# GFM RESOURCES LIMITED

**(An exploration-stage company)**

**Condensed Consolidated Interim Financial Statements**

Three and six months ended June 30, 2016 and 2015

(Unaudited - Expressed in Canadian Dollars)

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## THE ISSUER’S AUDITORS HAVE NOT REVIEWED OR BEEN INVOLVED IN THE PREPARATION OF THESE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity’s auditor.

# GFM RESOURCES LIMITED

(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

| As at | Note | June 30, 2016 (Unaudited) $ | December 31, 2015 (Audited) $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and cash equivalents | | **18,739** | 5,598 |
| Accounts receivable | 4 | **1,914** | 2,037 |
| Prepaid expenses and deposits | | **1,250** | 1,250 |
| | | **21,903** | 8,885 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 5 | **7,597** | 24,024 |
| Due to related parties | 8 | **610,021** | 676,356 |
| Liability component of convertible loan | 6 | **735,892** | 649,135 |
| | | **1,353,510** | 1,349,515 |
| **SHAREHOLDERS' DEFICIENCY** | | | |
| Share capital | 7 | **3,484,022** | 3,484,022 |
| Contributed surplus | 7 | **507,236** | 507,236 |
| Equity component of convertible loan | 6 | **323,375** | 289,112 |
| Foreign currency reserve | | **58,988** | (26,372) |
| Deficit | | **(5,705,228)** | (5,594,628) |
| | | **(1,331,607)** | (1,340,630) |
| | | **21,903** | 8,885 |

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

Approved by the board of directors and authorized for issue on July 18, 2016

*Note 1 - Nature of Operations and Going Concern Uncertainty*

| *"James Robertson"* | *"Erik Jurgensen"* |
|---|---|
| Director | Director |

## GFM RESOURCES LIMITED

(an exploration-stage company)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

| | | Three months ended | | Six months ended | |
|---|---|---|---|---|---|
| | | **June 30, 2016** | June 30, 2015 | **June 30, 2016** | June 30, 2015 |
| | Note | **$** | $ | **$** | $ |
| **EXPENSES** | | | | | |
| Administration and accounting | 8 | **15,000** | 15,000 | **30,000** | 30,000 |
| Audit and legal | | **9,448** | 12,685 | **13,771** | 19,979 |
| Consulting | 8 | **-** | - | **-** | - |
| Property examination costs | | **-** | - | **12,469** | 13,505 |
| Filing and transfer agent fees | | **2,659** | 3,271 | **5,164** | 5,856 |
| Directors' fees | 8 | **3,000** | 3,000 | **6,000** | 6,000 |
| Office and sundry | | **1,292** | 3,692 | **1,804** | 6,787 |
| Foreign exchange loss | | **(89)** | 602 | **372** | 1,744 |
| **Loss before other expenses** | | **(31,310)** | (38,250) | **(69,580)** | (83,871) |
| **Other expenses** | | | | | |
| Accretion of convertible loan | 6 | **(15,780)** | (11,426) | **(30,525)** | (24,290) |
| Interest on convertible loan | 6 | **(5,411)** | (4,005) | **(10,495)** | (8,485) |
| Write-down of value added tax recoverable | | **-** | 3,236 | **-** | (731) |
| **Loss for the period** | | **(52,501)** | (50,445) | **(110,600)** | (117,377) |
| **Other comprehensive income (loss)** | | | | | |
| Exchange differences on translating foreign operations, net of tax | | **42,246** | 27,672 | **85,360** | (4,112) |
| **Total comprehensive loss for the period** | | **(10,255)** | (22,773) | **(25,240)** | (121,489) |
| **Loss per share (basic and diluted)** | | **(0.00)** | (0.00) | **(0.00)** | (0.01) |
| **Weighted average number of shares outstanding (basic and diluted)** | | **19,085,071** | 19,085,071 | **19,085,071** | 19,085,071 |

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

# GFM RESOURCES LIMITED
(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

| | | Six months ended | |
|---|---|---|---|
| | | **June 30, 2016** | June 30, 2015 |
| | Note | **$** | $ |
| **Operating activities** | | | |
| Loss for the period | | **(110,600)** | (117,377) |
| Adjustments for items not involving cash: | | | |
| - Accretion expense | 6 | **30,525** | 24,290 |
| - Non-cash interest on convertible loan | 6 | **10,495** | 8,485 |
| - Non-cash impact of foreign exchange translation | | **7,081** | - |
| | | **(62,499)** | (84,602) |
| Changes in non-cash working capital items: | | | |
| - Accounts receivable | | **123** | (530) |
| - Prepaid expenses and deposits | | **-** | (455) |
| - Accounts payable and accrued liabilities | | **(16,427)** | (991) |
| - Amounts due to related parties | | **-** | 8,834 |
| Cash generated from (used in) operating activities | | **(78,803)** | (77,744) |
| **Cash flows from financing activities** | | | |
| Convertible loan advances | 6 | **80,000** | 81,500 |
| Funding of subsidiary | 8 | **12,460** | 14,274 |
| Cash (used in) generated from financing activities | | **92,460** | 95,774 |
| Effect of foreign exchange translation on cash | | **(516)** | (33) |
| **Net change in cash** | | **13,141** | 17,997 |
| Cash, beginning of the period | | **5,598** | 5,780 |
| **Cash, end of the period** | | **18,739** | 23,777 |
| **Supplementary information:** | | | |
| Income taxes paid in cash | | **-** | **-** |
| Interest paid in cash | | **-** | **-** |
| Issuance of common shares in settlement of debt to related party | | **-** | **-** |

