	(28,850)
Ending balance	\$ 7,364	\$ 12,888	\$ 155,512	\$ 164,569

As at December 31, 2018, \$221,723 (2017 - \$234,637) was due to Oniva International Services Corp. ("Oniva"). The Company receives rent, office and administrative supplies, and services from Oniva, a private company related by common management.

At December 31, 2018, the Company and Oniva agreed to convert the current portion due to Oniva of \$24,718, along with the existing \$197,005, to a long-term promissory note payable of \$221,723 that is non-interest bearing, unsecured, and due on demand after December 31, 2021.

The carrying value of the promissory note at December 31, 2018 is discounted to \$155,512 (2017 - \$164,569), reflecting a fair market interest rate. The Company's calculations were performed using an interest rate of 12%, compounding quarterly over the three year period. The initial fair value adjustment of \$24,723 (2017 - \$28,850) was recognized in the statement of operations and comprehensive income (loss). The Company further recorded expenses of \$18,950 related to the quarterly unwinding of the discount during the year ended December 31, 2018 (2017 - \$17,613).

During the year ended December 31, 2018, the Company entered into a loan agreement with one of its directors. The Company and the director agreed to convert the current portion due to the director of \$10,500, to a long-term promissory note payable. The note payable is non-interest bearing, unsecured and is due on demand after December 31, 2021.

The fair value of the promissory note at December 31, 2018 is discounted to \$7,364, reflecting a fair market interest rate. The Company's calculations were performed using an interest rate of 12%, compounding quarterly over the period. The initial fair value adjustment recognized in the year ended December 31, 2018 of \$3,136 was recognized in the statement of operations and comprehensive income (loss).

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**9. RELATED PARTY TRANSACTIONS, AND BALANCES (continued)**

(b) Promissory notes payable to related parties (continued)

During the year ended December 31, 2017, the Company entered into a loan agreement with one of its directors. The Company and the director agreed to convert the current portion due to the director of \$18,375 to a long-term promissory note payable. The note payable is non-interest bearing, unsecured and is due on demand after December 31, 2020. The note payable was repaid during the year ended December 31, 2018.

The fair value of the promissory note at December 31, 2017 was \$12,888. The Company's calculations were performed using an interest rate of 12%, compounding quarterly over the period. The initial fair value adjustment recognized in the year ended December 31, 2017 of a gain of \$5,487 was recognized in the statement of operations and comprehensive loss. During the year ended December 31, 2018, unwinding of the discount of \$785 was recognized as a loss the statement of operations and comprehensive income (loss). The Company recognized a loss on repayment of the promissory note in the amount of \$4,702.

(c) Related party transactions

During the year ended December 31, 2018, \$50,436 (2017 - \$65,368) was charged for office, occupancy, miscellaneous costs and salaries, and administrative services paid on behalf of the Company by Oniva. Further, the Company paid \$1,273 of administrative fees (2017 - \$1,634) to Oniva and \$500 (2017 - \$Nil) for reimbursement of mineral claim taxes, license fees, and staking.

The Company takes part in a cost-sharing arrangement to reimburse Oniva for a variable percentage of its overhead expenses, to reimburse 100% of its out-of-pocket expenses incurred on behalf of the Company, and to pay a percentage fee based on the total overhead and corporate expenses. The arrangement may be terminated with one-month notice by either party.

**10. FINANCIAL INSTRUMENTS**

The fair values of the Company's cash, trade and other payables approximate their carrying values because of the short-term nature of these instruments. The fair values of the Company's investments are detailed in Note 5, and promissory notes payable are detailed in Note 9.

The Company's financial instruments are exposed to certain financial risks comprising credit risk, liquidity risk and market risk.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company manages credit risk, in respect of cash, by maintaining the majority of cash at high credit rated Canadian financial institutions.

Concentration of credit risk exists with respect to the Company's cash, as the majority of the amounts are held with a single Canadian financial institution.



**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**10. FINANCIAL INSTRUMENTS (continued)**

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At December 31, 2018, the Company had cash in the amount of \$115,242 (2017 - \$131,207) in order to meet short-term business requirements. At December 31, 2018, the Company had current liabilities of \$15,894 (December 31, 2017 – \$14,754). Accounts payable have contractual maturities of approximately 30 to 90 days, or are due on demand and are subject to normal trade terms.

