



# **ADVANCE GOLD CORP.**

## **INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**AUGUST 31, 2018**

*(Expressed in Canadian dollars)*

**MANAGEMENT'S COMMENTS ON  
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Advance Gold Corp. as at August 31, 2018 and three months ended August 31, 2018 and August 31, 2017 have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT AUGUST 31, 2018 AND MAY 31, 2018**  
*(Expressed in Canadian Dollars)*

	<b>August 31, 2018</b>	<b>May 31, 2018 (Note 13)</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 61,059	\$ 51,844
Amounts receivable	22,583	442
Prepaid expenses	2,281	7,256
	<b>85,923</b>	<b>59,542</b>
<b>Non-Current Assets</b>		
Exploration and evaluation assets (Statement) (Note 5)	742,007	604,904
	<b>\$ 827,930</b>	<b>\$ 664,446</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 6 and 9)	\$ 337,744	\$ 291,537
Debentures (Note 8)	38,719	37,767
	<b>376,463</b>	<b>329,304</b>
<b>EQUITY</b>		
Share capital (Note 7)	5,419,577	5,226,244
Reserves (Note 7)	1,074,895	1,047,387
Deficit	(6,043,598)	(5,939,337)
Equity attributable to owners of parent	450,874	334,294
Equity attributable to non-controlling interests (Note 10)	593	848
Total equity	451,467	335,142
	<b>\$ 827,930</b>	<b>\$ 664,446</b>
<b>Nature and Continuance of Operations (Note 1)</b>		
<b>Commitments (Note 11)</b>		
<b>Subsequent events (Note 14)</b>		

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017**  
*(Expressed in Canadian Dollars)*

	<u>August 31,</u> <u>2018</u>	<u>August 31,</u> <u>2017</u>
<b>Operating expenses</b>		
Advertising and promotion	\$ 13,467	\$ 240
Consulting fees	13,008	-
Interest, bank charges and foreign exchange	1,442	1,030
Management fees (Note 10)	15,000	15,000
Office and sundry	175	-
Professional fees	27,855	18,925
Rent and telephone	130	86
Stock-based compensation (Note 7)	27,508	-
Transfer agent and filing fees	3,042	1,856
	<u>(101,627)</u>	<u>(37,137)</u>
<b>Other income (loss)</b>		
Gain on settlement of debt	-	88
Foreign exchange loss	(2,634)	-
	<u>(2,634)</u>	<u>88</u>
<b>Loss and Comprehensive loss for the period</b>	<u>\$ (104,261)</u>	<u>\$ (37,049)</u>
<b>Loss and Comprehensive loss for the period attributable to:</b>		
Owners of the parent	104,006	37,049
Non-controlling interests	255	-
	<u>\$ 104,261</u>	<u>\$ 37,049</u>
<b>Basic And diluted loss per common share</b>	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>14,848,119</u>	<u>10,489,671</u>

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017**  
*(Expressed in Canadian Dollars)*

	Number of Common Shares	Share Capital	Stock Option Reserve	Warrant Reserve	Deficit	Total	Non- controlling interests	Total Equity
<b>Balance at May 31, 2018</b>	14,656,338	5,226,244	528,254	519,133	(5,939,337)	334,294	848	335,142
Net and comprehensive loss	-	-	-	-	(104,261)	(104,261)	(255)	(104,516)
Stock options granted (Note 7)	-	-	27,508	-	-	27,508	-	27,508
Share subscription (Note 7)	-	60,000	-	-	-	60,000	-	60,000
Warrants exercised	1,666,667	133,333	-	-	-	133,333	-	133,333
<b>Balance at August 31, 2018</b>	16,323,005	5,419,577	555,762	519,133	(6,043,598)	450,874	593	451,467