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

# GFM RESOURCES LIMITED

(an exploration-stage company)

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

(Unaudited, prepared by management)

(Expressed in Canadian Dollars)

| | | Share capital | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Note | Amount | Value | Contributed surplus | Equity portion of convertible loan | Foreign currency reserve | Deficit | Total |
| | | # | $ | $ | $ | $ | $ | $ |
| Balance, December 31, 2014 | | 19,085,071 | 3,484,022 | 507,236 | 232,153 | (13,326) | (5,358,354) | (1,148,269) |
| Convertible loan with related party | 6 | - | - | - | 34,902 | - | - | 34,902 |
| Comprehensive loss for the period | | - | - | - | - | (4,112) | (117,377) | (121,489) |
| Balance, June 30, 2015 | | 19,085,071 | 3,484,022 | 507,236 | 267,055 | (17,438) | (5,475,731) | (1,234,856) |
| Convertible loan with related party | 6 | - | - | - | 22,057 | - | - | 22,057 |
| Comprehensive loss for the period | | - | - | - | - | (8,934) | (118,897) | (127,831) |
| Balance, December 31, 2015 | | 19,085,071 | 3,484,022 | 507,236 | 289,112 | (26,372) | (5,594,628) | (1,340,630) |
| Convertible loan with related party | 6 | - | - | - | 34,263 | - | - | 34,263 |
| Comprehensive loss for the period | | - | - | - | - | 85,360 | (110,600) | (25,240) |
| **Balance, June 30, 2016** | | **19,085,071** | **3,484,022** | **507,236** | **323,375** | **58,988** | **(5,705,228)** | **(1,331,607)** |

*The accompanying notes are integral part of these condensed consolidated interim financial statements*

(Expressed in Canadian dollars except where indicated)

## 1. Nature of Operations and Going Concern Uncertainty

GFM Resources Limited (the "Company") was incorporated under the laws of British Columbia, Canada, on September 3, 1987. During the year ended December 31, 2000, the Company continued its operation in the Yukon Territory under the Business Corporation Act of Yukon and registered as an extra-provincial company in British Columbia under the laws of British Columbia. The addresses of the Company are:

- Administration office: Suite 2000 – 1066 West Hastings Street, Vancouver, BC V6E 3X2, Canada.
- Registered office: Suite 1500 – 1055 West Georgia Street, Vancouver, BC, V6E 4N7, Canada

The Company is in the business of acquisition, exploration and development of mineral properties.

These condensed consolidated interim financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The Company has incurred significant losses since inception, and has a working capital deficiency, as follows:

| | **June 30, 2016**<br>**$** | December 31, 2015<br>$ |
|---|---|---|
| Deficit | **(5,705,228)** | (5,594,628) |
| Working capital deficiency: | **(1,331,607)** | (1,340,630) |

Continued operations of the Company are dependent on the Company's ability to obtain public equity financing or to receive continued financial support from its controlling shareholder, Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), of Mexico. There can be no assurance the Company will be successful in achieving these goals and, accordingly, there is a material uncertainty casting significant doubt about the Company's ability to continue as a going concern.

These condensed consolidated interim 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, and these adjustments could be material.

## 2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). These condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company for the year ended December 31, 2015.

These condensed consolidated interim financial statements were approved for issuance by the Board of Directors on July 18, 2016.

(b) Critical accounting estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2015.

(c) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

(Expressed in Canadian dollars except where indicated)

## 3. Significant Accounting Policies

The accounting policies adopted are consistent with those described in the December 31, 2015, annual consolidated financial statements, with the exception of the item described below:

*Annual Improvements to IFRS*

The Company adopted the newly issued IASB narrow-scope amendments to various standards on October 1, 2014. Amendments were made to clarify the following in their respective standards:

- Definition of "vesting condition" in IFRS 2, Share-based Payments;
- Classification and measurement of contingent consideration; and scope exclusion for the formation of joint arrangements in IFRS 3, Business Combinations;
- Disclosures on the aggregation of operating segments in IFRS 8, Operating Segments;
- Measurement of short-term receivables and payables; and scope of portfolio exception in IFRS 13, Fair Value Measurement; and
- Definition of "related party" in IAS 24, Related Party Disclosures.

