

**QUADRO RESOURCES LTD.**

**FINANCIAL STATEMENTS**

**YEARS ENDED JULY 31, 2019 AND 2018**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Quadro Resources Ltd

### *Opinion*

We have audited the accompanying financial statements of Quadro Resources Ltd. (the "Company"), which comprise the statements of financial position as at July 31, 2019 and 2018, and the statements of comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2019 and 2018, and its financial performance and its 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 Auditor's Responsibilities for the Audit of the 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 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 of the financial statements, which indicates that the Company incurred a net loss of \$314,157 during the year ended July 31, 2019 and, as of that date, the Company's total deficit was \$11,233,378. As stated in Note 1, these events and conditions 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 obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 auditor's 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 Financial Statements***

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

In preparing the 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.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 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 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 auditor's report to the related disclosures in the 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 auditor's 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 auditor's report is Grant P. Block.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

November 28, 2019

**QUADRO RESOURCES LTD.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT JULY 31**

	Note	2019	2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		\$ 161,105	\$ 522,702
Receivables	4, 7	38,279	70,838
Prepaid expenses	7	15,285	13,000
		214,669	606,540
<b>Non-current assets</b>			
Exploration and evaluation assets	5	1,394,945	1,230,097
<b>Total assets</b>		\$ 1,609,614	\$ 1,836,637
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables	6	\$ 89,641	\$ 70,775
Amounts due to related parties	7	9,544	9,544
<b>Total liabilities</b>		99,185	80,319
<b>Shareholders' equity</b>			
Share capital	8	11,907,811	11,886,311
Share-based payments reserve	9	835,996	789,228
Deficit		(11,233,378)	(10,919,221)
<b>Total shareholders' equity</b>		1,510,429	1,756,318
<b>Total liabilities and shareholders' equity</b>		\$ 1,609,614	\$ 1,836,637

Nature of business and going concern (Note 1)  
 Commitments (Note 5)

The financial statements were authorized for issue by the Board of Directors on November 28, 2019 and were signed on its behalf by:

\_\_\_\_\_  
 Director

\_\_\_\_\_  
 Director

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

**QUADRO RESOURCES LTD.**  
**STATEMENTS OF COMPREHENSIVE LOSS**  
**YEARS ENDED JULY 31**

	Note	2019	2018
<b>EXPENSES</b>			
Accounting and audit		\$ 25,114	\$ 22,894
Administrative		4,997	4,788
Legal fees		10,000	11,400
Management fees	7	96,000	90,000
Office and miscellaneous		5,004	12,212
Rent		10,500	15,737
Share-based payments	7, 9	46,768	142,557
Shareholder information		-	3,339
Transfer agent and regulatory fees		10,158	25,747
Travel and promotion		11,252	27,590
		(219,793)	(356,264)
<b>OTHER ITEMS</b>			
Flow-through filing penalty		(47,178)	(1,562)
Write-off of exploration and evaluation assets	5	(47,186)	-
		(94,364)	(1,562)
<b>Loss and comprehensive loss for the year</b>		\$ (314,157)	\$ (357,826)
<b>Basic and diluted loss per common share</b>		\$ (0.01)	\$ (0.02)
<b>Weighted average number of common shares outstanding</b>		27,833,121	22,652,294

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

**QUADRO RESOURCES LTD.**

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

	Note	Number of shares	Share capital	Share-based payments reserve	Share subscription proceeds	Deficit	Total shareholders' equity (deficiency)
Balance, July 31, 2017		3,553,094	\$ 9,607,269	\$ 617,579	\$ 115,000	\$ (10,561,395)	\$ (221,547)
Flow-through private placement		6,448,500	644,850	-	(115,000)	-	529,850
Non-flow-through private placement		7,310,000	731,000	-	-	-	731,000
Acquisition of exploration and evaluation assets	8	8,050,000	805,000	-	-	-	805,000
Shares issued for debt settlement	8	2,065,500	206,550	-	-	-	206,550
Share issuance costs	8	-	(108,358)	29,092	-	-	(79,266)
Share-based payments	9	-	-	142,557	-	-	142,557
Comprehensive loss for the year		-	-	-	-	(357,826)	(357,826)
Balance, July 31, 2018		27,427,094	11,886,311	789,228	-	(10,919,221)	1,756,318
Acquisition of exploration and evaluation assets	5	500,000	21,500	-	-	-	21,500
Share-based payments	9	-	-	46,768	-	-	46,768
Comprehensive loss for the year		-	-	-	-	(314,157)	(314,157)
Balance, July 31, 2019		27,927,094	\$ 11,907,811	\$ 835,996	\$ -	\$ (11,233,378)	\$ 1,510,429

