



GFM RESOURCES LIMITED

(An exploration-stage company)

Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(Expressed in Canadian Dollars)

Index

Independent Auditor's Report

Consolidated Statements of Financial Position

Consolidated Statements of Loss and Comprehensive Loss

Consolidated Statements of Cash Flows

Consolidated Statement of Changes in Shareholders' Deficiency

Notes to Consolidated Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
GFM Resources Limited

We have audited the accompanying consolidated financial statements of GFM Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016 and the consolidated statements of income (loss) and comprehensive income (loss), cash flows and changes in shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of GFM Resources Limited as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about GFM Resources Limited's ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 27, 2018

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

As at		December 31, 2017	December 31, 2016
	Note	\$	\$
ASSETS			
Current			
Cash and cash equivalents		21,360	10,636
Accounts receivable	4	2,198	1,098
Prepaid expenses and deposits		192	1,250
		23,750	12,984
LIABILITIES			
Current			
Accounts payable and accrued liabilities	5	33,156	15,934
Due to related parties	9	7,763	6,398
Liability component of convertible loan	6	-	802,869
Loans with related party	7	205,206	570,262
		246,125	1,395,463
SHAREHOLDERS' DEFICIENCY			
Share capital	8	3,484,022	3,484,022
Contributed surplus	6, 9	870,442	507,236
Equity component of convertible loan	6	-	339,650
Foreign currency reserve		53,635	104,298
Deficit		(4,630,474)	(5,817,685)
		(222,375)	(1,382,479)
		23,750	12,984

The accompanying notes are integral part of these consolidated financial statements

Approved by the board of directors and authorized for issue on February 27, 2018

Note 1 - Nature of Operations and Going Concern Uncertainty

Note 15 - Subsequent events

"James Robertson"

Director

"Horacio Alcocer"

Director

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian Dollars)

	Note	Years ended	
		December 31	
		2017	2016
		\$	\$
EXPENSES			
Administration and accounting	9	60,000	60,000
Audit and legal		44,569	24,726
Property examination costs	10	122,929	24,053
Filing and transfer agent fees		17,352	12,515
Directors' fees	9	27,145	12,000
Office and sundry		10,849	2,760
Foreign exchange loss		2,591	731
Loss before other expenses		(285,435)	(136,785)
Other income (expenses)			
Accretion of convertible loan	6	(35,246)	(64,261)
Interest on loans	6,7	(15,010)	(22,011)
Forgiveness of debt	6	1,522,498	-
Write-down of value added tax recoverable		404	-
Income (loss) for the year		1,187,211	(223,057)
Other comprehensive income (loss)			
Exchange differences on translating foreign operations, net of tax		(50,663)	130,670
Total comprehensive income (loss) for the year		1,136,548	(92,387)
Earnings (loss) per share (basic and diluted)		0.06	(0.01)
Weighted average number of shares outstanding (basic and diluted)			
		19,085,071	19,085,071

The accompanying notes are integral part of these consolidated financial statements

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

		Years ended December 31	
	Note	2017	2016
		\$	\$
Operating activities			
Income (loss) for the year		1,187,211	(223,057)
Adjustments for items not involving cash:			
- Accretion expense	6	35,246	64,261
- Non-cash interest on loans	6,7	15,010	22,011
- Non-cash impact of foreign exchange translation		5,531	7,486
- Forgiveness of debt	6	(1,522,498)	-
Changes in non-cash working capital items:			
- Accounts receivable		(1,100)	939
- Prepaid expenses and deposits		1,058	-
- Accounts payable and accrued liabilities		18,912	(8,090)
Cash used in operating activities		(260,630)	(136,450)
Cash flows from financing activities			
Convertible loan advances	6,9	55,000	118,000
Loans from related party	7	205,620	-
Funding of subsidiary	7,9	10,943	24,106
Cash generated from financing activities		271,563	142,106
Effect of foreign exchange translation on cash		(209)	(618)
Net change in cash		10,724	5,038
Cash, beginning of the year		10,636	5,598
Cash, end of the year		21,360	10,636
Supplementary information with respect to cash flows (Note 14):			
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 consolidated financial statements