The extent of the impact of adoption of the amendments has not been material.

## 4. Accounts Receivable

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| GST/HST receivable | $ | **1,914** | $ | 2,037 |

## 5. Accounts Payable and Accrued Liabilities

The Company's accounts payable and accrued liabilities are as follows:

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Trade payables | $ | **-** | $ | 11,025 |
| Accrued liabilities | | **7,597** | | 12,999 |
| Total | $ | **7,597** | $ | 24,024 |

(Expressed in Canadian dollars except where indicated)

## 6. Convertible Loan

On March 1, 2007, the Company entered into a convertible Loan Agreement (the "Loan Agreement") with Grupo Ferrominero, S.A. de C.V. ("Grupo"), at that time Autlan's controlling shareholder. Under the terms of the Loan Agreement, Grupo will fund amounts from time to time to a maximum of $500,000 per year. Each advance will bear interest, commencing on the date of the advance, at the Prime Rate offered by the Company's bank on such date. The loan is repayable on demand. Ownership of the loan was subsequently transferred to Autlan.

Under the terms of the Loan Agreement, Autlan has the right to convert the principal amount of each advance into units of the Company at the closing price of the Company's common shares on the TSX Venture Exchange on the day before the advance (the "Conversion Price"). Each unit will consist of one common share and one common share purchase warrant. Each warrant will be exercisable for a period of one year from the date of advance at the higher of the Conversion Price or the minimum exercise permitted by the TSX Venture Exchange.

On September 30, 2007, an Amending Agreement was entered into whereby, should Grupo exercise its conversion right after one year from the date of the advance, then the principal amount of the advance will be converted only into common shares of the Company at the Conversion Price, instead of into units consisting of one common share and one share purchase warrant. Furthermore, the convertibility provision will be restricted to a maximum of five years from the date of each advance. Since the sale in 2007 of the majority of the Company's shares owned by Grupo to Autlan, Autlan has been providing the advances under the exact same terms.

During the year ended December 31, 2010, the Company settled all of the principal amounts owed until then through the issuance of shares and warrants pursuant to the terms of the Amending Agreement. The portion of interest owed until then of $68,090 remains outstanding and is added to interest owed on subsequent advances. Interest is calculated using the Canadian Prime rate in effect at the date of each advance. The weighted average interest rate for advances received during the period ended June 30, 2016 was 2.7%.

The Company accounts for the convertible loan by splitting the fair value into an equity element representing the conversion feature and a liability element representing the debt component.

The liability element is calculated, at the date of each advance, as the present value of the stream of interest and principal payments discounted at a rate approximate to the interest for a similar liability without a conversion feature. This rate has been estimated by the Company at 15% for all outstanding advances. The difference between the cash received and the liability element is recorded as the equity element. The debt discount is accreted over the expected term to maturity in the consolidated statement of loss.

The balances on the convertible loan are as follows:

| | | Liability component | | | | Equity component |
|---|---|---|---|---|---|---|
| | Amounts advanced | Discounted principal | Accrued interest | Accrued accretion expense | Total | |
| | $ | $ | $ | $ | $ | $ |
| Balance, December 31, 2014 | 542,100 | 309,947 | 100,435 | 92,343 | 502,725 | 232,153 |
| Loan advances from Autlan | 81,500 | 46,598 | 8,485 | 24,290 | 79,373 | 34,902 |
| Balance, June 30, 2015 | 623,600 | 356,545 | 108,920 | 116,633 | 582,098 | 267,055 |
| Loan advances from Autlan | 51,500 | 29,443 | 9,681 | 27,913 | 67,037 | 22,057 |
| Balance, December 31, 2015 | 675,100 | 385,988 | 118,601 | 144,546 | 649,135 | 289,112 |
| Loan advances from Autlan | 80,000 | 45,737 | 10,495 | 30,525 | 86,757 | 34,263 |
| **Balance June 30, 2016** | **755,100** | **431,725** | **129,096** | **175,071** | **735,892** | **323,375** |

(Expressed in Canadian dollars except where indicated)

## 7. Share Capital

a) Authorized: unlimited number of common shares without par value. There are no restrictions on transfers.

b) Issued and outstanding:

There were 19,085,071 common shares issued and outstanding as of June 30, 2016 and December 31, 2015. No common shares were issued during the fiscal year ended December 31, 2015 or the period ended June 30, 2016.

c) Warrants

There were no warrants outstanding as of June 30, 2016 (December 31, 2015 – Nil).

d) Stock options

On May 23, 2006, the Board of Directors approved the adoption of a new incentive stock option plan (the "Plan"), which was approved by the shareholders on June 29, 2006, and ratified by the shareholders at each subsequent annual general meeting of shareholders, including the one held on June 27, 2016. The Plan allows grants of options to a maximum of 10% of the issued and outstanding shares of the Company at any time.

