

SPANISH MOUNTAIN GOLD LTD.
(An Exploration Stage Company)

Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

<u>Table of Contents</u>	<u>Page</u>
Independent Auditors' Report to the Shareholders	2-4
Consolidated Financial Statements	
Consolidated Statements of Financial Position	5
Consolidated Statements of Operations and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9 – 31

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF SPANISH MOUNTAIN GOLD LTD.

Opinion

We have audited the consolidated financial statements of Spanish Mountain Gold Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$432,458 during the year ended December 31, 2018. As stated in Note 1, this event or condition, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

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

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

The engagement partner on the audit resulting in this independent auditors' report is Kevin Yokichi Nishi.

Smythe LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 26, 2019

Spanish Mountain Gold Ltd.
(An Exploration Stage Company)
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at December 31

	Note	2018	2017
Assets			
Current Assets			
Cash and cash equivalents	4	\$ 826,043	\$ 1,707,860
Short-term investments	4	712,427	1,500,000
Accounts receivable	9	113,067	165,417
Prepaid expenses		29,146	95,339
		1,680,683	3,468,616
Mineral Properties	6	75,342,405	73,827,046
Property and Equipment	7	872,244	916,546
Deposits for Reclamation	6(a)	85,000	85,000
Rent Deposit		24,955	24,955
		\$ 78,005,287	\$ 78,322,163
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 410,867	\$ 131,348
Flow-through premium	8,9	-	153,848
		410,867	285,196
Lease Incentive Liability	12	37,112	37,476
Returnable Security Deposits	12	18,000	18,000
Deferred Income Tax Liabilities	9	909,828	1,092,716
		1,375,807	1,433,388
Shareholders' Equity			
Capital Stock	8	88,020,138	88,000,138
Share-Based Payments Reserve	8(c),8(e)	631,753	478,590
Deficit		(12,022,411)	(11,589,953)
		76,629,480	76,888,775
		\$ 78,005,287	\$ 78,322,163

Approved on behalf of the Board:

"Christopher Lattanzi"
..... Director
Christopher Lattanzi

"James Clare"
..... Director
James Clare

See notes to Consolidated Financial Statements

Spanish Mountain Gold Ltd.
(An Exploration Stage Company)
Consolidated Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
Years ended December 31

	Note	2018	2017
Expenses			
Salaries and wages	10	\$ 369,727	\$ 368,722
Investor relations, travel and filing fees		193,899	142,999
Share-based payments	8(c),10	127,320	211,972
Rent	12	55,970	55,280
Office and administrative		32,861	30,772
Legal and accounting		25,528	20,645
Depreciation	7	4,723	8,216
Loss Before Other Items		(810,028)	(838,606)
Other Items			
Interest income		43,326	30,776
Flow-through share tax expense		(2,492)	-
Loss Before Deferred Income Tax		(769,194)	(807,830)
Deferred Income Tax Recovery (Expense)	9	336,736	(1,029,323)
Net Loss and Comprehensive Loss for year		\$ (432,458)	\$ (1,837,153)
Basic and diluted, loss per share		\$ (0.002)	\$ (0.008)
Weighted Average Number of Common Shares Outstanding		232,287,190	220,994,143

See notes to Consolidated Financial Statements

Spanish Mountain Gold Ltd.**(An Exploration Stage Company)****Consolidated Statements of Changes in Shareholders' Equity****(Expressed in Canadian Dollars)**

	Number of Common Shares	Capital Stock	Share-Based Payments Reserve	Deficit	Total Equity
Balance, December 31, 2016	218,114,373	\$86,459,252	\$ 1,706,818	\$(11,216,621)	\$76,949,449
Fair value of expired options	-	-	(1,463,821)	1,463,821	-
Issued for cash					
Private placement	13,461,584	1,674,734	-	-	1,674,734
Warrant exercise	400,000	20,000	-	-	20,000
Premium on issue of flow-through shares	-	(153,848)	-	-	(153,848)
Share-based payments	-	-	235,593	-	235,593
Net loss for year	-	-	-	(1,837,153)	(1,837,153)
Balance, December 31, 2017	231,975,957	88,000,138	478,590	(11,589,953)	76,888,775
Issued for cash					
Warrant exercise	400,000	20,000	-	-	20,000
Share-based payments	-	-	153,163	-	153,163
Net loss for year	-	-	-	(432,458)	(432,458)
Balance, December 31, 2018	232,375,957	\$88,020,138	\$ 631,753	\$(12,022,411)	\$76,629,480

See notes to Consolidated Financial Statements

Spanish Mountain Gold Ltd.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)
Years ended December 31