	Number of Common Shares	Share Capital	Stock Option Reserve	Warrant Reserve	Deficit	Total	Non- controlling interests	Total Equity
<b>Balance at May 31, 2017</b>	10,489,671	4,979,958	445,317	519,133	(5,690,261)	254,147	-	254,147
Comprehensive loss	-	-	-	-	(37,049)	-	-	(37,049)
<b>Balance at August 31, 2017</b>	10,489,671	4,979,958	445,317	519,133	(5,727,310)	254,147	-	217,098

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017**  
*(Expressed in Canadian Dollars)*

	<b>August 31, 2018</b>	<b>August 31, 2017</b>
<b>Cash Provided By (Used For):</b>		
<b>Operating Activities</b>		
Comprehensive loss for the period	\$ (104,261)	\$ (37,049)
Items not requiring cash:		
Accrued interest on debentures	952	862
Stock based compensation	27,508	-
Non-controlling interest net loss	(255)	-
Change in non-cash working capital items:		
Amounts receivable	(22,141)	253
Prepaid expenses	4,975	1,300
Accounts payable and accrued liabilities	46,207	86,770
<b>Cash provided by operating activities</b>	<b>(47,015)</b>	<b>52,136</b>
<b>Investing Activities</b>		
Deferred exploration expenditures paid	(137,103)	(52,996)
<b>Cash used for investing activities</b>	<b>(137,103)</b>	<b>(52,996)</b>
<b>Financing Activities</b>		
Issuance of common shares for cash	133,333	-
Share subscription for cash	60,000	-
<b>Cash provided by financing activities</b>	<b>193,333</b>	<b>-</b>
<b>Increase (decrease) in cash</b>	<b>9,215</b>	<b>(860)</b>
<b>Cash, beginning of period</b>	<b>51,844</b>	<b>20,610</b>
<b>Cash, end of period</b>	<b>\$ 61,059</b>	<b>\$ 19,750</b>

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS**  
**- EXPLORATION EXPENDITURES -**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017**  
*(Expressed in Canadian Dollars)*

	<b>May 31, 2018 (Note 13)</b>		<b>Acquisition Costs</b>		<b>Exploration and evaluation expenditures</b>		<b>Impairment</b>		<b>August 31, 2018</b>
<b>Kakamega property, Kenya</b>	\$ 413,270	\$	-	\$	2,362	\$	-	\$	415,632
<b>Tabasquena property, Mexico</b>	191,634		-		134,741		-		326,375
<b>Balance, end of period</b>	\$ 604,904	\$	-	\$	138,036	\$	-	\$	742,007

	<b>May 31, 2017</b>		<b>Acquisition Costs</b>		<b>Exploration and evaluation expenditures</b>		<b>Impairment</b>		<b>August 31, 2017</b>
<b>Kakamega property, Kenya</b>	\$ 412,949	\$	-	\$	182	\$	-	\$	413,131
<b>Tabasquena property, Mexico</b>	-		51,387		1,427		-		52,814
<b>Balance, end of period</b>	\$ 412,949	\$	51,387	\$	1,609	\$	-	\$	465,945

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

**ADVANCE GOLD CORP.**  
**INTERIM CONSOLIDATED STATEMENTS OF EXPLORATION AND EVALUATION ASSETS**  
**- EXPLORATION EXPENDITURES -**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2018 AND 2017**  
*(Expressed in Canadian Dollars)*

	<u>August 31,</u> <u>2018</u>	<u>August 31,</u> <u>2017</u>
<b>Kakamega Property</b>		
Opening balance	\$ 9,336	\$ 9,015
Administration	2,362	182
	<u>\$ 11,698</u>	<u>\$ 9,197</u>

	<u>August 31,</u> <u>2018</u>	<u>August 31,</u> <u>2017</u>
<b>Tabasquena Property</b>		
Opening balance	\$ 4,082	\$ -
Camp	60	367
Camp infrastructure	176	-
Camp food & water	5,123	-
Security	3,340	-
Geological	29,603	-
Drilling	81,861	-
Field supplies	1,029	-
Fuel	1,894	-
Geochemical	3,915	-
Line-cutting	341	-
Technical and field staff	68	-
Communications	6	-
Transport and travel	928	-
Local Administration	916	1,060
Prepays	1,432	-
Explosives	2,003	-
Environmental impact study	2,046	-
Total expenditure	<u>134,741</u>	
<b>Ending balance</b>	<u>\$ 138,823</u>	<u>\$ 1,427</u>