GFM RESOURCES LIMITED

(an exploration-stage company)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY

(Expressed in Canadian Dollars)

	Note	Share capital		Contributed surplus	Equity portion of convertible loan	Foreign currency reserve	Deficit	Total
		Amount	Value					
		#	\$					
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	-	-	-	50,538	-	-	50,538
Comprehensive loss for the year		-	-	-	-	130,670	(223,057)	(92,387)
Balance, December 31, 2016		19,085,071	3,484,022	507,236	339,650	104,298	(5,817,685)	(1,382,479)
Convertible loan with related party	6	-	-	-	23,556	-	-	23,556
Forgiveness of debt	6	-	-	363,206	(363,206)	-	-	-
Comprehensive income (loss) for the year		-	-	-	-	(50,663)	1,187,211	1,136,548
Balance, December 31, 2017		19,085,071	3,484,022	870,442	-	53,635	(4,630,474)	(222,375)

The accompanying notes are integral part of these consolidated financial statements

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(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 records 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, and is in one operating segment, namely mineral exploration in Mexico.

These consolidated 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:

	December 31, 2017	December 31, 2016
	\$	\$
Deficit	(4,630,474)	(5,817,685)
Working capital deficiency:	(222,375)	(1,382,479)

During the year ended December 31, 2017, majority ownership of the Company was transferred from Compañía Minera Autlán, S.A.B. de C.V. ("Autlan"), of Mexico, to Metallorum Holding, S.A.P.I. de C.V. ("Metallorum"), also from Mexico and also controlled by a director of the Company. 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, Metallorum. 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 consolidated 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 annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were approved by the Board of Directors for issue on February 27, 2018.

(b) Basis of measurement

These financial statements have been prepared on the historical cost basis.

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

2. Basis of preparation (cont'd...)

(c) Functional and presentation currency

In management's judgement the functional currency of the Company is the Canadian dollar, and the functional currency of the Mexican wholly owned subsidiary is the Mexican peso. The presentation currency used in preparing the consolidated financial statements of the Company is the Canadian dollar.

(d) Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual results may differ from these estimates.

The main judgments and estimates made by management in applying accounting policies primarily relate to the following:

Value added tax recoverable

The Company is subject to value added tax recoverable in Mexico. There are transactions and calculations for which the ultimate tax recoverable for these is a form of judgment. The Company reviews the collectability of the value added tax on an ongoing basis and makes judgment as to its ability to recover this tax. Where there is uncertainty around the recoverability of this tax, a judgment is made and the value added tax will be written off in the Statement of Loss.

Convertible Loan

The Company entered into a convertible loan agreement in 2007. Management have accounted for the convertible loan in a way that the convertible loan was split into an equity element representing the conversion feature and a liability element representing the debt component. The liability element is calculated 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. Significant estimation is involved in determining the discount rate assumption and the estimated timing of repayment used to estimate the fair value of the liability component.

(e) New and revised standards and interpretations not yet adopted

New IFRS pronouncements that have been issued but are not yet effective are listed below. The Company plans to apply the new standard or interpretation in the annual period for which it is first required:

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

2. Basis of preparation (cont'd...)

- (e) New and revised standards and interpretations not yet adopted (cont'd...)

IFRS 9, *Financial Instruments* (new; to replace IAS 39)

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. This new standard replaces International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 9 requires financial assets to be classified into one of three measurement categories on initial recognition: fair value through profit and loss, fair value through other comprehensive income and amortised cost. Measurement and classification of financial assets is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. The new standard retains most of the existing requirements for financial liabilities.

IFRS 9 introduces a new impairment model for financial assets. This new model may result in the earlier recognition of credit losses as it requires the Company to account for expected credit losses from the time the financial instruments are first recognised.

IFRS 9 is not expected to have a material effect on the Company's consolidated financial statements.

