# RHYOLITE RESOURCES LTD.

## CONSOLIDATED FINANCIAL STATEMENTS

## AS AT AND FOR THE YEAR ENDED JUNE 30, 2018

(Expressed in Canadian dollars)

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Rhyolite Resources Ltd.

We have audited the accompanying consolidated financial statements of Rhyolite Resources Ltd., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of comprehensive loss, changes in shareholders' 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 Consolidated Financial Statements***

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

***Auditors' Responsibility***

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

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

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Rhyolite Resources Ltd. as at June 30, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada

Chartered Professional Accountants

September 18, 2018



1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Davidson-co.com

**RHYOLITE RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | **June 30, 2018** | June 30, 2017 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **$ 1,451,233** | $ 1,546,217 |
| Amounts receivable (Note 5) | **748** | 1,178 |
| **Total current assets** | **1,451,981** | 1,547,395 |
| **Mineral properties** (Note 4) | **44,615** | 44,615 |
| **Total Assets** | **$ 1,496,596** | $ 1,592,010 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Notes 6 and 8) | **$ 16,488** | $ 16,704 |
| **Total liabilities** | **16,488** | 16,704 |
| **Shareholders' equity** | | |
| Share capital (Notes 7 and 8) | **4,850,804** | 4,865,497 |
| Equity reserves (Note 7) | **245,446** | 249,781 |
| Deficit | **(3,616,142)** | (3,539,972) |
| **Total shareholders' equity** | **1,480,108** | 1,575,306 |
| **Total liabilities and shareholders' equity** | **$ 1,496,596** | $ 1,592,010 |

**Basis of presentation** (Note 2)

**On behalf of the Board of Directors:**

*Signed: "Michael Basha"* Director    *Signed: "Richard Graham"* Director

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

**RHYOLITE RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Number of Shares** | **Amount** | **Equity Reserves** | **Deficit** | **Total** |
| Balance, June 30, 2016 | 27,491,450 | $ 3,584,781 | $ 122,284 | $ (3,415,513) | $ 291,552 |
| Private placement of common shares | 16,000,000 | 1,600,000 | - | - | 1,600,000 |
| Share issuance costs | - | (319,284) | 127,497 | - | (191,787) |
| Loss for the year | - | - | - | (124,459) | (124,459) |
| Balance, June 30, 2017 | 43,491,450 | 4,865,497 | 249,781 | (3,539,972) | 1,575,306 |
| Exercise of warrants | 46,250 | 11,273 | (4,335) | - | 6,938 |
| Share issuance costs | - | (25,966) | - | - | (25,966) |
| Loss for the year | - | - | - | (76,170) | (76,170) |
| **Balance, June 30, 2018** | **43,537,700** | **$ 4,850,804** | **$ 245,446** | **$ (3,616,142)** | **$ 1,480,108** |

**RHYOLITE RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

| | | **Year Ended June 30, 2018** | | Year Ended June 30, 2017 |
|---|---|---|---|---|
| **Exploration and evaluation expenses** (Note 4) | **$** | **11,464** | $ | 39,621 |
| **General and administrative expenses** | | | | |
| Office administration and facilities (Note 8) | | **48,000** | | 48,000 |
| Transfer agent, listing and filing fees | | **15,286** | | 14,344 |
| Accounting and legal services | | **14,169** | | 16,633 |
| Shareholder information | | **1,426** | | 2,492 |
| Office supplies and services | | **1,326** | | 1,756 |
| Foreign exchange loss | | **352** | | 350 |
| Interest income | | **(15,853)** | | (2,937) |
| Consulting (Note 8) | | **-** | | 4,200 |
| **Total general and administrative expenses** | | **64,706** | | 84,838 |
| **Loss and comprehensive loss for the year** | **$** | **(76,170)** | $ | (124,459) |
| **Basic and diluted loss per common share (Note 7)** | **$** | **(0.00)** | $ | (0.00) |

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

**RHYOLITE RESOURCES LTD.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| | Year Ended June 30, 2018 | Year Ended June 30, 2017 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the year | **$ (76,170)** | $ (124,459) |
| Non-operating item: | | |
| Interest income | **(15,853)** | (2,937) |
| Changes in non-cash working capital balances: | | |
| Amounts receivable | **430** | (509) |
| Accounts payable and accrued liabilities | **(216)** | 185 |
| **Net cash used in operating activities** | **(91,809)** | (127,720) |
| **Cash flows from investing activities** | | |
| Interest income | **15,853** | 2,937 |
| **Net cash provided by investing activities** | **15,853** | 2,937 |
| **Cash flows from financing activities** | | |
| Proceeds from private placement, net of cash issuance costs | **(25,966)** | 1,408,213 |
| Proceeds from exercise of warrants | **6,938** | |
| **Net cash (used in) provided by financing activities** | **(19,028)** | 1,408,213 |
| **Change in cash for the year** | **(94,984)** | 1,283,430 |
| **Cash, beginning of year** | **1,546,217** | 262,787 |
| **Cash, end of year** | **$ 1,451,233** | $ 1,546,217 |

Non-cash financing activities for the year ended June 30, 2018 included a $4,335 reclassification of the fair value of warrants exercised in the period.