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



**ADVANCE GOLD CORP.**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**AUGUST 31, 2018**  
*(Expressed in Canadian Dollars)*

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

Advance Gold Corp. (the “Company”) was incorporated in the Province of British Columbia on September 28, 2004. The Company’s shares are listed on the TSX-Venture Exchange (the “Exchange”). The Company is an exploration stage company engaged in the exploration and evaluation of mineral property interests. The Company’s registered office is located at 1400 – 1040 West Georgia Street, Vancouver, British Columbia V6E 4H1 and its head office is located at 432 Royal Avenue, Kamloops, British Columbia V2B 3P7.

These interim consolidated financial statements have been prepared on the going concerns basis, which contemplates that the Company will continue operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has incurred significant losses from inception and as at August 31, 2018 the Company had a deficit of \$6,043,598 (May 31, 2018 - \$5,939,337) and has a working capital deficiency of \$290,540 as at August 31, 2018 (May 31, 2018 \$269,762).

The ability of the Company to continue as a going concern is in doubt and is dependent upon the continued financial support from its directors and its ability to continue to raise sufficient financing. Management is seeking equity financing and joint venture opportunities, the outcome of which cannot be predicted at this time. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. These financial statements do not reflect the adjustments or reclassifications which would be necessary if the Company were unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These interim consolidated financial statements for period ended August 31, 2018 were authorized for issue by the Board of Directors of the Company on October 30, 2018.

**Statement of compliance**

These interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), and are in compliance with IAS 34 Interim Financial Reporting as required under Part 3 of National Instrument 52-107.

**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its controlled entities and have been prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value. All inter-company transactions and balances have been eliminated on consolidation.

The net interest of the Company’s subsidiaries are presented below:

	<b>Country of incorporation</b>	<b>Ownership August 31, 2018</b>	<b>Ownership May 31, 2018</b>
Gold Rim Exploration Inc.	Kenya	100%	100%
Advance Gold S.A. de C.V. (“Advance Mexico”)	Mexico	98%	98%

On June 12, 2017, the Company acquired Advance Mexico, a private company, for 50,000 Mexican Pesos (\$3,692). Advance Mexico did not have any assets on acquisition.

**Financial instruments**

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

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Measurement in subsequent periods depends on the classification of the financial instrument:

*At fair value through profit or loss ("FVTPL")* - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value with changes in fair value recognized in the Company's consolidated statement of comprehensive loss for the year. Cash is classified as FVTPL.

*Held to maturity investments* - Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. The Company has no financial assets classified as held-to-maturity investments.

*Available for sale investments* - Available for sale financial assets are non-derivative financial assets that are designated as available for sale or are not suitable to be classified as FVTPL, loans and receivables, or held-to-maturity investments and are subsequently measured at fair value. Unrealized gains and losses are recognized in other comprehensive loss, except for impairment losses and foreign exchange gains and losses on monetary financial assets, which are recognized in comprehensive loss. The Company has no financial assets classified as available for sale.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at amortized cost less impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Amounts receivables are classified as loans and receivable.

*Other financial liabilities* - This category includes financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities, and debentures are classified as other financial liabilities.

### **Foreign Currency Translation**

#### *(i) Presentation and functional currency*

The Company's functional and presentation currency is the Canadian dollar. Functional currency is also determined for each of the Company's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The Canadian dollar is the functional currency of both the Company's Kenyan subsidiary and Mexican subsidiary.

#### *(ii) Foreign currency transactions*

Transactions in currencies other than the functional currencies are recorded at the rates of exchange prevailing on the dates of the transactions. 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.