	2018	2017
Operating Activities		
Net loss for year	\$ (432,458)	\$ (1,837,153)
Items not involving cash		
Depreciation	4,723	8,216
Share-based payments	127,320	211,972
Deferred income tax (recovery) expense	(336,736)	1,029,323
	(637,151)	(587,642)
Changes in non-cash working capital		
Accounts receivable	(72,210)	8,335
Prepaid expenses	66,193	(73,262)
Accounts payable and accrued liabilities	4,405	(219,338)
Lease incentive liability	(364)	37,476
	(1,976)	(246,789)
Cash Used in Operating Activities	(639,127)	(834,431)
Financing Activity		
Shares issued for cash, net of issue costs	20,000	1,694,734
Investing Activities		
Short-term investments	787,573	-
Expenditures on mineral properties	(1,050,263)	(533,059)
Mining Exploration Tax Credit received	-	83,792
Cash Used in Investing Activities	(262,690)	(449,267)
Increase (Decrease) in Cash	(881,817)	411,036
Cash and Cash Equivalents, Beginning of Year	1,707,860	1,296,824
Cash and Cash Equivalents, End of Year	\$ 826,043	\$ 1,707,860
Supplemental Cash Flow Information		
Non-cash items:		
Mineral properties included in accounts payable and accrued liabilities	\$ 284,270	\$ 9,156
Adjustment to BC METC and mineral properties	\$ 124,559	\$ -
Depreciation included in mineral properties	\$ 39,579	\$ 44,037
Share-based payments included in mineral properties	\$ 25,843	\$ 23,621

See notes to Consolidated Financial Statements

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

1. NATURE OF OPERATIONS AND GOING CONCERN

Spanish Mountain Gold Ltd. (the "Company") is an exploration stage resource company incorporated under the *Business Corporations Act* (Alberta) and continued into British Columbia under the *Business Corporations Act* (British Columbia). The head office and principal address of the Company are located at 1120 - 1095 West Pender Street, Vancouver, British Columbia V6E 2M6. The address of the Company's registered office is 1500 - 1055 West Georgia Street, Vancouver, British Columbia V6E 4N7.

These consolidated financial statements ("Financial Statements") have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. Accordingly, these Financial Statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

The Company is an exploration stage resource company which does not generate any revenue and has been relying on equity-based financing to fund its operations. While the Company expects to meet its financial obligations in the near term, it will require additional financing to meet its administrative costs and to continue to explore and develop its mineral properties. There is no assurance that future funding will be available to sufficiently conduct further exploration and development of its mineral properties. At December 31, 2018, the Company has working capital of \$1,269,816 (2017 - \$3,183,420), and an accumulated deficit of \$12,022,411 (2017 - \$11,589,953).

The application of the going concern concept is dependent upon the Company's ability to generate future profitable operations and maintain an adequate level of financial resources to discharge its on-going obligations. There is no assurance that sufficient future funding will be available on a timely basis or on terms acceptable to the Company. Management seeks to raise capital, when necessary, to meet its funding requirements and has undertaken available cost-cutting measures. There can be no assurance that management's plan will be successful as it is dependent on prevailing capital market conditions and the availability of other financing opportunities. These conditions indicate the existence of material uncertainties that cast significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

2. BASIS OF PREPARATION

(a) Approval of the Financial Statements

The Financial Statements of Spanish Mountain Gold Ltd. for the year ended December 31, 2018 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on April 26, 2019.

(b) Statement of compliance

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

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

2. BASIS OF PREPARATION (Continued)

(c) Basis of measurement

These Financial Statements have been prepared on a historical cost basis, except for certain financial instruments carried at fair value. In addition, these Financial Statements have also been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out in note 3 have been applied consistently by the Company and its subsidiary for all periods presented.

(d) Use of judgments and estimates

The Company's management makes critical judgments in the process of applying its accounting policies that have a significant effect on the amounts recognized in the Company's Financial Statements. The significant judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimation uncertainties, that have the most significant effect include, but are not limited to:

- Impairment of property and equipment and mineral properties

Assets or cash-generating units ("CGUs") are evaluated at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's property and equipment and mineral properties.

In respect of the carrying value of property and equipment recorded on the consolidated statements of financial position, management has determined that it continues to be appropriately recorded as there have been no obsolescence or physical damage of the assets, and there are no indications that the value of the assets have declined more than what is expected from the passage of time or from normal use.

In respect of costs incurred for its mineral properties, management has determined that exploratory drilling, evaluation, development and related costs incurred, which have been capitalized, continue to be appropriately recorded on the consolidated statements of financial position at its carrying value as management has determined there are no indicators of impairment for its mineral properties as at December 31, 2018 and 2017.