3. Significant Accounting Policies

These consolidated financial statements have been prepared within the framework of the significant accounting policies provided as follows:

- (a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Mexican subsidiary GFM Resources de Mexico, S.A. de C.V. Inter-company balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

The Company's subsidiary is:

Name of subsidiary	Jurisdiction of incorporation	Percent ownership	Principal activity
GFM Resources de México, S.A. de C.V.	Mexico	100%	Mineral exploration

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

3. Significant Accounting Policies (cont'd...)

(b) Foreign Currencies

Determination of functional currency

In determining the functional currency of the Company, the following was considered:

- the currency that mainly influences the cost of labour, materials, service and other costs of exploration and evaluation activities; and
- the currency used to maintain the amounts charged by operating activities.

Foreign currency translation

In preparing the financial statements of each individual entity within the Group, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(c) Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated in accordance with the treasury stock method which assumes that proceeds received from the exercise of stock options and warrants would be used to repurchase common shares at the prevailing market rate. Under the treasury stock method, the basic and diluted loss per share are the same, as the effect of common shares issuable upon the exercise of warrants and stock options of the Company would be anti-dilutive.

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

3. Significant Accounting Policies (cont'd...)

(d) Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Any tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognised for taxable temporary differences except investments in subsidiaries and joint ventures where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities

(e) Share-based Payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options (including any estimated forfeitures). The fair value of direct awards of shares is determined by the quoted market price of the Company's stock.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a graded-vesting basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

3. Significant Accounting Policies (cont'd...)

(f) Financial Instruments

Cash and cash-equivalent and receivables are classified as loans and receivables, which are recorded at amortized cost. Accounts payable and amounts due to Related Parties and the liability component of Convertible Loan are classified as other financial liabilities, all of which are recorded at amortized cost.

(g) Mineral Properties

The exploration and evaluation phase of a mineral project is assumed to commence at the time the Company obtains the legal right to explore a property. Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs related to activities occurring before the exploration and evaluation of a project are expensed in the period in which they occur. Costs incurred during the exploration and evaluation phase are initially capitalized to the extent that these costs can be related directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized and/or written off and do not necessarily represent present or future values.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

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

If the properties are put into commercial production, the expenditures will be depleted based upon the proven reserves available. If the properties are sold or abandoned, the expenditures will be charged to the statement of loss. The Company does not accrue the estimated future costs of maintaining in good standing its mineral properties.

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as mineral property or cost recoveries when the payments are made or received.

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

3. Significant Accounting Policies (cont'd...)

(h) Financial assets

Financial assets, other than derivatives, are designated as available-for-sale, loans and receivables or as at fair-value-through-profit-or-loss ("FVTPL").

Financial assets classified as available-for-sale are measured at fair value on initial recognition plus transaction costs and subsequently at fair value with unrealized gains and losses recognised in other comprehensive income (loss) except for financial assets that are considered to be impaired in which case the loss is recognised in net income or loss.

Financial assets classified as loans and receivables are measured initially at fair value plus transaction costs and subsequently at amortised cost using the effective interest rate method.

Financial assets classified as FVTPL are measured on initial recognition and subsequently at fair value with unrealized gains and losses recognized in income or loss. Transaction costs are expensed for assets classified as FVTPL.

(i) Financial liabilities

Financial liabilities, other than derivatives, are initially recognised at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Accounts payables and due to related parties are classified as other liabilities, which are measured at amortised cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognised in net income or loss.

4. Accounts Receivable

	December 31, 2017	December 31, 2016
GST receivable	\$ 2,198	\$ 1,098

5. Accounts Payable and Accrued Liabilities

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

	December 31, 2017	December 31, 2016
Trade payables	\$ 17,251	\$ 930
Accrued liabilities	15,905	15,004
Total	\$ 33,156	\$ 15,934

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

6. Convertible Loan

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

Under the terms of the Convertible Loan, Autlan had 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 would consist of one common share and one common share purchase warrant. Each warrant would 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 would 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 would 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 had been providing the advances under the exact same terms.

The Company accounted 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 was 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 had been estimated by the Company at 15% for all outstanding advances. The difference between the cash received and the liability element was recorded as the equity element. The debt discount was accreted over the expected term to maturity in the consolidated statement of income (loss).