Non-cash financing activities for the year ended June 30, 2017 included compensatory Agent's warrants with an aggregate value of $127,497 that were issued in connection with a private placement.

There were no other non-cash investing or financing activities during the years ended June 30, 2018 and 2017.

## 1. NATURE OF OPERATIONS

Rhyolite Resources Ltd. (the "Company") was incorporated under the *Business Corporations Act* (Alberta) on April 6, 2006. Its principal business activities include the acquisition and exploration of mineral properties. The Company's registered office address is Suite 1900, 520 – 3rd Avenue SW, Calgary, AB, and its principal place of business is Suite 1703, 595 Burrard Street, Vancouver, BC.

These consolidated financial statements were authorized by the Board of Directors on September 18, 2018.

## 2. BASIS OF PRESENTATION

### a) Statement of Compliance

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

### b) Basis of Measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and its subsidiaries.

### c) Continuance of operations

These consolidated financial statements have been prepared in accordance with IFRS on the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. As such, these consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. While management believes that the Company has sufficient working capital to meet its projected financial obligations in the short-term, which includes the next fiscal year, its ability to operate as a going concern in the longer-term requires it enter into profitable operations or to raise additional financing.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Basis of consolidation

The consolidated financial statements include the financial statements of the parent company, Rhyolite Resources Ltd., and its subsidiaries listed below:

| | | | Equity Interest | |
|---|---|---|---|---|
| | Jurisdiction | Nature of Operations | Year Ended June 30, 2018 | Year Ended June 30, 2017 |
| Paxson Resources (USA) Inc. | Alaska, USA | Exploration | 100% | 100% |
| Paxson Resources Ltd. | Alberta, Canada | Holding company | 100% | 100% |

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### a) Basis of consolidation (cont'd…)

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company balances and transactions have been eliminated.

### b) Financial instruments

Financial instruments consist of financial assets and financial liabilities and are initially recognized at fair value net of transaction costs, if applicable. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "loans and receivables", "available-for-sale", "held-to-maturity", or "financial liabilities measured at amortized cost" as follows:

*i. Financial assets*

Financial assets held by the Company include cash and amounts receivable. Cash is measured at fair value through profit or loss and amounts receivable are classified as loans and receivables, which are recorded at amortized cost less any impairment. Changes to fair value subsequent to initial recognition are recorded in net income for the period in which they occur.

*ii. Impairment of financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the fair value or estimated future cash flows of an asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

*iii. Financial liabilities*

Financial liabilities comprise accounts payable and accrued liabilities. These instruments are classified as financial liabilities measured at amortized cost using the effective interest rate method. Under this classification, all cash flows from these instruments are discounted, where material, to their present value. Over time, this present value is accreted to the future value of remaining cash flows, and this accretion is recorded as interest expense.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### c) Mineral properties and exploration and evaluation and expenses

Acquisition costs for mineral properties, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs include staking costs as well as the value of cash or share consideration paid for mineral properties. Exploration and evaluation expenses which may include annual claim maintenance fees as well as costs for drilling and technical and metallurgical evaluation are recorded as an exploration and evaluation expense as incurred.

The Company assesses mineral properties for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

*Impairment of mineral properties*

The carrying amounts of mineral properties are reviewed for impairment whenever facts and circumstances suggest that the carrying amounts may not be recoverable. If there are indicators of impairment, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. The recoverable amount of an asset is determined as the higher of its fair value less cost to sell and its value in use. An impairment loss exists if the asset's carrying amount exceeds the recoverable amount and is recorded as an expense when identified. Where the asset does not generate cash flows that are independent from other assets, the recoverable amount of the property to which the asset belongs is determined.

Value in use is determined as the present value of the future cash flows expected to be derived from an asset or property. 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 for which estimates of future cash flows have not been adjusted. Fair value less cost to sell is the amount obtainable from the sale of an asset or property in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. For mineral properties, fair value less cost to sell is often estimated using a discounted cash flow approach as fair values from active markets or binding sale agreements are not readily available. Estimated future cash flows are calculated using estimated future prices, mineral reserves and resources, operating and capital costs. All assumptions used are those that an independent market participant would consider appropriate.

Impairments on mineral properties may be reversed in subsequent periods. When a reversal of impairment is recorded, the carrying value of the asset is increased to its recoverable amount which cannot exceed the carrying amount of the asset that would have existed had no impairment been recognized in prior periods. Any reversal of impairment is recognized as a component of profit or loss when identified.