- Mining exploration tax credits and flow-through expenditures

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia. Management's judgment is applied in determining whether the resource expenditures are eligible for claiming such credits.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

2. BASIS OF PREPARATION (Continued)

(d) Use of judgments and estimates (Continued)

- Mining exploration tax credits and flow-through expenditures (Continued)

The Company is also required to spend proceeds received from the issuance of flow-through shares on qualifying resources expenditures.

Differences in judgment between management and regulatory authorities with respect to qualified expenditures may result in disallowed expenditures by the tax authorities. Any amount disallowed may result in the Company's required expenditures not being fulfilled (note 9).

- Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures, meet its liabilities for the ensuing year, and to fund planned and contractual exploration programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include:

- the expected life of property and equipment;
- the estimation of asset retirement and environmental obligations;
- the utilization of deferred income tax assets; and
- the determination of the variables used in the Black-Scholes option pricing model to calculate the fair value of options and warrants.

While management believes that these estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies:

(a) Principles of consolidation

These Financial Statements include the accounts of the Company and its wholly owned Canadian subsidiary, Wildrose Resources Ltd. ("Wildrose"). A subsidiary is an entity in which the Company has control, where control requires exposure or rights to variable returns and the ability to affect those returns through power over the investees. All intercompany transactions and balances have been eliminated on consolidation.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Cash, cash equivalents and short-term investments

Cash and cash equivalents comprise cash, bank deposits or highly liquid temporary investments that are readily convertible into known amounts of cash. Term deposits with an original maturity greater than three months and that are non-redeemable are classified as short-term investments.

(c) Presentation currency

The Company's presentation currency is the Canadian dollar, which is also the functional currency for both the Company and its subsidiary, Wildrose.

(d) Mineral properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. Costs accumulated relating to projects that are abandoned are written off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received. Proceeds received on the sale or option of the Company's property interest is recorded as a reduction of the mineral property cost. When proceeds received in respect of a property exceed its carrying cost, such excess is recognized in net income (loss).

(e) Property and equipment

Property and equipment are recorded at cost and depreciated using the declining-balance basis at the following annual rates:

Building	4%
Computer equipment	30%
Furniture and field equipment	20%
Vehicles	30%
Office equipment	20%

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property and equipment (Continued)

Depreciation of leasehold improvements is recorded on a straight-line basis over the term of the lease.

Additions during the year are depreciated on a pro-rated basis. Depreciation on property and equipment used directly on exploration projects is capitalized to mineral properties.

(f) Impairment of non-current assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU (the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflow from other assets or groups of assets). The recoverable amount of the asset (or CGU) is the greater of the asset's (or CGU's) fair value less costs to sell and its value in use to which the assets belong.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized in profit or loss for the period, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions on reserves and expected future production revenues and expenses.

Where an impairment loss subsequently reverses, the carrying amount of the asset (the CGU) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(g) Provision for closure and reclamation

The Company assesses its mine rehabilitation provision at each reporting date. Changes to estimated future costs are recognized in the statements of financial position by either increasing or decreasing the rehabilitation liability and asset to which it relates if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16 *Property, Plant and Equipment*.

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining operations in the period in which the obligation is incurred. The nature of these restoration activities includes: dismantling and removing structures; rehabilitating mine; dismantling operating facilities; closure of plant and waste sites; and restoration, reclamation and vegetation of affected areas.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Provision for closure and reclamation (Continued)

Present value is used where the effect of the time value of money is material. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

(h) Mining exploration tax recoveries

The Company recognizes mining exploration tax recoveries in the period in which there is reasonable expectation, based on management's estimate, of receiving a refund. The amount of tax credit receivable is subject to review and approval by the taxation authorities and is adjusted for in the period when such approval is confirmed.

(i) Non-monetary transactions

Shares issued for consideration other than cash are valued at the fair value of assets received or services rendered. If the fair value of assets received or services rendered cannot be reliably measured, shares issued for consideration will be valued at the quoted market price at the date of issuance.

(j) Unit issuance

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are priced, and any excess is allocated to warrants.

(k) Share-based payments

The Company has a stock option plan that is described in note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is to share-based payments reserve. Consideration received on the exercise of stock options is recorded as capital stock and the related amount originally recorded in share-based payments reserve is transferred to capital stock. For those unexercised options or warrants that expire, the recorded value is transferred to deficit.

(l) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, the earnings (loss) available to common shareholders equal the reported earnings (loss). The computation of diluted earnings per share reflects the potential dilution that could occur on the exercise of outstanding options, warrants and similar instruments. The Company uses the treasury stock method to determine the dilutive effect of options, warrants and other dilutive instruments. Under this method, only "in the money" dilutive instruments impact the calculations in computing diluted earnings per share. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income taxes

The Company follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, losses carried forward and other tax deductions. Deferred income tax assets and liabilities are measured using tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income (loss) in the period in which the change is enacted or substantively enacted. The amount of deferred income tax assets is limited to the amount of the benefit that is probable that the related tax benefit will be realized.