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

**QUADRO RESOURCES LTD.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31**

	Note	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the year		\$ (314,157)	\$ (357,826)
Item not affecting cash:			
Share-based payments		46,768	142,557
Write-off of exploration and evaluation assets		47,186	-
Changes in non-cash working capital items:			
Receivables		32,559	(66,959)
Prepaid expenses		(2,285)	(13,000)
Trade and other payables		53,660	(44,785)
<b>Net cash used in operating activities</b>		<b>(136,269)</b>	<b>(340,013)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Exploration and evaluation assets		(287,864)	(386,312)
Government grant received		62,536	-
<b>Net cash used in investing activities</b>		<b>(225,328)</b>	<b>(386,312)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issuance of share capital		-	1,260,850
Share issuance costs		-	(79,266)
Advances from related party		-	(49,127)
<b>Net cash provided by financing activities</b>		<b>-</b>	<b>1,132,457</b>
<b>Change in cash during the year</b>		<b>(361,597)</b>	<b>406,132</b>
<b>Cash, beginning of the year</b>		<b>522,702</b>	<b>116,570</b>
<b>Cash, end of the year</b>		<b>\$ 161,105</b>	<b>\$ 522,702</b>

Supplemental disclosures with respect to cash flows (Note 10)

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



## **1. NATURE OF BUSINESS AND GOING CONCERN**

Quadro Resources Ltd. (the "Company") was incorporated under the laws of British Columbia, Canada and maintains its head office and registered office at Suite 1500, 1040 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4H8. The Company is primarily engaged in the acquisition, exploration and development of exploration and evaluation assets in Canada. The Company is listed on the TSX Venture Exchange (TSX-V) under the symbol "QRO".

### Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

In order to continue as a going concern and meet its corporate objectives, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

At present, the Company's operations do not generate cash flow. The Company has incurred losses since inception and had an accumulated deficit of \$11,233,378 as at July 31, 2019 and a working capital of \$115,484, all of which may cast significant doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to raise adequate financing, identify economically recoverable reserves and to commence profitable operations in the future.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue its existence. These adjustments could be material.

## **2. BASIS OF PREPARATION**

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

### **Basis of measurement**

These financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### **Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

**2. BASIS OF PREPARATION (cont'd...)**

**Significant estimates and assumptions**

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised. Significant areas requiring the use of management estimates include:

- i) The determination of the fair value of stock options and warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.
- ii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.
- iii) Recorded costs of flow-through share premium liabilities reflect the premium received by the Company on the issue of flow-through shares. The premium is subject to measurement uncertainty and requires the Company to assess the value of non-flow through shares. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the premium liability.
- iv) Option or sale agreements, under which the Company may receive shares as payment, require the Company to determine the fair value of the shares received. Many factors can enter into this determination, including, if public shares, the number of shares received, the trading value of the shares, and volume of shares, and if non-public shares, the underlying asset value of the shares, or value of the claims under option or sale. This determination is subjective and does not necessarily provide a reliable single measure of the fair value of the shares received.

**Significant judgments**

The preparation of these financial statements requires management to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- i) Recorded costs of mineral property interests and deferred exploration and evaluation costs are not intended to reflect present or future values of these properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount. Management is required, at each reporting date, to review its mineral property interests for signs of impairment. This is a highly subjective process taking into consideration exploration results, metal prices, economics, financing prospects and sale or option prospects. Management makes these judgments based on information available, but there is no certainty that a property is or is not impaired.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

**2. BASIS OF PREPARATION (cont'd...)**

**Significant judgments (cont'd...)**

- ii) The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.
- iii) The classification of financial instruments.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been consistently applied to all years presented in these financial statements, unless otherwise indicated.

**Exploration and evaluation assets**

The Company's accounting policy for mineral property costs is dependent on the stage of the properties to which the costs relate. All capitalized costs are attributed to the individual mineral properties to which they relate, known as cash-generating units ("CGU").