Gain and losses arising on foreign currency translations are included in the Company's statement of comprehensive loss.

### **Exploration and evaluation assets**

Acquired properties are recognized at cost, or if acquired as part of a business combination, at fair value at the date of acquisition. All costs directly related to exploration activities are capitalized once the Company has obtained the legal right to explore. Acquisition costs include cash consideration and the fair value of common shares, issued for exploration and evaluation assets. Exploration expenditures, net of recoveries, are capitalized as incurred. After a property is determined by management to be commercially feasible, acquisition costs and their related deferred exploration expenditures on the property will be transferred to mineral properties under development. Prior to transfer the assets will be tested for impairment.

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Exploration and evaluation assets acquired under an option agreement where payments are made at the sole discretion of the Company, are capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the exploration and evaluation assets until the payments are in excess of acquisition costs, at which time they are then recognized in profit or loss in the Company's consolidated statements of comprehensive loss. Option payments are at the discretion of the optionor and, accordingly, are accounted for when receipt is reasonably assured.

The Company has farm-out arrangements with a third party on its Kenyan exploration property. The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm-out arrangement but predesignates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalized in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

The recoverability of the carrying amount of exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas of interest.

**Decommissioning liability**

The Company is required to recognize a liability when a legal or constructive obligation exists to dismantle, remove or restore its assets, including any obligation to rehabilitate environmental damage on its exploration and evaluation assets. As of August 31, 2018, and May 31, 2018, the Company has not incurred any such obligations.

**Impairment of long-lived assets**

At each reporting date, the carrying amounts of the Company's assets, including exploration and evaluation assets are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of comprehensive loss. For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash generating units. Cash generating units are the smallest identifiable groups of assets having independent cash inflows.

An impairment loss, excluding those recognized on goodwill, is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had previously been recognized.

**Income or Loss per share**

The Company presents basic and diluted income or loss per share data for its common shares, calculated by dividing the income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted income or loss per share is determined by adjusting the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. All the share options and share purchase warrants were anti-dilutive as of August 31, 2018 and May 31, 2018.

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**Income taxes**

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

**Critical accounting estimates and judgments**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the consolidated financial statements also requires management to make judgments aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key uncertainties related to estimates that have a significant risk of resulting in a material adjustment within the next financial year and to judgments that have the most significant effect on the amounts recognized and disclosed in the consolidated financial statements.

*Impairment of non-financial assets*

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value.

*Calculation of stock-based compensation*

The Black-Scholes Option Pricing Model is used to determine the fair value for the stock options and utilizes subjective assumptions such as expected price volatility and expected life of the options. Discrepancies in these input assumptions can significantly affect the fair value estimate.

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*(Expressed in Canadian Dollars)*

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*Critical judgments used in applying accounting policies*

*Exploration and evaluation assets*

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral properties under exploration. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment.

As at August 31, 2018 and May 31, 2018 management had determined that no reclassification of exploration and evaluation assets was required.

*Income taxes*

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

**Accounting standards issued but not yet effective**

The following new or amended accounting standards have been issued by the IASB for periods beginning on or after June 1, 2018. These new or amended standards are not yet effective, and the Company has not completed its assessment of their impact on its consolidated financial statements.

- (i) IFRS 9 Financial Instruments;
- (ii) IFRS 15 Revenue from Contracts with Customers; and
- (iii) IFRS 16 Leases.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

**3. MANAGEMENT OF CAPITAL**

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of equity as well as its cash. In order to maximize ongoing development efforts, the Company does not pay out dividends. 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 its capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets. The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations. The Company expects that its current capital resources will not be sufficient to carry out its exploration and evaluation plans and operations through its next fiscal year. The Company is planning to use equity financing to support ongoing operations; however, there is no assurance that additional funding and/or suitable joint venture agreements will be obtained. There were no changes in the Company's approach to capital management during the period. The Company has no externally imposed capital requirements.