(n) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for income tax purposes by the investors who purchase the shares.

At the time of closing a financing involving flow-through shares, the Company allocates proceeds received first to common shares based on the market trading price of the common shares at the time the flow-through shares are priced, and any excess is allocated to flow-through premium liability.

At the time of closing a financing involving flow-through units consisting of common shares and warrants, the Company allocates proceeds received as follows:

- Capital stock – the market trading price of the common share;
- Warrant reserve – based on the valuation derived using the Black-Scholes option pricing model; and
- Flow-through premium – any excess, recorded as a liability.

Thereafter, as qualifying resource expenditures are incurred, these costs are capitalized to mineral properties and the flow-through premium, if any, is amortized to profit or loss.

At the end of each reporting period, the Company reviews its tax position and records an adjustment to its deferred tax expense/liability accounts for taxable temporary differences, including those arising from the transfer of tax benefits to investors through flow-through shares. For this adjustment, the Company considers the tax benefits (of qualifying resource expenditures already incurred) to have been effectively transferred, if it has formally renounced those expenditures at any time.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule in accordance with Government of Canada flow-through regulations. When applicable, this flow-through share tax expense is accrued and recorded in profit or loss.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments

Financial assets

i. Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the instrument.

ii. Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost.

- The Company's business model for the such financial assets, is to hold the assets in order to collect contractual cash flows.
- The contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

Financial assets measured at fair value through other comprehensive income ("FVTOCI")

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income. Accumulated gains or losses recognized through other comprehensive income are directly transferred to deficit when the financial instrument is derecognized or its fair value substantially decreases.

Financial assets measured at fair value through profit or loss ("FVTPL")

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments (Continued)

Financial assets (Continued)

iii. Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in the consolidated statement of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

i. Recognition and measurement of financial liabilities

The Company recognizes financial liabilities when it becomes a party to the contractual provisions of the instruments.

ii. Classification of financial liabilities

The Company classifies financial liabilities at initial recognition as financial liabilities: measured at amortized cost or measured at fair value through profit or loss.

Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred.

Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

iii. Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statement of income (loss).

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Financial instruments (Continued)

Fair value hierarchy

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

(p) Adoption of new accounting standards and new accounting pronouncements

The Company adopted the new accounting standard IFRS 9, *Financial Instruments* ("IFRS 9") effective January 1, 2018 using the modified retrospective approach. The Company has not restated comparative information for prior periods with respect to the classification and measurement requirements of IFRS 9 and accordingly, the comparative information for the year ended December 31, 2017 is presented under IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). There were no changes to the carrying value of any of the Company's assets or liabilities as a result of this new accounting standard.

The Company did a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Measurement Category	
	Under IAS 39	Under IFRS 9
	Classification	Classification
Cash and cash equivalents	Fair value – P&L	Fair value – P&L
Rent receivable	Amortized cost	Amortized cost
Deposits	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

The new and revised standards described below may be early-adopted. The standards that may have a significant impact on the Company are discussed below. The Company is currently assessing the impact from adopting these standards.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Adoption of new accounting standards and new accounting pronouncements (continued)

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 *Leases*.

This is applicable to the Company's annual period beginning on January 1, 2019.

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The carrying values of accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The carrying value of deposits for reclamation approximates fair value since amounts held earn interest at market rates.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

(a) Credit risk

Credit risk refers to the potential that a counterparty to a financial instrument will fail to discharge its contractual obligations and arises principally from the Company's holdings of cash and cash equivalents. The Company manages credit risk in respect of cash and cash equivalents and short-term investments by holding these at a major Canadian financial institution with strong investment-grade ratings by a recognized agency.

Concentration of credit risk exists with respect to the Company's cash and cash equivalents and short-term investments, as all amounts are held at a major Canadian financial institution. The Company's cash and cash equivalents and short-term investments at December 31, 2018 and 2017 are as follows:

	2018		2017
Cash held in bank accounts	\$ 55,236	\$	62,317
Term deposits	770,807		1,645,543
Short-term investments	712,427		1,500,000
	\$ 1,538,470	\$	3,207,860

As at December 31, 2018, the Company had \$770,807 (2017 - \$1,645,543) invested in Canadian dollar denominated redeemable guaranteed investment certificates ("GICs") with various terms of maturity and \$712,427 (2017 - \$1,500,000) in non-redeemable GICs with original maturity greater than three months. Interest is accrued during the GIC term. Accrued interest at December 31, 2018 was \$17,123 (2017 - \$10,790).