On June 30, 2017, the Company and Autlan entered into a Debt Forgiveness Agreement (the “Forgiveness Agreement”), whereby Autlan forgave all of the outstanding debt pursuant to the Convertible Loan in the amount of \$1,000,689, including principal and interest for an amortized balance of \$881,536 as at the date of forgiveness (see table below), and also the debt owed to Autlan by the Subsidiary in the amount of approximately \$641,000, for a total gain on forgiveness of \$1,522,498. As at June 30, 2017, the Company was debt free. The Forgiveness Agreement was entered into in anticipation of the acquisition by Metallorum of the Company shares previously held by Autlan. The equity portion of the convertible loan of \$363,206 was charged to contributed surplus.

The Company and Metallorum have entered into new loan agreements (Note 7) to maintain the Company’s funding requirements.

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, 2015	675,100	385,988	118,601	144,546	649,135	289,112
Loan advances from Autlan	118,000	67,462	22,011	64,261	153,734	50,538
Balance, December 31, 2016	793,100	453,450	140,612	208,807	802,869	339,650
Loan advances from Autlan	55,000	31,444	11,977	35,246	78,667	23,556
Debt forgiveness	(848,100)	(484,894)	(152,589)	(244,053)	(881,536)	(363,206)
Balance December 31, 2017	-	-	-	-	-	-

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

7. Loans with related party

On November 17, 2017, the Company entered into a loan agreement (the "Loan Agreement") with its majority shareholder, Metallorum, with effect from August 1, 2017. Under the terms of the Loan Agreement, Metallorum will make available to the Company a line of credit in up to USD \$2,000,000 per year. Advances made under the Loan Agreement bear annual simple interest calculated on the London Interbank Offered Rate ("LIBOR") plus 2%, calculated daily on the outstanding balance. The principal outstanding, together with any accrued but unpaid interest will become due and payable on demand, but such demand shall not to be made unless the Company has sufficient funds to repay the loan. There are no convertibility features on this Loan Agreement. In the period from August 1 to December 31, 2017, the weighted-average interest rate was 3.32%.

Also on November 17, 2017, Metallorum entered into a separate loan agreement with the Subsidiary (the "Subsidiary Agreement"), with effect from August 1, 2017. Under the terms of the Subsidiary Agreement, Metallorum will make available to the Subsidiary a line of credit in up to MXN \$40,000,000 (approximately USD \$2,000,000) per year. Advances made under the Subsidiary Agreement bear annual simple interest calculated on the Bank of Mexico's inter-bank loan rate (TIIE for its acronym in Spanish – *Tasa de Interés Interbancaria de Equilibrio*) plus 2%, calculated daily on the outstanding balance. The Subsidiary Agreement has a term of two years, which can be extended upon agreement of the parties. There are no convertibility features on this Subsidiary Agreement. In the period from August 1 to December 31, 2017, the weighted-average interest rate was 9.44%.

The following is a summary of the loans with Metallorum as at December 31, 2017:

	Principal received \$	Accrued Interest \$	Mexican value- added tax ("IVA") \$	Foreign exchange adjustment \$	Total due \$
Loan Agreement	80,000	894	-	3,011	83,905
Subsidiary Agreement	125,620	2,139	325	(6,783)	121,301
Balance, December 31, 2017	205,620	3,033	325	(3,772)	205,206

8. 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 December 31, 2017 and 2016. No common shares were issued during fiscal years ended December 31, 2017 and 2016.

c) Warrants

There were no warrants outstanding as of December 31, 2017 (2016 – 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 September 20, 2017. The Plan allows grants of options to a maximum of 10% of the issued and outstanding shares of the Company at any time.

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

8. Share Capital (cont'd...)

d) Stock options (cont'd...)

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.

There were no stock options outstanding as of December 31, 2017 (2016 – Nil).

9. Related party transactions

During the years ended December 31, 2017 and 2016, 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.