### d) Income taxes

Income tax expense comprises current and deferred tax and 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 in equity.

Current tax expense is based on the results of operations for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Provisions are established where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred tax is recognized using the liability method, providing for temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period, and which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### d) Income taxes (cont'd…)

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The effect of a change in enacted or substantively enacted income tax rates on deferred income tax assets and liabilities is recognized in profit or loss in the period that the change occurs unless the original entry was recorded to equity.

### e) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. 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.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a private placement to be the more easily measurable component and the common shares are valued at their fair value, as determined by the closing quoted bid price on the issue date. The balance, if any, is allocated to the attached warrants. Any value attributed to the warrants is recorded as equity reserves.

### f) Foreign currency translation

The functional currency is the currency of the primary economic environment in which an entity operates and may differ from the currency in which the entity enters transactions. Transactions in currencies other than the functional currency are translated to the functional currency at exchange rates prevailing on the dates of the transactions. Monetary assets and liabilities that are denominated in currencies other than the functional currency are translated to the functional currency using the exchange rate prevailing on the date of the statement of financial position while non-monetary assets and liabilities are translated at historical rates.

Exchange gains and losses arising from the translation of foreign currency-denominated transactions or balances are recorded as a component of net loss in the period in which they occur.

### g) (Loss) earnings per share

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

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

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

**3. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**h) Share-based compensation**

The Company may grant stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

Stock options granted to directors, officers and employees are measured at their fair values determined on their grant date, using the Black-Scholes option pricing model, and are recognized as an expense over the vesting periods of the options. Options granted to consultants or other non-insiders are measured at the fair value of goods or services received from these parties, or at their Black-Scholes fair values if the fair value of goods or services received cannot be measured. A corresponding increase is recorded to equity reserves for share-based compensation recorded.

When stock options are exercised, the cash proceeds along with the related amount previously recorded as equity reserves are recorded as share capital. When the right to receive options is forfeited before the options have vested, any expense previously recorded is reversed.

**i) Reclamation provision**

The Company recognizes a provision for environmental reclamation of its mineral properties in the period in which the Company becomes legally or constructively liable for future reclamation expenditures. The reclamation provision is initially measured as the present value of future expected reclamation cash flows, discounted using the risk-free interest rate prevailing at the time the liability is incurred, and a corresponding amount is recorded in the carrying value of the related mineral property.

Subsequent to initial measurement, the provision is re-measured using the risk-free interest rate prevailing on each reporting date. Changes to the carrying value of the provision for changes to the discount rate, or for changes to the timing and amount of expected future reclamation cash flows are recorded as an adjustment to the carrying value of the related mineral property. Changes to the carrying value of the provision from the accretion of its discounted value are recorded as a financing expense.

As at June 30, 2018 and 2017, the Company has no known environmental reclamation commitments.

**Judgments, estimates and measurement uncertainty**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the measurements of assets, liabilities, revenues, expenses and certain disclosures reported in these financial statements. Although these estimates are based on management's expectations for the likely outcome, timing and amounts of events or transactions, actual results may differ from these expectations and the corresponding amounts and disclosures reported in these financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Judgments, estimates and measurement uncertainty** (cont'd…)

Areas where management is required to make significant estimations or where measurements are uncertain are as follows:

*i. Carrying value of mineral properties*

The carrying value of mineral properties, including any impairments required, is based on various judgments and estimates such as the potential technical and commercial feasibility of these properties, as well as management's expectation for the likely outcome of a property, which itself is dependent on factors such as availability of financing, obtaining regulatory approvals to explore or develop the properties, and participation in the property by an operating management team.

Should evidence arise to indicate that there are no economically-viable reserves on the mineral property or should the Company no longer have the intention, resources, requisite approvals to maintain, explore, develop or otherwise realize value from a mineral property, impairments may be recognized. If impairment factors which result in an impairment being recorded become favourable, a reversal on impairment may occur.

*ii. Reclamation provision*

The Company records a reclamation provision for the discounted present value of expected future expenditures, if any, required to environmentally reclaim its mineral properties. The measurement of this provision, if one exists, is based on estimates for the amounts and timing of future cash flows. Differences between actual cash flows and those estimated could result in the reclamation provision being over or understated.

*iii. Fair valuation of stock options*

Management uses the Black-Scholes option pricing model to determine the fair value of employee stock options. This model requires assumptions regarding the expected future price volatility of the Company's common shares, expected life of options, future risk-free interest rates and the dividend yield of the Company's common shares. Consequently, there is significant measurement uncertainty in the stock-based compensation expense reported.

*iv. Income taxes*

Tax provisions are recognized to the extent that it is probable that there will be a future outflow of funds to a taxation authority. Such provisions often require judgment on the treatment of certain taxation matters that may not have been reported to or assessed by the taxation authority at the date of these financial statements. Differences in judgment by the taxation authority could result in changes to actual taxes payable by the Company.