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

4. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has cash, cash equivalents and short-term investments at December 31, 2018 in the amount of \$1,538,470 (2017 - \$3,207,860), in order to meet short-term liabilities. At December 31, 2018, the Company had accounts payable and accrued liabilities of \$410,867 (2017 - \$131,348), which have contractual maturities of 90 days or less.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The Company is exposed to interest rate risk, foreign currency risk and other price risk as follows:

(i) Interest rate risk

The Company's cash, cash equivalents and short-term investments are held in bank accounts and earn interest at variable interest rates. Due to the short-term nature of these financial instruments and the prevailing interest rate environment, fluctuations in market rates do not have a significant impact on estimated fair values or cash flows as of December 31, 2018 and 2017.

(ii) Foreign currency risk

The Company's operations are located in Canada with substantially all transactions denominated in Canadian dollars, and accordingly, the Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk. The Company is not significantly exposed to other price risk with respect to its financial instruments, as their fair values and future cash flows are not impacted materially by fluctuations in market prices.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

5. CAPITAL MANAGEMENT

The Company's primary source of funds has been obtained through the issuance of capital stock. The Company does not use other sources of financing that require fixed payments of interest and principal, and is not subject to any externally imposed capital requirements.

The Company defines its capital as all components of shareholders' equity. Capital requirements are determined by the Company's exploration activities on its mineral property interests and administrative overhead. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet strategic goals.

In accordance with its investment policy, the Company periodically invests its capital in liquid investments to obtain returns that are considered reasonable under prevailing market conditions. The investment decision is based on cash management to ensure working capital is available to meet the Company's short-term obligations while maximizing liquidity and returns of unused capital.

Although the Company has been successful at raising funds in the past through the issuance of capital stock, there can be no assurances that it will continue into the future.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

6. MINERAL PROPERTIES

Acquisition and exploration expenditures incurred on mineral properties are as follows:

	Note	Spanish Mountain Gold Project
Balance, December 31, 2016		\$ 73,502,815
Additions during the year		
Deferred exploration costs		
Assaying		20,626
Camp materials and supplies		57,127
Contract wages		103,889
Depreciation		44,037
Environmental assessment		37,437
First Nations and community consultation		250
Geological consulting	10	189,000
Land tenure		1,191
Maps and reports		72,348
Share-based payments		23,621
Travel and accommodation		2,497
Total additions during the year		552,023
BC METC recovery	9	(227,792)
Balance, December 31, 2017		\$ 73,827,046
Additions during the year		
Deferred exploration costs		
Assaying		127,203
Camp materials and supplies		79,232
Contract wages		243,404
Depreciation		39,579
Drilling		358,379
Environmental assessment		186,411
Field Supplies		17,201
First Nations and community consultation		5,750
Geological consulting	10	274,965
Land tenure		2,172
Maps and reports		11,262
Share-based payments		25,843
Travel and accommodation		19,398
Total additions during the year		1,390,799
BC METC adjustment	9	124,560
Balance, December 31, 2018		\$ 75,342,405

(a) Spanish Mountain Property, British Columbia

The property is subject to various net smelter returns ("NSR") at 2.5%. The Company may, at its option, reduce the NSR to 1.0% or 1.5% dependent on the underlying mineral claims with a maximum aggregate payment of \$1,000,000 to the vendors.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

6. MINERAL PROPERTIES (Continued)

(a) Spanish Mountain Property, British Columbia (Continued)

On June 15, 2010, the Company acquired a 100% undivided interest in the Cedar Creek property, which is contiguous to the Spanish Mountain property. The wholly owned property is subject to a 2.5% NSR in favour of a third party. The NSR may be purchased by the Company for \$500,000 per 1.0% NSR. On May 23, 2011, the Company acquired two additional mineral claims that are adjacent to the Cedar Creek property for \$110,000 cash. The claims are subject to a 3.0% NSR, 2.5% of which may be purchased for \$1,000,000.

On August 21, 2012, the Company completed the acquisition of a 100% undivided interest in an additional group of mineral claims for consideration of \$500,000 in cash and 2,000,000 common shares with a fair value of \$740,000. The property is subject to an aggregate 4.0% NSR. The Company has the option to reduce the net NSR to 2.0% by paying a one-time cash payment of \$2,000,000 to the royalty holders.

In accordance with regulatory requirements, the Company holds a number of GICs aggregating in the sum of \$85,000, in safekeeping for the Government of British Columbia. The security will be released once the Company performs its obligations pursuant to its Mineral Exploration Permit.