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. FINANCIAL INSTRUMENTS**

**Fair Value**

Fair value estimates are made at the reporting period end date, based on relevant market information. Estimated fair value amounts are designed to approximate amounts at which financial instruments could be exchanged in a current transaction between willing parties who are under no compulsion to act.

The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value of financial instruments. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3). The Company had no Level 2 or Level 3 financial instruments at August 31, 2018 and May 31, 2018 and there have been no transfers between levels.

The following is an analysis of the Company's financial assets measured at fair value as at August 31, 2018 and May 31, 2018:

	<b>August 31, 2018</b>		
	Level 1	Level 2	Level 3
Cash	\$ 61,059	\$ -	\$ -

	<b>May 31, 2018 (Note 13)</b>		
	Level 1	Level 2	Level 3
Cash	\$ 51,844	\$ -	\$ -

**Financial Risk Management**

The Company's financial instruments potentially expose it to a variety of risks, including credit risk, foreign exchange risk (currency), liquidity and interest rate risk.

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. The Company deposits the majority of its cash with high credit quality financial institutions in Canada reducing the credit risk. Amounts receivable consist of refundable tax credits and therefore credit risk is minimal.

**Currency risk**

Currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. Certain assets and liabilities of the Company are denominated in Mexican Peso and Kenyan Shilling and are therefore subject to fluctuation against the Canadian dollar. Currency risk is considered to be moderate.

The Canadian dollar equivalent of financial instruments denominated in foreign currencies as at August 31, 2018 and May 31, 2018 is as follows:

	<b>August 31, 2018</b>	<b>May 31, 2018 (Note 13)</b>
Cash	\$ 741	\$ 27,560
Amounts receivable	21,977	-
Accounts payable	(110,144)	(83,016)
	\$ (87,426)	\$ (55,456)

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***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature, maturity, and fixed interest rate on debentures.

***Liquidity risk***

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Company manages liquidity by maintaining adequate cash balances. The Company's expected source of cash flow in the upcoming year is anticipated to be through equity financing and future loan facilities, and potential joint venture agreements. Cash on hand at August 31, 2018 is insufficient to fund the Company's operational needs for the next 12 months. Liquidity risk is assessed as high.

**5. EXPLORATION AND EVALUATION ASSETS**

**Kakamega Property, Kenya:**

The Company has applied for and was granted an Exclusive Prospecting License ("EPL") to cover the former Rosterman Mine and surrounding areas in Kenya. In addition, the Company has two other licenses in the immediate area. The licenses are currently awaiting renewal by Kenyan authorities.

In order to maintain the licenses, the Company is required to incur a minimum of Kenya Shillings ("KES") 5,000,000 (Canadian \$60,000) in exploration expenditures per year for each license. The Company is also obligated to pay KES 10,000 (Canadian \$120) for all areas operated under pilot mining.

On April 20, 2011, the Company entered into an option and joint venture agreement with Aviva Corporation Ltd. ("Aviva").

On July 23, 2012, it was announced that African Barrick Gold plc ("ABG"), a subsidiary of Barrick Gold Corporation, purchased all of Aviva's Kenyan gold and base metals assets, which includes the option and joint venture agreement with the Company. The purchase required the approval of Aviva's shareholders and the Kenyan Competition authority, which was obtained.

On November 27, 2014, ABG announced that it had changed its name to Acacia Mining plc. ("Acacia").

Under the terms of the agreement, Acacia has the right to earn at least a 75% interest in the Kakamega Property. The agreement is subject to due diligence and the Company obtaining approval of the agreement from the Commissioner of Mines and Geology of Kenya. The agreement became effective on July 21, 2011, when these two conditions had been fulfilled (the "Effective Date").

To earn a 51% interest in the property, Acacia must:

- Incur a minimum of US\$100,000 in exploration expenditures on the property within 12 months of the effective date (completed);
- Make a US\$100,000 cash payment to the Company within 15 days of date that the initial US\$100,000 exploration expenditures are ratified (received June 30, 2012); and
- Incur a further US\$500,000 in exploration expenditures on the property within 24 months of date that the initial US\$100,000 exploration expenditures are ratified (completed).