Deferred tax assets are recognized to the extent that it is probable that certain taxable losses or deferred expenditures will be utilized by the Company to reduce future taxes payable. The amount of deferred tax assets recognized, if any, is based on objective evidence that the Company will generate sufficient future taxable income to utilize these deferred assets, as well as the expected future tax rates that will apply to these assets. Changes to the Company's ability to generate sufficient taxable income or changes to enacted tax rates could result in the write-down of deferred tax assets, or the recognition of new deferred tax assets.

*(Expressed in Canadian Dollars)*

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Future changes in accounting policies**

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2018 reporting period. These standards are not expected to have a significant impact on the Company's financial statements:

*i. IFRS 9, Financial Instruments*

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

*ii. IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

## 4. MINERAL PROPERTIES AND EXPLORATION AND EVALUATION EXPENSES

**Paxson Gold Property, Alaska, U.S.**

The Company holds mineral claims acquired through an internal staking program, in the Paxson Gold Property located in the eastern Alaska Range, southwest of Tok, Alaska. As of June 30, 2018, the Company has incurred cumulative staking costs of $44,615 (June 30, 2017 - $44,615) in acquiring these claims.

Exploration expenses on the Company's mineral properties are as follows:

| | **Year Ended June 30, 2018** | Year Ended June 30, 2017 |
|---|---|---|
| **Exploration and evaluation expenses:** | | |
| Permit and filing fees | **$ 9,612** | $ 13,445 |
| Field expenses | **1,118** | 3,352 |
| Management fees | **734** | 13,206 |
| Geological expenses | **-** | 7,609 |
| Accommodation and meals | **-** | 2,009 |
| | **$ 11,464** | $ 39,621 |

Title to mineral properties may be based on uncertain conveyance histories and therefore involves a certain inherent risk that title to the Company's mineral properties may be contested. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing. Further, the Company has not been notified of any challenge to the validity of its claims.

*(Expressed in Canadian Dollars)*

## 5. AMOUNTS RECEIVABLE

Amounts receivable arise from amounts owed by the Canada Revenue Agency for refundable sales taxes paid by the Company.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities relate to amounts owing for management, consulting and other professional services. All payables and accrued liabilities for the Company fall due within the next 12 months.

## 7. SHAREHOLDERS' EQUITY

**Authorized share capital**

Unlimited common shares, without par value.
Unlimited preferred shares issuable in series, without par value.

No preferred shares were issued and outstanding during the years ended June 30, 2018 or 2017, and changes to the number of common shares outstanding are as follows:

| | Number of Shares | Assigned Value |
|---|---|---|
| Outstanding, June 30, 2016 | 27,491,450 | $ 3,584,781 |
| Private placement, net of share issuance costs | 16,000,000 | 1,280,716 |
| Outstanding, June 30, 2017 | 43,491,450 | 4,865,497 |
| Shares issued on warrant exercise | 46,250 | 11,273 |
| Share issuance costs | - | (25,966) |
| **Outstanding, June 30, 2018** | **43,537,700** | **$ 4,850,804** |

**Private placement**

On March 27, 2017, the Company completed a brokered private placement of 16,000,000 units ("Units") at a price of $0.10 per unit for gross proceeds of $1,600,000. Each Unit consisted of one common share ("Unit Share") and a one-half share purchase warrant ("Unit Warrant"). Each full Unit Warrant entitles the holder to acquire one additional common share of the Company at a price of $0.15 per share on or before March 27, 2019. All proceeds from the private placement, net of share issuance costs, is attributed to the Unit Shares, with no value being attributed to the Unit Warrants.

Issuance costs incurred to complete the private placement included $217,753 in cash costs for agent's commissions, stock exchange fees, legal fees and administrative fees, of which $25,966 was incurred in the year ended June 30, 2018 and $191,787 was incurred in the year ended June 30, 2017. In addition to cash costs, the Company issued 1,360,000 additional warrants (the "Agent's Warrants") with a fair value of $127,497 to the agent who facilitated the private placement.

On October 31, 2017, the Company issued 21,250 common shares on the exercise of Agent's Warrants, and on November 29, 2017 an additional 25,000 Agent's Warrants were exercised. The combined proceeds from these issuances was $6,938 and an additional $4,335 was reclassified from equity reserves to share capital for the original fair value attributed to the exercised Agent's warrants.

*(Expressed in Canadian Dollars)*

## 7. SHAREHOLDERS' EQUITY (cont'd…)

**Stock options**

The Company adopted an incentive stock option plan (the "Option Plan") which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions for the years ended June 30, 2018 and 2017 are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, June 30, 2016 | 475,000 | $ 0.15 |
| Expired | (25,000) | 0.15 |
| **Outstanding, June 30, 2017 and 2018** | **450,000** | **$ 0.15** |

The following incentive stock options were outstanding and exercisable at June 30, 2018:

| Expiry Date | Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|---|---|---|---|
| May 16, 2021 | $ 0.15 | 450,000 | 450,000 |

**Warrants**

The Company may grant warrants on a stand-alone basis, to agents or brokers as compensation for facilitating certain financings. Alternatively, warrants may be included with the Company's shares as a component of share units issued for financing.