Years ended December 31:	2017	2016
	\$	\$
Management fees paid to a company controlled by the Chief Financial Officer of the Company	60,000	60,000
Office rent paid to a company controlled by the Chief Financial Officer of the Company	600	600
Director's fees:	27,145	12,000
Amounts advanced by Autlan to the Company ⁽ⁱ⁾⁽ⁱⁱ⁾	55,000	118,000
Amounts provided by Autlan to the Subsidiary in order for it to pay for the mineral rights and meet other local obligations ⁽ⁱ⁾	10,943	24,106
Interest accrued on Convertible Loan before forgiveness	11,977	22,011
Debt forgiveness by Autlan of liability component of Convertible Loan and of amounts lent to Subsidiary, including interest ⁽ⁱⁱⁱ⁾	1,522,498	-
Debt forgiveness by Autlan of equity component of Convertible Loan charged to contributed surplus ⁽ⁱⁱⁱ⁾	363,206	-
Advances from Metallorum to the Company ^(iv)	80,000	-
Advances from Metallorum to the Subsidiary ^(v)	125,620	-
Interest accrued on Metallorum advances ^(iv,v)	3,033	-

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

9. Related party transactions (cont'd...)

- (i) The Company was controlled by Autlan until June 30, 2017, in turn controlled by a director of the Company, subsequently, the Company is controlled by Metallorum, in turn controlled by the same director of the Company.
- (ii) The amounts are advances made pursuant to the Convertible Loan (Note 6).
- (iii) Pursuant to Debt Forgiveness Agreement with Autlan (Note 6).
- (iv) Pursuant to the Loan Agreement with Metallorum (Note 7).
- (v) Pursuant to the Subsidiary Agreement with Metallorum (Note 7).

In addition to the amounts received under the Convertible Loan (Note 6), and other funding of the Subsidiary by Autlan, and the Loan Agreement and Subsidiary Agreement with Metallorum (Note 7), on November 17, 2017, the Subsidiary entered into a Mandate and Indemnity Agreement (the "Mandate") with Soluciones y Reparaciones Domésticas, S.A. de C.V. ("Soluciones"), an affiliate company also controlled by Metallorum, with retroactive effect as of August 14, 2017. Soluciones had entered into an agreement to acquire certain mineral concessions in Mexico from another affiliate company; however, Soluciones does not have the corporate capacity to hold mineral concessions and, therefore, requested the Subsidiary to hold these concessions on its behalf. Pursuant to the Mandate, Soluciones will pay and indemnify the Subsidiary for all costs and liabilities associated with the holding of these concessions.

During the year ended December 31, 2017, the Company paid \$214,632 on behalf of Soluciones, and was reimbursed by Soluciones for this amount, with nil cash effect.

The amounts due to related parties are as follows:

As at:	December 31, 2017	December 31, 2016
	\$	\$
Amounts owed to Grupo or to Autlan for services provided to the Company's Mexican subsidiary (denominated in Mexican pesos):	-	570,262
Amounts owed to Autlan pursuant to the Convertible Loan, including principal and accrued interest (Note 6):	-	933,712
Amounts owed to Metallorum pursuant to Loan Agreement (Note 7):	83,905	-
Amounts owed to Metallorum by Subsidiary pursuant to Subsidiary Agreement (Note 7):	121,301	-
Amounts owed to Metallorum pursuant to Mandate to hold mineral claims on behalf of Soluciones:	-	-
Management fees and reimbursable expenses owed to a company controlled by an officer of the Company:	5,663	5,348
Directors' fees owed to a director of the Company:	2,100	1,050
	212,969	1,510,372

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

10. Property examination costs

The Company holds title to three mineral concessions in the state of Durango, Mexico, for which it is paying the semi-annual concession maintenance fees. During the year ended December 31, 2017, the Company paid \$24,054 (2016 -\$24,053) for these concessions.

In addition, on October 30, 2017, the Company entered into an exploration and evaluation agreement with Minera Auricup, S.de R.L. ("Auricup") for exclusive access to conduct exploration and evaluation of the merits of a mineral concession (the "Evaluation Agreement") of Auricup's Baviácora concession (the "Concession"), a gold and silver target of approximately 4,400 hectares, located in the state of Sonora, Mexico.