*Acquisition costs*

All costs incurred to acquire or maintain mineral property rights are capitalized to the relevant CGU. These costs are not depleted until the CGU reaches production.

*Exploration and evaluation costs*

Costs related to the exploration and evaluation of properties for which no technically or economically feasible reserves have been established are capitalized to the relevant CGU in the period incurred. The Company records expenditures on exploration and evaluation activities at cost. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property. The Company determines that technical and economic feasibility exists when:

- a feasibility study, prepared in accordance with professional geological standards, defines a proven mineral reserve body;
- the Company intends to recover the mineral reserves through mining activity or sale of mineral rights; and
- the Company has sufficient financing available to develop and operate a mine or to market the mineral rights.

*Development costs*

When technical and economic feasibility exists for a certain CGU, all costs incurred to further prepare and develop a mine, or to ready the reserve rights for sale, are capitalized. Such costs may include interest on debt financing required to construct a mine or general and overhead expenses that are directly attributable to the CGU. These capitalized costs are not subject to depletion until such time as the mine is ready for production or the mineral rights are saleable, at which point they are depleted on a unit-of-production basis over the estimated recoverable reserves of each CGU. Any government grants received reduce associated costs capitalized under development costs.

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

**Exploration and evaluation assets (cont'd...)**

*Post-development costs*

After a mine is ready for production or mineral reserves are saleable, all costs, including interest on related debt and general and administrative costs are expensed in the period incurred unless they relate to an extension of mineral reserves or a significant improvement in mining operations. In these instances, the expenditures related to the betterment are capitalized and are depleted on a unit-of-production basis over the remaining recoverable reserves.

**Impairment of exploration and evaluation assets**

Management assesses the exploration and evaluation assets for impairment at least annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The assessment is based on the development program, the nature of the mineral deposit, commodity prices and the Company's intentions and ability for development of the undeveloped property. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Provisions**

i) General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

ii) Decommissioning and restoration provision

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of its exploration and evaluation assets in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for a decommissioning liability is recognized based on expected cash flows required to settle the obligation and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted 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 passage of time is recognized as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows. As at July 31, 2019, the Company has no known restoration, rehabilitation or environmental liabilities related to its exploration and evaluation assets.

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

**Financial instruments**

On August 1, 2018, the Company adopted all of the requirements of IFRS 9 – Financial Instruments. IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial asset. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9; therefore, the Company’s accounting policy with respect to financial liabilities is unchanged.

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

<b>Financial Assets and Liabilities</b>	<b>Original Classification IAS 39</b>	<b>New Classification IFRS 9</b>
Cash	Fair value through profit and loss	Fair value through profit and loss
Receivables	Amortized cost	Amortized cost
Trade and other payables	Other financial liabilities	Amortized cost
Amounts due to related parties	Other financial liabilities	Amortized cost

The adoption of IFRS 9 did not result in any material changes to the Company’s consolidated financial statements.

(i) Financial assets

All financial assets are measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial assets’ classification, as described below:

Fair value through profit or loss (“FVTPL”): Financial instruments designated at FVTPL are initially recognized and subsequently measured at fair value with changes in those fair values charged immediately to net earnings. Financial instruments under this classification include cash.

Amortized cost: Financial instruments designated at amortized cost are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method. Financial instruments under this classification include receivables.

Fair value through other comprehensive income (“FVOCI”): Financial instruments designated at FVOCI are initially recognized at fair value, net of directly attributable transaction costs, and are subsequently measured at fair value with changes in fair value recognized in other comprehensive income, net of tax.

(ii) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or amortized cost. Financial liabilities classified at amortized cost are initially recognized at fair value less directly attributable transaction costs. The Company’s trade and other payables and amounts due to related parties are classified at amortized cost. The Company does not currently have any FVTPL financial liabilities.

(iii) Impairment of financial assets

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets.

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

**Financial instruments (cont'd...)**

An 'expected credit loss' (ECL) model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company's financial assets measured at amortized cost and subject to the ECL model include receivables.

The adoption of the ECL impairment model had no impact on the carrying amounts of the Company's financial assets on the transition date, given the receivables are substantially all current and there has been minimal historical customer default. Receivables have not been subject to historical credit risk.