(b) Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

(c) Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(d) Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental issues related to any of its current or former properties that may result in material liability to the Company.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

6. MINERAL PROPERTIES (Continued)

(d) Environmental (Continued)

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

7. PROPERTY AND EQUIPMENT

	Land	Building	Computer Equipment	Furniture and Field Equipment	Vehicles	Office Equipment	Leasehold Improvements	Total
Cost								
Balance, December 31, 2016	\$ 127,441	\$ 1,112,739	\$ 155,224	\$ 151,201	\$ 72,727	\$ 21,170	\$ 19,463	\$ 1,659,965
Additions	-	-	-	-	-	-	-	-
Balance, December 31, 2017	127,441	1,112,739	155,224	151,201	72,727	21,170	19,463	1,659,965
Additions	-	-	-	-	-	-	-	-
Balance, December 31, 2018	\$ 127,441	\$ 1,112,739	\$ 155,224	\$ 151,201	\$ 72,727	\$ 21,170	\$ 19,463	\$ 1,659,965
Accumulated Depreciation								
Balance, December 31, 2016	\$ -	\$ 357,294	\$ 135,163	\$ 106,504	\$ 56,377	\$ 17,933	\$ 17,895	\$ 691,166
Additions	-	30,218	6,002	8,915	4,904	646	1,568	52,253
Balance, December 31, 2017	-	387,512	141,165	115,419	61,281	18,579	19,463	743,419
Additions	-	29,009	4,206	7,137	3,433	517	-	44,302
Balance, December 31, 2018	\$ -	\$ 416,521	\$ 145,371	\$ 122,556	\$ 64,714	\$ 19,096	\$ 19,463	\$ 787,721
Carrying Amounts								
At December 31, 2017	\$ 127,441	\$ 725,227	\$ 14,059	\$ 35,782	\$ 11,446	\$ 2,591	\$ -	\$ 916,546
At December 31, 2018	\$ 127,441	\$ 696,218	\$ 9,853	\$ 28,645	\$ 8,013	\$ 2,074	\$ -	\$ 872,244

8. CAPITAL STOCK

(a) Authorized

- (i) Unlimited number of common voting shares without par value
- (ii) Unlimited number of first preferred shares
- (iii) Unlimited number of second preferred shares

The first and second preferred shares may be issued in one or more series and the directors are authorized to fix the number in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

(b) Private Placement

The Company did not complete any private placements during the year ended December 31, 2018.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

8. CAPITAL STOCK (Continued)

(b) Private Placement (Continued)

On December 14, 2017, the Company completed a non-brokered private placement with an institutional investor and issued 3,846,200 flow-through common shares for \$0.13 each for gross proceeds of \$500,006. Cash share issue costs in the amount of \$44,565 were incurred. The Company allocated \$346,158 (before share issue costs) to capital stock and \$153,848 to flow-through premium liability which will be amortized to deferred tax as funds on qualifying expenditures are incurred. The gross proceeds were used by the Company to incur exploration expenditures on the Company's Spanish Mountain gold project and were renounced to the investor for the 2017 taxation year.

On September 29, 2017, the Company completed a non-brokered private placement and issued 9,615,384 units ("Units") at a price of \$0.13 per Unit, for total gross proceeds of \$1,250,000. Each Unit consists of one common share of the Company and one common share purchase warrant (a "Warrant"). Each Warrant entitles its holder to purchase one common share at a price of \$0.20 per share for a period of two years. Cash share issue costs in the amount of \$30,707 were incurred.

(c) Stock options

The Company's stock option plan authorizes the issuance of options up to a maximum of 20% of the Company's issued shares. The maximum number of options that has been currently approved by the Company's shareholders is fixed at 17,401,903. The exercise price of any option granted shall not be less than the fair market value of the shares at the time of the grant. The expiry date for each option, set by the Board of Directors at the time of issue, shall not be more than five years after the grant date. Unless stipulated by the Board of Directors, options granted generally vest 25% on the date of grant and a further 25% vest every six months and expire after five years.

Changes in the Company's stock options during the years ended December 31, 2018 and 2017 are summarized as follows:

	2018		2017	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
		Exercise Price		Exercise Price
Outstanding, beginning of year	3,850,000	\$ 0.16	6,625,000	\$ 0.42
Granted	2,550,000	\$ 0.10	-	\$ -
Expired	-	\$ -	(2,775,000)	\$ 0.51
Outstanding, end of year	6,400,000	\$ 0.14	3,850,000	\$ 0.16

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

8. CAPITAL STOCK (Continued)**(c) Stock options (Continued)**

A summary of the Company's stock options outstanding and exercisable at December 31, 2018 and 2017 is as follows:

Expiry Date	2018			2017		
	Exercise Price	Number of Options	Number of Options exercisable	Exercise Price	Number of Options	Number of Options exercisable
September 23, 2021	\$ 0.16	3,850,000	3,850,000	\$ 0.16	3,850,000	2,887,500
July 3, 2023	\$ 0.10	2,550,000	637,500	\$ -	-	-
		6,400,000	4,487,500		3,850,000	2,887,500

The weighted average remaining contractual life of outstanding options as at December 31, 2018 is 3.44 (2017 – 3.73) years.