Under the terms of the Evaluation Agreement, the Company will pay for outstanding mineral rights of the Concession, will have exclusive access rights for a period of six months, and will obtain a minimum 15% ownership stake in the Concession. The starting of the six-month initial evaluation and exploration term is subject to Auricup negotiating the land access rights with the local communal land administration. If, for any reason, such access rights are not successfully negotiated within 120 days of the date of Evaluation Agreement, the Company has the option of demanding full repayment, or to obtain a similar stake in a different but equivalent mineral concession owned by Auricup. Should the initial exploration and evaluation under the present agreement be successful, the Company, at its sole option, has the exclusive right to negotiate an agreement to acquire a further interest in the Concession.

During the year ended December 31, 2017, the Company paid the outstanding Concession's maintenance fees of \$98,875 as consideration for the evaluation rights. The Company drew down on its Subsidiary Agreement for the Concession payment.

11. Income taxes

The reconciliation of income tax attributable to operations computed at the statutory tax rate to income tax expense (recovery), using a 26% (2016 – 26%) statutory tax rate, at December 31 is as follows:

	2017	2016
	\$	\$
Earnings (loss) for the year	1,187,211	(223,057)
Expected income tax (recovery)	309,000	(58,000)
Change in statutory, foreign tax, foreign exchange rates and other	1,000	4,000
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(2,358,000)	12,000
Expiry of non-capital losses	-	32,000
Change in unrecognized deductible temporary differences	2,048,000	10,000
Total income tax expense (recovery)	-	-

As at December 31, 2017, the Company has Canadian federal net operating loss carry forwards of \$1,440,100 expiring between 2029 and 2037.

Future income tax benefits which may arise as a result of non-capital losses and unclaimed foreign exploration and development expenditures have not been recognized in these financial statements as their realization is uncertain.

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016
(Expressed in Canadian dollars except where indicated)

11. Income taxes (cont'd...)

The significant components of the Company's future income tax assets are as follows:

	2017	2016
	\$	\$
Deferred Tax Assets (liabilities)		
Exploration and evaluation assets	185,000	178,000
Non-capital losses available for future period	2,608,000	567,000
	2,793,000	745,000
Unrecognized deferred tax assets	(2,793,000)	(745,000)
Net deferred tax assets	-	-

12. 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 December 31, 2017, 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 working capital by approximately \$13,000, and its net loss for the year by approximately \$50,000.

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. The Company exposed to interest rate risk on its loans with a related party as detailed in Note 7. A change 1% change in interest rate would affect the interest by approximately \$500 based on the principal outstanding as at December 31, 2017.

Liquidity risk

The Company will depend on the advances provided by Metallorum through the Loan Agreement and the Subsidiary Agreement (Note 7). The liquidity risk relates to the low cash position and the dependence on these advances. See Note 1 for further discussion regarding liquidity risks

GFM RESOURCES LIMITED

(An exploration-stage company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2017 and 2016

(Expressed in Canadian dollars except where indicated)

13. 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 Metallor as a part of the Loan Agreement (Notes 1 and 7).

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 December 31, 2017, the Company had cash of \$21,360 (2016 – \$10,636).

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

14. Supplementary information with respect to cash flows

The following table provides a reconciliation of cash and non-cash related-party liabilities generated from financing activities:

	Balance	Cash	Non-cash			Balance	
	December 31, 2016	Advances	Debt forgiveness	Interest and tax	Equity component	Foreign exchange	December 31, 2017
	\$	\$	\$	\$	\$	\$	\$
Liability component of convertible loan	802,869	55,000	(881,536)	11,977	11,690	-	-
Loans with related party	570,262	216,563	(640,962)	3,358	-	55,985	205,206
	1,373,131	271,563	(1,522,498)	15,335		55,985	205,206

15. Subsequent events

Subsequent to December 31, 2017:

- the Company has received further advances of \$36,172 under the Loan Agreement.; and
- the Subsidiary received an advance of \$37,900 under the Subsidiary Agreement.

* * * * *