**Earnings / loss per share**

Basic earnings/loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. The diluted loss per share reflects all dilutive potential common share equivalents, which comprise outstanding stock options and share purchase warrants in the weighted average number of common shares outstanding during the period, if dilutive. There were stock options outstanding for the years ended July 31, 2019 and 2018. There were no share purchase warrants outstanding for the years ended July 31, 2019 and 2018.

**Share capital**

The Company records proceeds from the issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that the shares are issued.

**Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability") on the Company's statement of financial position. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

**Share-based payments**

Share-based payments to employees and others providing similar services are measured at grant date at the fair value of the instruments issued and amortized over the vesting periods using a graded approach. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award is considered a separate grant with a different vesting date and fair value and is accounted for on that basis.

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.

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

**Share-based payments (cont'd...)**

The offset to the recorded cost is to share-based payments reserve. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair value of the stock options is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

**Current and deferred income taxes**

Current taxes receivable or payable are estimated on taxable income or loss for the current year at the statutory tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

**New accounting policies**

Certain new accounting standards, amendments to standards and interpretations have been issued, effective for annual years beginning on or after January 1, 2018.

**IFRS 15 – Revenue from Contracts with Customers**

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) is a new standard on revenue that superseded the following standards: IAS 11 – Construction Contracts; IAS 18 – Revenue; IFRIC 13 – Customer Loyalty Programmes; IFRIC 15 – Agreements for the Construction of Real Estate; IFRIC 18 – Transfers of Assets from Customers; and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. This standard has been assessed to not have a significant impact on the Company’s financial statements.

**IFRS 9 – Financial Instruments**

IFRS 9 – Financial Instruments (“IFRS 9”) is a new standard on financial instruments that replaced IAS 39 – Financial Instruments: Recognition and Measurement. The standard addresses classification and measurement of financial assets and financial liabilities as well as derecognition of financial instruments. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is measured at fair value through profit or loss. This standard has been assessed to not have a significant impact on the Company’s financial statements.

**QUADRO RESOURCES LTD.**  
NOTES TO THE FINANCIAL STATEMENTS  
YEARS ENDED JULY 31, 2019 AND 2018

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

**Future change**

A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2019, or later periods. The Company has not applied these new standards in preparing these financial statements. The following pronouncement is considered by the Company to be the most significant of several pronouncements that may affect the financial statements in future periods.

IFRS 16 – Leases

IFRS 16 – Leases (“IFRS 16”) is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract: the lessee and the lessor. IFRS 16 eliminates the classification of leases as either operating or finance leases, as is currently required by IAS 17 – Leases, and instead introduces a single lessee accounting model. This standard is effective for years beginning on or after January 1, 2019. The Company does not have any leases and does not expect any significant impact of adopting IFRS 16 on its financial statements.

**4. RECEIVABLES**

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	2019	2018
Sales tax recoverable	\$ 32,035	\$ 69,263
Rent recoverable	6,244	1,575
	<u>\$ 38,279</u>	<u>\$ 70,838</u>

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**5. EXPLORATION AND EVALUATION ASSETS**

	Staghorn Property	Conche Property	Other	Total
Acquisition costs				
Option payments	\$ 3,500	\$ 18,000	\$ -	\$ 21,500
Claim staking/maintenance costs	1,158	-	-	1,158
	4,658	18,000	-	22,658
Deferred exploration expenditures				
Assaying	8,963	-	-	8,963
Drilling	111,153	-	-	111,153
Equipment rental	19,010	2,095	-	21,105
Geological consulting	80,408	2,725	-	83,133
Miscellaneous	86	-	-	86
Travel	26,771	701	-	27,472
Government grant received	(62,536)	-	-	(62,536)
	183,855	5,521	-	189,376
Net costs for the year	188,513	23,521	-	212,034
Write-off of property costs	(21,000)	(26,186)	-	(47,186)
Balance, beginning of the year	1,206,255	2,665	21,177	1,230,097
Balance, July 31, 2019	\$ 1,373,768	\$ -	\$ 21,177	\$ 1,394,945