Once Acacia has exercised their option to earn a 51% interest in the Kakamega Property, a joint venture may be formed at the discretion of the parties who will hold the licenses. Should this election be adopted, all revenues, costs, assets and liabilities arising from the joint venture will be shared by the Company and Acacia in accordance with their percentage interests in the property.

Should the 51% election be earned, to earn an additional 24% interest in the Kakamega Property, Acacia must:

- Incur an additional US\$1,000,000 in exploration expenditures on the property within 24 months of earning a 51% interest (completed).

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Once Acacia has obtained a 75% interest, the Company may elect to participate as to its 25% share of all revenues, costs, assets and liabilities arising from the election to joint venture or, alternatively, elect to dilute their interest to 10% after which Acacia may convert the Company's interest in the property to a 3% net smelter royalty ("NSR").

On January 26, 2017, the Company elected to dilute their participation interest to 14% under the Option and Joint Venture agreement, giving Acacia Mining an 86% interest in the Kakamega Properties.

**Tabasquena Property, Mexico:**

On July 20, 2017, Advance Gold S.A. de C.V. ("Advance Mexico"), a wholly owned subsidiary of the Company, entered into an agreement with Hot Spring Mining S.A. de C.V. ("Hot Spring Mining") to acquire the Tabasquena Silver Mine in Zacatecas, Mexico ("Mining Concessions"). The Company will issue 1,000,000 common shares with a fair value of \$60,000 to Hot Spring Mining in exchange for 100% interest in the Mining Concessions.

Hot Spring Mining will retain a 2.5% NSR of which the Company has the right to purchase a maximum of 1.5% NSR at \$500,000 per each 0.5% NSR. In addition, two partners of Hot Spring Mining will become consultants of the Company for a minimum period of 16 months at \$2,000 per month each starting in October 2017.

**Venaditas Property, Mexico:**

On April 9, 2018, Advance Mexico entered into an agreement with Hot Spring Mining to acquire its 100% interest in the mining concession Venaditas in Zacatecas, Mexico. Terms of the agreement, subject to TSX approval, include the issuance of 1,000,000 common shares of Advance Gold Corp. in exchange for 100% interest in the Mining Concession.

Hot Spring Mining will retain a 2.5% NSR of which the Company has the right to purchase a maximum of 1.5% NSR at \$500,000 per each 0.5% NSR. In addition, two partners of Hot Spring Mining will become consultants of the Company for a minimum period of 16 months at \$2,000 per month each starting in January 2018. TSX approval for the transaction was obtained on October 2, 2018.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The Company's accounts payable and accrued liabilities are comprised of the following:

	<b>August 31, 2018</b>	<b>May 31, 2018 (Note 13)</b>
Trade payables	\$ 123,779	\$ 81,601
Accrued liabilities	62,202	35,739
Due to related parties (Note 9)	151,763	174,197
	<b>\$ 337,744</b>	<b>\$ 291,537</b>

**7. SHARE CAPITAL**

**(a) Authorized Share Capital**

Unlimited number of common shares without par value.  
 Unlimited number of preferred shares without par value.

**(b) Issued Share Capital**



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**Share Issuances:**

On February 28, 2017, the Company closed a non-brokered private placement of 1,813,332 shares at \$0.075 per unit for gross proceeds of \$136,000. A director and an officer of the Company both participated in the private placement, having purchased an aggregate of 960,000 common shares. The Company incurred share issue costs of \$3,697 in connection with this financing.

On October 2, 2017, the Company issued 1,000,000 common shares with a fair value of \$60,000 for acquisition of the Tabasquena property (Note 5).