Warrant transactions for the years ended June 30, 2018 and 2017 are summarized as follows:

| | Number of Warrants | Weighted Average Exercise Price | Assigned Fair Value per Warrant |
|---|---|---|---|
| Outstanding, June 2016 | - | $ - | $ - |
| Unit Warrants issued | 8,000,000 | 0.15 | - |
| Agent's Warrants issued | 1,360,000 | 0.15 | 0.09 |
| Outstanding, June 30, 2017 | 9,360,000 | 0.15 | 0.01 |
| Agent's Warrants exercised | (46,250) | 0.15 | 0.09 |
| **Outstanding, June 30, 2018** | **9,313,750** | **$ 0.15** | **$ 0.01** |

*(Expressed in Canadian Dollars)*

**7. SHAREHOLDERS' EQUITY** (cont'd…)

**Warrants** (cont'd…)

The fair value of the Agent's Warrants is calculated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for Agent's Warrants are as follows:

| | **Year Ended June 30, 2018** | Year Ended June 30, 2017 |
|---|---|---|
| Risk-free interest rate | **N/A** | 0.73% |
| Dividend yield | **N/A** | - |
| Expected stock price volatility | **N/A** | 94% |
| Expected forfeiture rate | **N/A** | - |
| Expected life | **N/A** | 2 years |

The following warrants were outstanding and exercisable at June 30, 2018:

| **Expiry date** | **Exercise Price** | **Number of Warrants Outstanding** |
|---|---|---|
| March 27, 2019 | $ 0.15 | 9,313,750 |

**Per share amounts**

Weighted average per share amounts for the years ended June 30, 2018 and 2017 are calculated as follows:

| | **Year Ended June 30, 2018** | Year Ended June 30, 2017 |
|---|---|---|
| Numerator | | |
| Loss | **$ (76,170)** | $ (124,459) |
| Denominator | | |
| Weighted average number of common shares outstanding, basic and diluted | **43,520,128** | 31,655,834 |
| Loss per common share, basic and diluted | **$ (0.00)** | $ (0.00) |

Diluted weighted average number of common shares outstanding for the years ended June 30, 2018 and 2017 exclude the impact of stock options and warrants outstanding as their inclusion is anti-dilutive in periods when a loss is incurred.

## 8. RELATED PARTY TRANSACTIONS

The Company is party to a corporate service agreement with Earlston Management Corp. ("Earlston"), a company that provides key management services to the Company. The Company pays Earlston a fee of $4,000 per month and out-of-pocket costs for standard management and office services. Earlston also provides occasional consulting, project management or other support services which are billed separately from the standard rate. For the year ended June 30, 2018, the expense for office administration and facilities includes $48,000 (2017 - $48,000) and consulting expense includes $nil (2017 - $4,200) for services provided by Earlston. Additionally, in the year ended June 30, 2017, the Company paid Earlston $25,000 for services rendered in connection with a private placement, which has been included in issuance costs.

Accounts payable and accrued liabilities as at June 30, 2018 includes $4,320 (June 30, 2017 - $4,307) for amounts owing to Earlston.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at June 30, 2018, the Company's financial instruments comprise cash and accounts payable and accrued liabilities. The fair values of accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices 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 that are not based on observable market data (unobservable inputs).

As at June 30, 2018, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy.

Risks to the Company's financial instruments and their potential impact on the Company's financial instruments are summarized below:

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper.

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

### Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding or net income from operating activities will be required to meet long-term requirements. As at June 30, 2018, the Company had a cash balance of $1,451,233 to settle current liabilities of $16,488. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and subject to normal trade terms.

### Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

*i. Interest rate risk*

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is insignificant.

*ii. Foreign currency risk*

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. Altough the Company has exploration and evaluation activities in the United States and costs related to this activity are typically incurred in US dollars, the Company does not anticipate a large exploration program at this time and, as a result, is not exposed to significant foreign currency risk.

*iii. Price risk*

The Company holds no marketable securities or non-cash assets that are classified as financial instruments and, consequently, has no exposure to the price fluctuations of such instruments.

## 10. CAPITAL MANAGEMENT

The Company defines its capital as its shareholders' equity. It manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage and, as a result, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's capital management objectives, policies and processes have not been changed over the period presented. The Company is not subject to any externally imposed capital requirements.