(d) Share purchase warrants

During the year ended December 31, 2018, the Company issued 400,000 common shares (2017 – 400,000) upon the exercise of 400,000 share purchase warrants at \$0.05 per common share for gross proceeds of \$20,000.

Changes in the Company's share purchase warrants during the years ended December 31, 2018 and 2017 are summarized as follows:

	2018		2017	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of year	25,882,051	\$ 0.11	16,666,667	\$ 0.05
Granted	-	\$ -	9,615,384	\$ 0.20
Exercised	(400,000)	\$ 0.05	(400,000)	\$ 0.05
Outstanding, end of year	25,482,051	\$ 0.11	25,882,051	\$ 0.11

A summary of the Company's share purchase warrants outstanding and exercisable at December 31, 2018 and 2017 is as follows:

Expiry Date	Exercise Price	Outstanding	
		2018	2017
September 28, 2019	\$ 0.20	9,615,384	9,615,384
October 23, 2020	\$ 0.05	15,866,667	16,266,667
		25,482,051	25,882,051

The weighted average remaining contractual life of outstanding warrants at December 31, 2018 is 1.41 (2017 – 2.42) years.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

8. CAPITAL STOCK (Continued)

(e) Share-based payments

When the Company issues stock options, it records a share-based payment compensation ("SBC") expense in the year or period which the options are granted and/or vested. SBC expense is estimated using the following assumptions. The expected volatility assumption is based on the historical and implied volatility of the Company's common share price on the TSX Venture Exchange. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has not paid and does not anticipate paying dividends on its common stock. Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 9% in determining the expense recorded in the accompanying consolidated statements of operations and comprehensive loss.

On July 3, 2018, the Company granted incentive stock options to certain employees and directors of the Company to acquire an aggregate of 2,550,000 common shares of the Company. The options, which will be vested in accordance with the Company's Incentive Stock Option Plan, have an exercise price of \$0.10 per share expiring July 3, 2023. The total fair value of these options is calculated at \$210,885 as at the date of issuance.

In accordance with the vesting schedule for these options and previously granted options, \$153,163 (2017 - \$235,593) of SBC expense has been recognized during the year ended December 31, 2018.

The fair value of stock options granted during the year ended December 31, 2018 is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free interest rate	2.04%
Expected dividend yield	-
Expected stock price volatility	148.97%
Expected life in years	5.00
Expected forfeitures	9.00%

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

9. INCOME TAXES

Effective January 1, 2018, the British Columbia provincial tax rate increased from 11% to 12%. As a result, the Company's combined statutory tax rate increased from 26% to 27%.

The reconciliation of income tax computed at the statutory tax rate to income tax recovery is as follows:

	2018	2017
Loss before tax	\$ 769,194	\$ 807,830
Statutory income tax rate	27%	26%
Expected income tax recovery	207,682	210,036
Items non-deductible for income tax purposes	(35,011)	(57,679)
Changes in non capital losses	-	342,794
Changes from BC METC reassessments	-	(988,437)
Changes in timing differences	10,217	(536,037)
Recovery of flow-through premium	153,848	-
Deferred income tax recovery (expense)	\$ 336,736	\$ (1,029,323)

The tax effected items that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2018 and 2017 are presented below:

	2018	2017
Deferred income tax assets		
Property and equipment	\$ 249,126	\$ 221,635
Non-refundable mining income tax credit	2,177,833	2,182,225
Share issue costs	13,365	12,335
Non-capital loss carried forward	4,869,561	4,692,812
	7,309,885	7,109,007
Deferred income tax liabilities		
Mineral properties	(8,219,713)	(8,201,723)
Deferred income tax liability, net	\$ (909,828)	\$ (1,092,716)

The Company recognizes tax benefits on losses or other deductible amounts where it is probable the Company will generate taxable income to utilize its deferred tax assets.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined under Canadian income tax legislation. The flow-through gross proceeds less the qualified expenditures made to date represent the funds received from flow-through share issuances that are allotted for such expenditure, but have not yet been spent.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

9. INCOME TAXES (Continued)

In connection with the flow-through private placements completed on December 14, 2017, the Company has an obligation to incur qualified expenditures of \$500,006 by December 31, 2018. On February 13, 2018, the Company renounced exploration expenditures of \$500,006 with an effective date of December 31, 2017 and recorded a corresponding deferred tax liability of \$135,002. As of December 31, 2018, the Company has fulfilled its obligations to incur qualified expenditures in connection with this issuance of flow-through shares.