On February 5, 2018, the Company closed a non-brokered private placement of 3,166,667 shares at \$0.06 per unit for gross proceeds of \$190,000. Each Unit is comprised of one common share of the Company and one non-transferable share purchase warrant. Each share warrant entitles the holder to purchase an additional common share at a price of \$0.08 per share until February 7, 2020, subject to accelerated expiry in certain circumstances. An officer of the Company participated in the private placement, having purchased 850,000 common shares. The Company incurred share issue costs of \$3,714 in connection with this financing. No value was allocated to the attachable warrants.

As at August 31, 2018, the Company had 34,300 (May 31, 2018 – 34,000) escrow shares.

On July 30, 2018, the Company announced that it has entered into a one year advertising contract, subject to TSX approval, with Agoracom to provide advertising and media exposure. Agoracom will be paid \$15,000 plus HST every three months payable in shares, the deemed price of which is to be determined at the end of each three month period. As of the date of this filing, TSX approval has not been obtained.

**(c) Stock Options**

At the Annual General Meeting, held on December 11, 2017, shareholders approved to adopt a 10% Rolling Stock Option Plan (“the Plan”) whereby the aggregate number of common shares reserved for issuance pursuant to the Plan and any other share compensation arrangement granted or made available by the Company from time to time shall not exceed in aggregate 10% of the total number of issued and outstanding Common Shares (the “Option Plan Shares”). The number of Option Plan Shares shall be increased or decreased from time to time as required if more or less Option Plan Shares are required to be issued due to any reorganization of the share capital of the Company. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

Any options granted pursuant to the Plan will terminate within 30 days of the option holder ceasing to act as an Eligible Person pursuant to and as defined in the Plan, unless such cessation is on account of death, disability or termination of employment with cause. If such cessation is on account of disability or death, the options terminate on the first anniversary of such cessation, and if it is on account of termination of employment with cause, the options terminate immediately. The Plan also provides for adjustments to outstanding options in the event of any consolidation, subdivision, conversion or exchange of the Company’s shares.

A summary of stock option activity for the year ended August 31, 2018 and year ended May 31, 2018 is as follows:

	<b>August 31, 2018</b>		<b>May 31, 2018 (Note 13)</b>	
	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price</b>
Outstanding, beginning	940,000	\$ 0.14	575,000	\$ 0.43
Cancelled/Expired	-	-	(435,000)	-
Granted	-	-	800,000	0.12
Outstanding, ending	940,000	\$ 0.14	940,000	\$ 0.14

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As at August 31, 2018, the Company had stock options outstanding to acquire common shares of the Company as follows:

Expiry Date	Options Outstanding	Options Exercisable	Exercise Price	Remaining Contractual Life (In Years)
September 18, 2018	140,000	140,000	\$ 0.25	0.05
April 17, 2023	800,000	550,000	0.12	4.63
	940,000	690,000	0.14	

On April 17, 2018, the Company granted 800,000 stock options to directors, employees and consultants of the Company at an exercise price of \$0.12 per common share for a period of five years ending April 17, 2023. A share based compensation expense of \$27,508 was recognized (May 31, 2018 – \$82,937), with the fair value determined using the Black-Scholes Option Pricing Model with the following assumptions: risk free interest rate of 2.25%; expected life of 5 years; expected volatility of 152% and dividend yield of nil. Of the 800,000 options, 250,000 were granted to an investor relation consultants; therefore, the options vest over a period of 12 months. The remaining options vested immediately.

**(d) Share purchase warrants**

The following table summarizes the continuity of share purchase warrants:

	August 31, 2018		May 31, 2018 (Note 13)	
	Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
Outstanding, beginning	3,166,667	\$ 0.08	-	-
Cancelled/Expired	-	\$ -	-	-
Granted	-	\$ -	3,166,667	0.08
Exercised	1,666,667	\$ 0.08	-	-
Outstanding, ending	1,500,000	\$ 0.08	3,166,667	0.08

On June 13, 2018, 1,000,000 share purchase warrants were exercised for \$80,000 cash. On July 9, 2018, 666,667 share purchase warrants were exercised for \$53,333 cash.