*(Expressed in Canadian Dollars)*

## 11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | **Year Ended June 30, 2018** | Year Ended June 30, 2017 |
|---|---|---|
| Loss and comprehensive loss for the year | **$ (76,170)** | $ (124,459) |
| Expected income tax recovery | **$ (21,000)** | $ (32,000) |
| Changes in statutory, foreign tax or foreign exchange rates | **171,000** | (13,000) |
| Share issuance costs | **(7,000)** | (50,000) |
| Adjustment to prior year's income tax provision | **-** | (10,000) |
| Change in unrecognized deductible temporary differences | **(143,000)** | 105,000 |
| **Total income tax recovery** | **$ -** | $ - |

The significant components of the Company's unrecorded deferred tax assets and liabilities are as follows:

| | **June 30, 2018** | June 30, 2017 |
|---|---|---|
| **Deferred tax assets (liabilities)** | | |
| Allowable capital losses | **$ 62,000** | $ 59,000 |
| Non-capital losses available for future periods | **1,016,000** | 1,166,000 |
| Share issuance costs | **37,000** | 40,000 |
| Exploration and evaluation assets - mineral properties | **10,000** | 3,000 |
| **Unrecognized deferred net tax assets** | **$ 1,125,000** | $ 1,268,000 |

The significant components of the Company's temporary differences and unused tax losses that have not been included on the consolidated statements of financial position are as follows:

| | **June 30, 2018** | **Expiry date range** | June 30, 2017 | Expiry date range |
|---|---|---|---|---|
| **Temporary Differences** | | | | |
| Allowable capital losses | **$ 229,000** | **Not applicable** | $ 229,000 | Not applicable |
| Non-capital losses available for future periods | **$ 3,692,000** | **2027 - 2038** | $ 3,547,000 | 2027 - 2037 |
| Share issuance costs | **$ 136,000** | **2038 - 2042** | $ 153,000 | 2038 - 2041 |
| Exploration and evaluation assets - mineral properties | **$ 36,000** | **Not applicable** | $ 8,000 | Not applicable |

Tax balances reported are subject to review and potential adjustment by tax authorities.

# RHYOLITE RESOURCES LTD.
# MANAGEMENT'S DISCUSSION AND ANALYSIS
# FOR THE YEAR ENDED JUNE 30, 2018

## Background

This management discussion and analysis ("MD&A") of financial position and results of operations of Rhyolite Resources Ltd. ("Rhyolite" or the "Company") is prepared as at September 18, 2018 and should be read in conjunction with the audited consolidated financial statements as at June 30, 2018 and for the year then ended and the related notes. Those consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company's activities can be found on SEDAR at www.sedar.com.

## Forward-Looking Statements

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements include, but are not limited to statements regarding the Company's plans for the Paxson Gold Property, its ability to raise sufficient financing for exploration and evaluation activities, and its financial statement risks. These forward-looking statements involve a number of known and unknown risks, uncertainties and other factors such as, but not limited to exploration results, gold prices and general equity and market conditions. The outcomes of these factors may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

## Company Overview

Rhyolite is an exploration company with claims to the Paxson Gold Property located in the State of Alaska. The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol "RYE". The Company has approximately $1,400,000 in cash of which it expects to allocate up to $500,000 towards the evaluation of potential commercial acquisition targets with the remainder being allocated to the continued exploration of the Paxson property and general working capital.

*Paxson Gold Property*

The Company holds mineral claims acquired through an internal staking program, in the Paxson Gold Property located in the eastern Alaska Range, southwest of Tok, Alaska. During the year ended June 30, 2018, Rhyolite maintained its mineral claims and compiled geological data of the Paxson Gold Property for review by potential property partners.

In recent years, the Company has not undertaken significant exploration of the Paxson Gold Property except for claim and permitting maintenance, as well as basic geological work. To fund the next phase of the exploration of this property, the Company seeks an operating partner.

Exploration data has been reviewed, verified and compiled by Richard A. Graham, P. Geol., a director of Rhyolite, who is a "qualified person" for the purpose of National Instrument 43-101, Standards of Disclosure for Mineral Projects.

**Selected Annual Information**

| ***As at June 30,*** | **2018** | 2017 | 2016 |
|---|---|---|---|
| | **$** | $ | $ |
| Total assets | **1,496,596** | 1,592,010 | 308,071 |
| Total long-term liabilities | **-** | - | - |

| ***For the year ended June 30,*** | **2018** | 2017 | 2016 |
|---|---|---|---|
| | **$** | $ | $ |
| Exploration expenses | **11,464** | 39,621 | 5,229 |
| General and administrative expenses | **64,706** | 84,838 | 300,937 |
| Net loss for the year | **76,170** | 124,459 | 306,166 |
| Basic and diluted loss per share | **(0.00)** | (0.00) | (0.01) |
| Dividends per share | **Nil** | Nil | Nil |

*Financial Review*

Rhyolite is a resource development and production company without operating revenues. It is the Company's accounting policy to expense exploration and development expenditures incurred prior to the determination of the feasibility of mining operations. Mineral property acquisition costs, which include option payments, are capitalized as exploration and evaluation assets.