The Company is eligible for British Columbia mining exploration tax credits ("BC METC"), based on qualified mineral exploration expenditures incurred for determining the existence, location, extent or quality of a mineral resource in the province of British Columbia. The tax credit is calculated as 30% (for the area in which the Company operates) of qualified mineral exploration expenditures incurred to the extent such expenditures are not renounced or committed with respect to issued flow-through shares, if any. The filing for the BC METC is subject to an assessment process, which may include an audit by the taxation authorities. The amount ultimately recoverable may be different from the amount claimed.

During the year ended December 31, 2018, the Company received \$Nil (2017 - \$83,792) BC METC for previously filed claims and recorded \$Nil (2017 - \$144,000) in BC METC receivable attributable to qualified mining exploration expenses incurred for the Spanish Mountain gold project. Subsequent to December 31, 2018, the Company received \$19,440 in BC METC and recorded an adjustment to the 2017 provision of \$124,560.

As at December 31, 2018, the Company has Canadian non-capital losses of \$18,006,533 that may be applied to reduce future Canadian taxable income purposes, expiring as follows:

	Spanish Mountain	Wildrose	Total
Non-capital losses, expiring as follows:			
2026	723,138	33,219	756,357
2027	861,641	-	861,641
2028	1,723,029	155,937	1,878,966
2029	1,410,811	55,965	1,466,776
2030	2,341,901	47,730	2,389,631
2031	2,399,357	25,888	2,425,245
2032	2,828,492	3,415	2,831,907
2033	1,763,239	1,000	1,764,239
2034	1,067,246	1,367	1,068,613
2035	774,116	1,570	775,686
2036	480,330	1,599	481,929
2037	650,564	426	650,990
2038	653,714	839	654,553
	\$ 17,677,578	\$ 328,955	\$ 18,006,533

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

10. RELATED PARTY TRANSACTIONS

- (a) Key management comprises directors and executive officers of the Company. Certain executive officers are entitled to termination benefits of up to two years' gross salary totalling maximum of approximately \$480,000 in the event of a change of control in the Company's ownership. The Company has no material post-employment benefits and other long-term employee benefits.

Compensation of key management personnel for the years ended December 31, 2018 and 2017 is summarized as follows:

	Note	2018
Salary and benefits		244,823
Consulting fees	6	139,532
Share-based payments		116,860
		<u>\$501,215</u>

The Company did not incur any termination benefits during the years ended December 31, 2018 and 2017.

- (b) Accounts payable and accrued liabilities as at December 31, 2018 includes \$61,721 (2017 - \$47,075) owed to certain officers. Interest is not charged on outstanding balances and there are no specified terms of repayment.

11. SEGMENTED INFORMATION

The Company has one operating segment, mineral exploration, and all of its long-term assets are located in Canada.

12. COMMITMENTS

In February 2017, the Company signed an extension agreement to renew the lease of its office premises. The new agreement commenced June 1, 2017 and expires May 31, 2022. The total lease payment pursuant to the agreement is \$730,678 (including estimated operating expenses of \$342,622) of which the remaining balance at December 31, 2018 is \$552,181 (including operating expenses of \$249,897). All the above amounts are net of landlord incentives. In connection with the renewal of the extension agreement the Company received certain tenant incentives from its landlord. The unamortized lease incentive liability as of December 31, 2018 is \$37,112 (2017 - \$37,476).

The Company renewed an agreement to sublease a portion of its office premises to a third-party sub-tenant. The agreement commenced June 1, 2017 and expires May 31, 2020. The rental recovery is expected to be \$272,902 (including estimated operating expenses of \$139,531) of which the remaining balance at December 31, 2018 is \$133,309 (including operating expenses of \$70,329). Pursuant to the sub-lease agreement, the sub-tenant may elect to extend the agreement for another 24 months during which it has the option to terminate by providing a three-month notice to the Company.

During the year ended December 31, 2018, the Company incurred rent expense of \$148,631 (2017 - \$157,097) and earned \$92,661 (2017 - \$101,817) in rental income from a third party sub-tenant.

SPANISH MOUNTAIN GOLD LTD.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the Years Ended December 31, 2018 and 2017

12. COMMITMENTS (Continued)

The Company's gross combined lease payments for office premises (including operating expenses and before potential recovery from sub-tenant) for the next four years are as follows:

	Total
2019	\$ 151,116
2020	160,473
2021	169,830
2022	70,762
	<hr/>
	\$ 552,181