Year ended July 31, 2018	Staghorn Property	Conche Property	Other	Total
Acquisition costs				
Option payments	\$ 817,500	\$ -	\$ -	\$ 817,500
Claim staking costs	-	2,665	21,177	23,842
	817,500	2,665	21,177	841,342
Deferred exploration expenditures				
Assaying	35,363	-	-	35,363
Drilling	142,782	-	-	142,782
Equipment rental	10,300	-	-	10,300
Geological consulting	177,697	-	-	177,697
Miscellaneous	13,360	-	-	13,360
Survey	7,422	-	-	7,422
Travel	46,598	-	-	46,598
Government grant	(44,767)	-	-	(44,767)
	388,755	-	-	388,755
Net costs for the year	1,206,255	2,665	21,177	1,230,097
Balance, beginning of the year	-	-	-	-
Balance, July 31, 2018	\$ 1,206,255	\$ 2,665	\$ 21,177	\$ 1,230,097

**5. EXPLORATION AND EVALUATION ASSETS (cont'd...)**

Staghorn Property

On June 6, 2017, the Company entered into an option agreement with Metals Creek Resources Corp. (“Metals Creek”) and Benton Resources Inc. (“Benton”) whereby the Company was granted an option to acquire a 100% interest in the Staghorn property, located in Newfoundland and Labrador, as well as all their rights to the Rose Gold property which is comprised of certain mineral claims contiguous to the Staghorn property. The Company issued 8,000,000 common shares (with a fair value of \$800,000) to Metals Creek and Benton and earned a 100% interest in the Staghorn property.

To earn a 100% interest in the Rose Gold property, the Company is required to make cash payments of \$42,500 (\$12,500 paid) and issue 450,000 common shares (150,000 common shares issued with a fair value of \$8,500) over a three year period. During the year ended July 31, 2019, the Company decided not to proceed with the Rose Gold option agreement and accordingly wrote off the capitalized acquisition costs of \$21,000.

The Staghorn property is subject to NSR royalties as outlined below:

- A royalty granted to Metals Creek and Benton representing a 3 kilometer area of interest that is subject to a 3% NSR in favour of Metals Creek and Benton, of which a 2% NSR can be purchased by the Company at any time for \$2,000,000.
- An existing royalty held by Ed Northcott and Gilbert Lushman representing a 3 kilometer area of interest that is subject to: i) a 2% NSR in favour of Ed Northcott and Gilbert Lushman, of which a 1% NSR can be purchased by the Company at any time for \$1,000,000; and (ii) a 1% NSR in favour of Metals Creek and Benton.

Conche Property

During the year ended July 31, 2018, the Company acquired a one-third interest in the Conche property on the Great Northern Peninsula, Newfoundland and Labrador by staking. On July 3, 2018, the Company entered into an option agreement with Metals Creek and Benton, whereby the Company has an option to acquire a one-third interest held by each of Metals Creek and Benton in the Conche property.

To exercise the option, the Company is required to issue one million shares to each of Metals Creek and Benton over an 18-month period (400,000 common shares issued with a fair value of \$18,000). Based on the initial exploration results, the Company decided not to proceed with the option agreement and accordingly wrote off the capitalized acquisition and exploration costs of \$26,186 during the year ended July 31, 2019.

Other properties

During the year ended July 31, 2018, the Company staked two claim blocks totaling 122 claim units in the St. Anthony area on the Great Northern Peninsula, Newfoundland and Labrador for \$21,177.

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**6. TRADE AND OTHER PAYABLES**

	2019	2018
Trade payables	\$ 6,641	\$ 43,025
Accrued expenses	83,000	27,750
	<b>\$ 89,641</b>	<b>\$ 70,775</b>

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

**7. RELATED PARTY TRANSACTIONS**

Included in amounts due to related parties are \$5,294 (July 31, 2018 - \$5,294) related to services rendered to the Company by a company controlled by a former director of the Company and \$4,999 (July 31, 2018 - \$4,250) in advances from the President of the Company. Amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

Included in receivables are \$6,244 (July 31, 2018 - \$1,575) of rental recovery due from a sublease office tenant of which the Chief Financial Officer of the Company is the Chief Financial Officer.

Included in prepaid expenses are \$8,400 (July 31, 2018 - \$8,000) of management fees advanced to the President and Chief Financial Officer of the Company.