General and administrative expenses are typically incurred for management services and office facilities, accounting and legal services, transfer agent, listing and filing fees, and other costs required as a publicly-traded company. In the year ended June 30, 2016, the Company also incurred expenses for salaries, consulting, travel and additional office overhead in connection with the unsuccessful pursuit of oil and gas assets. This initiative was terminated in the year ended June 30, 2016, resulting in a decrease in general and administrative expenses and net losses for the years ended June 30, 2018 and 2017.

Net assets as at June 30, 2018 and 2017 were higher than those as at June 30, 2016 as a result of a brokered private placement of common shares in March 2017.

## Results of Operations including Fourth Quarter Results

The following table sets forth selected data for the periods indicated:

| | Three Months Ended June 30, | | Year Ended June 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **$** | $ | **$** | $ |
| Exploration expenses | **-** | 30,029 | **11,464** | 39,621 |
| General and administrative expenses: | | | | |
| Office administration and facilities | **12,000** | 12,000 | **48,000** | 48,000 |
| Transfer agent, listing and filing fees | **2,167** | 581 | **15,286** | 14,344 |
| Accounting and legal services | **12,354** | 12,346 | **14,169** | 16,633 |
| Shareholder information | **797** | 180 | **1,426** | 2,492 |
| Office supplies and services | **(300)** | 514 | **1,326** | 1,756 |
| Foreign exchange (gain) loss | **(1)** | 350 | **352** | 350 |
| Interest income | **(4,549)** | (1,971) | **(15,853)** | (2,937) |
| Consulting | **-** | 4,200 | **-** | 4,200 |
| Loss for the period | **22,468** | 58,229 | **76,170** | 124,459 |
| Basic and diluted loss per share | **0.00** | 0.00 | **0.00** | 0.00 |

*Year ended June 30, 2018*

The Company reported a loss of $76,170 for the year ended June 30, 2018, compared with a loss of $124,459 for the year ended June 30, 2017. The higher net loss in 2017 was primarily the result of $28,157 in additional exploration expenditures incurred for geological data compilation that did not occur in 2018. Additionally, funds raised in a March 2017 brokered private placement were available to the Company for the entire year ended June 30, 2018 compared with a partial period of the year ended June 30, 2017. As a result, interest income increased to $15,853 for the year ended June 30, 2018 compared with $2,937 for the year ended June 30, 2017.

Other expenses for the year ended June 30, 2018 were incurred for management and corporate services, transfer agent services, listing and filing fees, and other costs incurred as a publicly-listed entity. These costs were incurred at levels consistent with those for the year ended June 30, 2017.

*Fourth Quarter Results*

During the three months ended June 30, 2017, the Company incurred a loss of $58,229 compared with a loss of $22,468 in the same period in 2018. The net loss for 2017 included exploration and consulting expenses incurred for the compilation of geological data for the Paxson Gold Property which were not incurred in 2018, resulting in the decreased net loss. Other expenses incurred in the three months ended June 30, 2018 were comparable with those incurred for the three months ended June 30, 2017.

## Quarterly Information

| | General and Administrative Expenses (1) | Exploration Expenses | Net Loss | Basic & Diluted Loss per Share |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Q4 – June 30, 2018 | 22,468 | - | 22,468 | (0.00) |
| Q3 – March 31, 2018 | 15,171 | - | 15,171 | (0.00) |
| Q2 – December 31, 2017 | 9,372 | 11,464 | 20,836 | (0.00) |
| Q1 – September 30, 2017 | 17,695 | - | 17,695 | (0.00) |
| Q4 – June 30, 2017 | 28,200 | 30,029 | 58,229 | (0.00) |
| Q3 – March 31, 2017 | 23,987 | 502 | 24,489 | (0.00) |
| Q2 – December 31, 2016 | 18,413 | 9,090 | 27,503 | (0.00) |
| Q1 – September 30, 2016 | 14,238 | - | 14,238 | (0.00) |

**Explanatory Notes:**

(1) General and administrative expenses typically include costs for: office administration and facilities; accounting and legal services; transfer agent, listing and filing activities; and investor relations. Generally these expenses are consistent from quarter to quarter, although there are some for the accrual of audit fees and for costs incurred for the Company's annual general meeting, typically in the fourth and first fiscal quarters, respectively.

## Financial Condition including Cash Flows, Liquidity and Capital Resources

At June 30, 2018, the Company's working capital was $1,435,493 compared with working capital of $1,530,691 at June 30, 2017. Cash as at June 30, 2018 was $1,451,233, compared with $1,546,217 at June 30, 2017. The decrease in cash is the result of $91,809 in operating expenditures and $25,966 in share issuance costs related to a March 2017 private placement. These expenditures were partially offset by $15,853 in interest income earned on the Company's cash balance and $6,938 in proceeds from the exercise of warrants.