The weighted average life of the outstanding share purchase warrants of 1.44 years.

**(e) Reserves**

**Stock option reserve**

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

**Warrant Reserve**

The warrant reserve records the proceeds allocated to warrants on the issuance of units in private placements until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital.

**8. DEBENTURES**

The debentures bear interest at 10% per annum, are unsecured and are due on demand.

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	August 31, 2018	May 31, 2018 (Note 13)
Opening balance	\$ 37,767	\$ 34,216
Accrued interest	952	3,552
	<b>\$ 38,719</b>	<b>\$ 37,767</b>

**9. RELATED PARTY TRANSACTIONS**

**(a) Related party balances**

Accounts payables and accrued liabilities includes \$105,453 (May 31, 2018 - \$105,364) payable to a director of the Company and a company controlled by a director of the Company (Note 6). These amounts are unsecured, non-interest bearing and have no fixed terms of repayment. Also included is \$67,025 (May 31, 2018 - \$68,833) payable to a director and an officer of the Company.

**(b) Related party transactions and compensation to key management**

During the quarter ended August 31, 2018, \$15,000 (May 31, 2018 - \$60,000) was paid to a company controlled by a director of the Company to fulfil the position of chief executive officer. A further \$200 (2018 - \$3,190) was paid to the chief financial officer of the Company as consulting fees.

**10. NON-CONTROLLING INTEREST**

The Company has a 98% interest in Advance Mexico and the remaining 2% non-controlling interest is held by a director of Advance Mexico. As at August 31, 2018, the non-controlling interest liability included in equity is \$593 (May 31, 2018 - \$848).

**11. COMMITMENTS**

The Company has a management services agreement with a director of the Company requiring payments of \$5,000 per month.

The Company has an agreement with directors of Hot Spring Mining requiring payments of \$4,000 per month in consulting fees expiring April 30, 2019.

The Company shares its premise with other companies controlled by a director of the Company and is allocated its proportion of the annual rent.

**12. SEGMENTED INFORMATION**

The Company's operations are all conducted in one industry segment, the exploration and development of exploration and evaluation assets.

The Company's total assets located within its geographic segments of Canada, Kenya and Mexico are as follows:

	August 31, 2018	May 31, 2018 (Note 13)
Canada	\$ 63,204	\$ 32,296
Kenya	415,632	413,270
Mexico	349,094	218,880
	<b>\$ 827,930</b>	<b>\$ 664,446</b>

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**13. COMPARATIVE FIGURES**

The comparative figures disclosed as at May 31, 2018 in these interim financial statements were subject to an audit engagement. Certain of the comparative figures in the statement of operations have been reclassified to conform with the financial presentation adopted for in the current period. These changes have no effect on the loss for the prior period disclosed.

**14. SUBSEQUENT EVENTS**

- a. On September 20, 2018, the Company closed a private placement to issue 2,885,880 units at \$0.085 per unit for gross proceeds of \$245,300. Each unit consists of 1 common share of the Company and 1 common share purchase warrant, each warrant being exercisable at \$0.10 for 24 months. TSX approval was granted on October 4, 2018 and shares have been issued.

On September 17, 2018, the Company entered into a Finders Fee Agreement with Canaccord Genuity with respect to the above mentioned private placement. The finder's fee will be in the amount of 8% of the amount placed with subscribers introduced to the Company by Canaccord Genuity and will be payable in cash.

- b. On July 25, 2018, the Company entered into an asset purchase agreement to purchase mining machinery and equipment for \$300,00 payable in common shares of the Company at a price of \$0.50 per common share for a total of 600,000 common shares to be issued as follows:
- 150,000 common shares upon receipt of regulatory approval; TSX approval was granted on September 29, 2018 and shares issued on October 2, 2018.
  - 150,000 common shares 6 months after regulatory approval;
  - 150,000 common shares 12 months after regulatory approval; and
  - 150,000 common shares 18 months after regulatory approval.