The maturity profiles of the Company's contractual obligations and commitments as at December 31, 2018, are summarized as follows:

	Total	Less Than 1 Year	1-5 years	More Than 5 Years
Trade and other payable	\$ 15,894	\$ 15,894	\$ -	\$ -
Promissory notes payable to related parties	232,223	-	232,223	-
<b>Total</b>	<b>\$ 248,117</b>	<b>\$ 15,894</b>	<b>\$ 232,223</b>	<b>\$ -</b>

(c) Market Risk

Market risk consists of interest rate risk, foreign currency risk, and other price risk. These are discussed further below.

Interest Rate Risk

Interest rate risk consists of two components:

- (i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.
- (ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

The Company's cash is currently held in highly liquid short-term investments and therefore management considers the interest rate risk to be minimal.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

At this time, the Company is not exposed to significant foreign currency risk, as the company currently has minimal transactions and balances in currencies other than the Canadian dollars.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**10. FINANCIAL INSTRUMENTS (continued)**

(c) Market Risk (continued)

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk.

The Company is exposed to other price risk with respect to its investment in marketable securities, as they are carried at fair value based on quoted market prices.

(d) Classification of Financial instruments

IFRS 7 'Financial Instruments: Disclosures' 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).

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as at December 31, 2018:

	Level 1	Level 2	Level 3
Cash	\$ 115,242	\$ -	\$ -
Investments	195,651	-	-
	\$ 310,893	\$ -	\$ -

**11. CAPITAL MANAGEMENT**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and expansion of its properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders. In the management of capital, the Company considers equity, comprising of all issued share capital, accumulated deficit, and accumulated other comprehensive income, as well as its promissory notes payable. as follows:

	December 31, 2018	December 31, 2017
Equity	\$ 444,686	\$ 270,805
Promissory notes issued to related parties	162,876	177,457
	\$ 607,562	\$ 448,262

The Company 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 Company may attempt to issue new shares or adjust the amount of cash. Management reviews the capital structure on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

**12. INCOME TAXES**

The potential benefit of net operating loss carry forwards has not been recognized in the financial statements since the Company cannot be assured that it is probable that such benefit will be utilized in future years.

The components of the deferred tax asset, the statutory tax rate, the effective tax rate and the unrecognized deferred income tax asset are as follows:

	2018	2017
Income (loss) before income taxes	\$ 481,150	\$(2,714,488)
Corporate tax rate	27%	26%
Expected tax expense (recovery)	130,000	(705,767)
Decrease resulting from:		
Non-deductible items for tax purposes and other items	(5,000)	158,567
Change in future tax rate	-	(31,800)
Change in unrecognized deferred income tax asset	(125,000)	579,000
Deferred income tax expense	\$ -	\$ -

The Company's tax-effected deferred income tax assets and liabilities are estimated as follows:

	2018	2017
Unrecognized deferred income tax assets include:		
Non-capital losses	\$ 390,000	\$ 349,600
Promissory notes payable to related parties	(19,000)	(20,400)
Exploration and evaluation assets	375,000	537,800
Share issuance costs	5,000	7,000
Other	3,000	5,000
	754,000	879,000
Unrecognized deferred income tax assets	(754,000)	(879,000)
	\$ -	\$ -

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**Gray Rock Resources Ltd.**  
**Notes to the consolidated financial statements**  
**For the years ended December 31, 2018 and 2017**  
**Expressed in Canadian Dollars**

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**12. INCOME TAXES (continued)**

At December 31, 2018, the Company has non-capital losses of approximately \$1,374,000 (2017 - \$1,223,600) for Canadian income tax purposes which are available to reduce future taxable income. If not utilized, the losses expire through 2038 as follows:

	<b>\$</b>
2026	177,000
2027	126,000
2028	112,000
2029	147,000
2030	102,000
2031	118,000
2032	54,000
2033	70,000
2034	59,000
2035	-
2036	81,000
2037	186,000
2038	142,000
	<b>1,374,000</b>

As at December 31, 2018, the Company's U.S. subsidiary has U.S.-based non-capital tax losses of approximately US\$55,000 (2017 - US\$55,000) available to reduce future taxable income. These losses begin to expire in 2029.

In addition, the Company has accumulated Canadian Exploration Expenses, Canadian Development Expenses and Foreign Exploration and Development Expenses for income tax purposes of \$1,692,000. The expenditures pools can be carried forward indefinitely to be applied against income of future years.