As the Company is currently in the search for mineral property acquisition targets, the stock options granted to the consultants and other non-employees of the Company are to serve as incentive in that process. Therefore, a reliable estimate of the fair value of these options based on the equivalent fair market value of services rendered is very difficult to assess given the unique and varying nature of these services and the lack of comparable market information. Accordingly, the Company has measured share-based payments to non-employees based on the fair value of the equity instruments granted.

Stock options outstanding and exercisable are as follows:

| | Options | Weighted average exercise price $ |
|---|---|---|
| Balance, December 31, 2014 and June 30, 2015. | 442,500 | 0.10 |
| Expired unexercised | (442,500) | 0.10 |
| Balance, December 31, 2015 and June 30, 2016 | - | - |

Each option entitled the holder to purchase one common share of the Company.

## 8. Related party transactions

During the six months ended June 30, 2016 and 2015, the Company entered into the following transactions with related parties and incurred payments to key management personnel, which were in the normal course of operations.

| Six months ended June 30: | **2016** | 2015 |
|---|---|---|
| | **$** | $ |
| Management fees paid to a company controlled by the Chief Financial Officer of the Company: | **30,000** | 30,000 |
| Office rent paid to a company controlled by the Chief Financial Officer of the Company: | **300** | 5,400 |
| Director's fees: | **6,000** | 6,000 |
| Amounts provided by Autlan to the Company's subsidiary in order for it to pay for the mineral rights of La Casita, and meet other local obligations (i) : | **12,460** | 14,274 |
| Amounts advanced by Autlan (i)(ii) : | **80,000** | 81,500 |
| Interest accrued on above amounts: | **10,495** | 8,485 |

(i) The Company is controlled by Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), in turn controlled by a director of the Company.

(ii) The amounts are advances made pursuant to the Loan Agreement (Note 6).

The amounts due to related parties are as follows:

| As at: | **June 30, 2016** | December 31, 2015 |
|---|---|---|
| | **$** | $ |
| Amounts owed to Grupo or to Autlan for services provided to the Company's Mexican subsidiary (denominated in Mexican pesos): | **603,608** | 676,356 |
| Amounts owed to Autlan pursuant to the convertible loan, including principal and accrued interest (note 6): | **884,196** | 793,701 |
| Management fees and reimbursable expenses owed to a company controlled by an officer of the Company: | **5,363** | - |
| Directors' fees owed to a director of the Company: | **1,050** | - |
| | **1,494,217** | 1,470,057 |

## 9. Financial instruments

The carrying value of cash and cash equivalents and accounts receivable approximate their fair value due to the short-term nature of these instruments. The fair value of accounts payable, due to related parties and the liability component of the convertible loan may be less than the carrying value due to liquidity risk (see note 1 *Nature of Operations and Going Concern Uncertainty*). The Company determines the carrying amount of Convertible Loan by discounting the stream of future payments of interest and principal at the prevailing market rate for a similar liability that does not have an associated equity component.

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below.

*Currency Risk*

As at June 30, 2016, all of the Company's cash and cash equivalents were held either in Canadian dollars, US dollars or Mexican pesos. The Company incurs expenditures in Canada and Mexico, and as such is exposed to currency risk associated with these costs.

A change in the value of the Mexican peso by 10% relative to the Canadian dollar would affect the Company's liabilities by approximately $61,000, and its net loss for the period by approximately $2,000.

*Interest rate and credit risk*

The Company has cash balances and significant debt owed to a majority shareholder. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

The Company is not exposed to interest rate risk, as its convertible loan instrument is subject to fixed interest rates.

*Liquidity risk*

The Company currently depends on the advances provided by Autlan through the convertible loan instrument (Note 6). The liquidity risk relates to the low cash position and the dependence on these advances. See Note 1 for further discussion regarding liquidity risks.

## 10. Capital Disclosures

The Company's objective when managing capital is to maintain a flexible capital structure for its projects for the benefit of its stakeholders. The Company's main source of funds is from the funds received from Grupo or Autlan as a part of the Loan Agreement (Notes 1 and 6).

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

The Company's investment policy is to invest its available cash in Canadian chartered banks and from time to time in guaranteed term deposits at fixed interest rates established at the time of investment. All its funds are available for project and corporate objectives.

The Company considers cash and cash equivalents to include amounts held in banks. The Company places its cash with institutions of high credit worthiness. On June 30, 2016, the Company had cash of $18,739 (December 31, 2015 – $5,598).

The Company is not subject to any externally imposed capital requirements.

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