The Company has no contractual commitments for future mineral property exploration expenditures. The Company has not pledged any of its assets as security for loans, or otherwise and is not subject to any debt covenants. While management believes that the Company has sufficient working capital to meet its projected operating and exploration activities beyond the next fiscal year, longer-term financing would be eventually be required if the Company does not enter into revenue-generating commercial operations either from the Paxson Gold Property or other activities.

**Related Party Transactions**

The Company is party to a corporate service agreement with Earlston Management Corp. (“Earlston”), a company that provides key management services to the Company. The Company pays Earlston a fee of $4,000 per month and out-of-pocket costs for standard management and office services. Earlston also provides occasional consulting, project management or other support services which are billed separately from the standard rate. For the year ended June 30, 2018, the expense for office administration and facilities includes $48,000 (2017 - $48,000) and consulting expense includes $nil (2017 - $4,200) for services provided by Earlston. Additionally, in the year ended June 30, 2017, the Company paid Earlston $25,000 for services rendered in connection with a private placement, which has been included in issuance costs.

Accounts payable and accrued liabilities as at June 30, 2018 includes $4,320 (June 30, 2017 - $4,307) for amounts owing to Earlston.

**Capital Management**

The Company defines its capital as its shareholders’ equity. It manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

The Paxson Gold Property is an exploration-stage project and, as a result, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company’s capital management objectives, policies and processes have not been changed over the period presented. The Company is not subject to any externally imposed capital requirements.

**Financial Instruments and Risk Management**

As at June 30, 2018, the Company's financial instruments comprise cash and accounts payable and accrued liabilities. The fair values of accounts payable and accrued liabilities approximate their carrying values due to their short-term maturity. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices 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 that are not based on observable market data (unobservable inputs).

As at June 30, 2018, the fair value of cash held by the Company was based on Level 1 of the fair value hierarchy.

Risks to the Company's financial instruments and their potential impact on the Company's financial instruments are summarized below:

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset-backed commercial paper.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources are sufficient to cover the likely short-term cash requirements, but that further funding or net income from operating activities will be required to meet long-term requirements. As at June 30, 2018, the Company had a cash balance of $1,451,233 to settle current liabilities of $16,488. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and subject to normal trade terms.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

i. Interest rate risk

Interest rate risk arises from changes in market rates of interest that could adversely affect the Company. The Company currently has no interest-bearing financial instruments other than cash, so its exposure to interest rate risk is insignificant.

ii. Foreign currency risk

Foreign currency risk is the risk that is related to the fluctuation of foreign exchange rates. The Company has exploration and evaluation activities in United States and costs related to this activity are typically incurred in US dollars while funds are typically raised by the parent company in Canadian dollars. The Company does not anticipate a large exploration program at this time and, as a result, is not exposed to significant foreign currency risk.

iii. Price risk

The Company holds no marketable securities or non-cash assets that are classified as financial instruments and, consequently, has no exposure to the price fluctuations of such instruments.

**Outstanding Share Data**

As of the date of this MD&A, the Company has 43,537,700 common shares, 450,000 stock options and 9,313,750 warrants outstanding.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Use of Estimates**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

All of the Company's significant accounting policies and estimates are included in Note 3 of its audited consolidated financial statements for the year ended June 30, 2018.

## Future Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the June 30, 2018 reporting period. These standards are not expected to have a significant impact on the Company's financial statements:

*i. IFRS 9, Financial Instruments*

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

*ii. IFRS 16, Leases*

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

## Risks and Uncertainties

Exploration of mineral properties involves a high degree of risk and the successful achievement of a profitable operation cannot be assured. Costs of finding and evaluating an ore body are substantial, and may take several years to complete. The Company must overcome many risks associated with an early stage exploration property. Outstanding items to be completed include, but are not limited to, identification and quantification of a commercially viable ore body, confirmation of the Company's interest in the underlying claims and leases, completion of a feasibility study, funding of all costs related to a commercial operating venture, completion of the permitting process, detailed engineering and the procurement of a processing plant, and constructing a facility to support the property. Construction and operational risks including, but not limited to, equipment and plant performance, metallurgical, environmental, cost estimation accuracy, and workforce performance and dependability will all affect the profitability of an operating property.

External financing, primarily through the issuance of common shares will be required to fund future activities. There can be no assurance that such financings will be successful in the future.

## Corporate Governance

The Company's Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Audit Committee of the Company fulfills its role of ensuring the integrity of the reported information through its review of the interim and audited annual financial statements prior to their submission to the Board of Directors for approval. The Audit Committee, comprised of three directors, all of whom are independent, meets with management of the Company on a quarterly basis to review the financial statements, including the MD&A, and to discuss other financial, operating and internal control matters as required.