Key management personnel include directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management personnel during the years ended July 31 is as follows:

	2019	2018
Management fees	\$ 96,000	\$ 90,000
Share-based payments	40,172	122,453

The Company entered into the following related party transactions during the year ended July 31, 2019:

- a) Paid or accrued management fees of \$72,000 (2018 - \$72,000) to a company controlled by the President of the Company for management services provided.
- b) Paid or accrued management fees of \$24,000 (2018 - \$18,000) to the Chief Financial Officer of the Company for management services provided.

## **8. SHARE CAPITAL**

### **Authorized share capital**

The Company has authorized an unlimited number of common shares with no par value.

### **Issued share capital**

At July 31, 2019, the Company had 27,927,094 common shares issued and outstanding (July 31, 2018 - 27,427,094).

### **Share issuance**

During the year ended July 31, 2019, the Company:

- i) Issued 400,000 common shares pursuant to the Conche property agreement (Note 5) with a fair value of \$18,000.
- ii) Issued 100,000 common shares pursuant to the Rose Gold property agreement (Note 5) with a fair value of \$3,500.

During the year ended July 31, 2018, the Company:

- i) Completed a private placement of 7,310,000 non-flow-through units at a price of \$0.10 per non-flow-through unit and 6,448,500 flow-through units at a price of \$0.10 per flow-through unit for gross proceeds of \$1,375,850. Each non-flow-through unit is comprised of one common share and one share purchase warrant; each warrant entitles the holder to acquire one additional common share for a period of 18 months at a price of \$0.15. Each flow-through unit is comprised of one common share and one-half of a share purchase warrant; each whole warrant entitles the holder to acquire one additional common share for a period of 18 months at a price of \$0.20. There was no value assigned to the warrant component of the units. In connection with the private placement, the Company paid finders' fees consisting of \$59,391 in cash and 591,910 warrants which are exercisable into one common share of the Company at \$0.15 for a period of 18 months. The agent's warrants were valued at \$29,092 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.56%, an expected life of 1.5 year, annualized volatility of 114% and a dividend rate of 0%). The Company also incurred filing expenses and other share issuance costs of \$19,875 in connection with the private placement. There was no premium received by the Company on issuance of the flow-through shares.
- ii) Issued 8,000,000 common shares pursuant to the Option Agreement (Note 5) with a fair value of \$800,000.
- iii) Issued 50,000 common shares pursuant to the Rose Gold property agreement (Note 5) with a fair value of \$5,000.
- iv) Issued 2,065,500 common shares to settle debt of \$206,550 due to the President of the Company.

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**9. SHARE-BASED PAYMENTS**

**Stock options**

The Company has adopted an incentive rolling stock option plan (the “Plan”) under which it is authorized to grant options to directors, officers, employees and consultants enabling them to acquire up to a maximum of 20% of the total number of issued and outstanding shares of the Company. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors. The exercise price of options granted under the Plan shall not be less than the closing price of the Company’s shares on the trading day immediately preceding the date of grant, less the discount permitted under the Exchange’s policies.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2017	-	\$ -
Granted	1,950,000	0.10
Balance, July 31, 2018 and 2019	1,950,000	\$ 0.10
Exercisable at July 31, 2019	1,950,000	\$ 0.10
Weighted average fair value of options granted during the year	\$ nil	(2018 - \$0.097)

The options outstanding at July 31, 2019 have an exercise price of \$0.10 and a weighted average remaining contractual life of 3.47 years.

The total share-based payments calculated for stock options granted during the year ended July 31, 2019 was \$nil (2018 - \$189,325) using the Black-Scholes option pricing model. For the year ended July 31, 2019, the Company recognized share based payment expense of \$46,768 (2018 - \$142,557) for the portion of stock options that vested during the year.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted:

	2019	2018
Risk-free interest rate	-	2.03%
Expected life of options	-	5 Years
Annualized volatility	-	155.95%
Dividend rate	-	Nil

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**9. SHARE-BASED PAYMENTS (cont'd...)**

**Warrants**

The Company uses the residual value method with respect to the measurement of share purchase warrants issued with private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants. Agents' warrants are measured at fair value on the date of the grant as determined using the Black-Scholes option pricing model.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2017	-	\$ -
Warrants issued	10,534,250	0.17
Agents' warrants issued	591,910	0.15
Balance, July 31, 2018	11,126,160	0.16
Warrants expired	(11,126,160)	0.16
Balance, July 31, 2019	-	\$ -

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

Significant non-cash investing and financing transactions during the year ended July 31, 2019 included:

- a) The Company issued 500,000 common shares pursuant to mineral property agreements with a total value of \$21,500.
- b) Included in trade and other payables are \$3,991 related to exploration and evaluation assets.

Significant non-cash investing and financing transactions during the year ended July 31, 2018 included:

- a) The Company issued 8,050,000 common shares pursuant to mineral property agreements with a total value of \$805,000.
- b) The Company issued 2,065,500 common shares to settle debt of \$206,550 due to the President of the Company.
- c) The Company issued 591,910 agent's warrants with a fair value of \$29,092 as financing fees for a private placement.
- d) Included in trade and other payables are \$38,785 related to exploration and evaluation assets

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**11. INCOME TAXES**

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

	2019	2018
Loss before income taxes	\$ (314,157)	\$ (357,826)
Corporate tax rate	27.0%	27.0%
Expected income tax recovery at statutory rates	\$ (85,000)	\$ (95,000)
Change in statutory, foreign tax, foreign exchange rates and other	25,000	(47,000)
Permanent differences	26,000	39,000
Impact of flow through shares	51,000	79,000
Share issuance costs	-	(21,000)
Change in unrecognized deductible temporary differences	(17,000)	45,000
Total income tax expense (recovery)	\$ -	\$ -

Details of the Company's unrecognized deferred income tax assets that have not been included on the statement of financial position are as follows:

	2019	2018
Allowable capital losses	\$ 154,000	\$ 165,000
Equipment	3,000	3,000
Share issuance costs	13,000	17,000
Exploration and evaluation assets	165,000	217,000
Non-capital losses available for future periods	913,000	863,000
Net unrecognized deferred income tax assets	\$ 1,248,000	\$ 1,265,000

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

	2019	Expiry dates	2018	Expiry dates
Allowable capital losses	\$ 612,000	Not applicable	\$ 612,000	Not applicable
Equipment	\$ 12,000	Not applicable	\$ 12,000	Not applicable
Share issuance costs	\$ 48,000	2040 to 2042	\$ 63,000	2039 to 2042
Exploration and evaluation assets	\$ 569,000	Not applicable	\$ 805,000	Not applicable
Non-capital losses available for future periods	\$ 3,381,000	2026 to 2039	\$ 3,196,000	2026 to 2038

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

## **12. FINANCIAL INSTRUMENTS AND RISK**

With the adoption of IFRS 9, the Company has classified cash as FVTPL, and receivables, trade and other payables and amounts due to related parties at amortized cost.

As of July 31, 2019 and 2018, the carrying amounts of receivables, trade and other payables, and amounts due to related parties carried at amortized cost are considered a reasonable approximation of their fair values due to the relatively short period to maturity of these financial instruments.

### **Financial risk management**

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, and interest rate risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with its cash. The credit risk with respect to its cash is minimal as they are held with high-credit quality financial institutions. The Company's receivables consist of rental recovery due from a sublease office tenant and sales tax recoverable due from the Canadian government. Management does not expect these counterparties to fail to meet their obligations.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2019, the Company had a cash balance of \$161,105 to settle trade and other payables of \$89,641 and due to related parties of \$9,544. The Company's trade and other payables have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

At present, the Company's operations do not generate positive cash flows. The Company's primary source of funding has been the issuance of equity securities through private placements and the exercise of stock options and warrants. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings.

#### *Interest rate risk*

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



**13. FAIR VALUE MEASUREMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

Financial instruments measured at fair value on the statement of financial position are summarized in levels of fair value hierarchy as follows. There have been no changes in these levels and no changes in classifications during the year ended July 31, 2019.

	Level 1	Level 2	Level 3	Total
July 31, 2019				
Cash	\$ 161,105	\$ -	\$ -	\$ 161,105
July 31, 2018				
Cash	\$ 522,702	\$ -	\$ -	\$ 522,702

**14. CAPITAL MANAGEMENT**

The Company's objective when managing capital is to ensure adequate working capital is available to fund both the business development plans and the working capital requirements of each annual operating cycle. In the management of capital, the Company includes shareholders' equity (deficiency) in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management.

There were no changes in the Company's approach to capital management from the prior year. The Company is not subject to externally-imposed capital requirements.