# NEXCO RESOURCES INC.

# CONDENSED INTERIM FINANCIAL STATEMENTS

# FOR THE NINE MONTH PERIOD ENDED MAY 31, 2017

# AND MAY 31, 2016

# (UNAUDITED)

**Notice of No Auditor Review of Interim Financial Statements**

The accompanying unaudited financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute to Chartered Accountants for a review of interim financial statements by an entity's auditors.

**NEXCO RESOURCES INC.**

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Expressed in Canadian Dollars)

| | | May 31, 2017 (Unaudited) | | August 31, 2016 (Audited) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash | $ | 283,106 | $ | 16,862 |
| Other receivables | | 4,551 | | 812 |
| | | 287,657 | | 17,674 |
| Exploration and evaluation assets (Note 5) | | 137,428 | | 106,078 |
| | $ | 425,085 | $ | 123,752 |
| **LIABILITIES** | | | | |
| Current | | | | |
| Accounts payable | $ | 6,904 | $ | 18,456 |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital (Note 6) | | 556,132 | | 174,960 |
| Contributed surplus | | 302,196 | | 174,400 |
| Deficit | | (440,147) | | (244,064) |
| | | 418,181 | | 105,296 |
| | $ | 425,085 | $ | 123,752 |

NATURE OF CONTINUANCE OF OPERATIONS (Note 1)

Approved and authorized for issue on behalf of the board on June 26, 2017:

*"Robert Coltura"* Director

*"Jerry Minni"* Director

**NEXCO RESOURCES INC.**

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

(Expressed in Canadian Dollars) UNAUDITED

| | Three months ended May 31, 2017 | Three months ended May 31, 2016 | Nine months ended May 31, 2017 | Nine month ended May 31, 2016 |
|---|---|---|---|---|
| EXPENSES | | | | |
| Office and miscellaneous | $ 487 | $ 23 | $ 1,082 | $ 816 |
| Professional fees | 49,793 | – | 68,881 | 385 |
| Rent | 2,066 | 736 | 6,558 | 1,239 |
| Stock base compensation | 96,893 | – | 96,893 | – |
| Transfer agent and filing fees | 10,646 | – | 22,174 | – |
| Travel and promotion | 495 | – | 495 | – |
| Net loss and comprehensive loss, end of period | $ 160,380 | $ 759 | $ 196,083 | $ 2,440 |
| Loss per share (basic and diluted) | $ (0.02) | $ (0.00) | $ (0.03) | $ (0.00) |
| Weighted average number of common share outstanding | 7,442,286 | 7,128,000 | 7,442,286 | 7,128,000 |

**NEXCO RESOURCES INC.**

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**

(Expressed in Canadian Dollars) UNAUDITED

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Subscriptions Receivable | Contributed Surplus | Deficit | Total |
| | | $ | $ | $ | $ | $ |
| Balance, August 31, 2016 | 7,128,000 | 174,960 | – | 174,400 | (244,064) | 105,296 |
| Shares issued for cash | 3,200,000 | 397,075 | – | – | – | 397,075 |
| Shares issued for exploration and evaluation asset | 100,000 | 15,000 | – | – | – | 15,000 |
| Share base payments for agents warrants | – | – | – | 96,893 | – | 96,893 |
| Share base payments | – | (30,903) | – | 30,903 | – | – |
| Comprehensive loss for for the period | – | – | – | – | (196,083) | (196,083) |
| Balance, May 31, 2017 | 10,428,000 | 556,132 | – | 302,196 | (440,147) | 418,181 |
| Balances, August 31, 2015 | 7,128,000 | 174,960 | – | 174,400 | (236,104) | 113,256 |
| Comprehensive loss for the period | – | – | – | – | (2,440) | (2,440) |
| Balances, May 31, 2016 | 7,128,000 | 174,960 | – | 174,400 | (238,544) | 110,816 |

**NEXCO RESOURCES INC.**

**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**

(Expressed in Canadian Dollars) UNAUDITED

| | Three months ended May 31, 2017 | Three months ended May 31, 2016 | Nine months ended May 31, 2017 | Nine month ended May 31, 2016 |
|---|---|---|---|---|
| CASH PROVIDED BY (USED IN): | | | | |
| OPERATING ACTIVITIES | | | | |
| Net loss for the period | $ (160,380) | $ (759) | $ (196,083) | $ (2,440) |
| Items not involving cash: | | | | |
| Stock - based payments | 96,893 | – | 96,893 | – |
| | (63,487) | (759) | (99,190) | (2,440) |
| Changes in non-cash working capital balances: | | | | |
| Other receivable | (2,215) | (12) | (3,739) | (71) |
| Prepaid expenses | 10,000 | – | – | – |
| Accounts payable and accrued liabilities | (42,585) | – | (11,552) | 1,275 |
| Directors loan | (3,900) | 747 | – | – |
| Cash used in operating activities | (102,187) | (24) | (114,481) | (1,236) |
| INVESTING ACTIVITY | | | | |
| Mineral property acquisition and exploration costs | (12,000) | – | (16,350) | – |
| Cash used in investing activity | (12,000) | – | (16,350) | – |
| FINANCING ACTIVITIES | | | | |
| Shares issued for cash | 397,075 | – | 397,075 | – |
| Cash used in by financing activity | 397,075 | – | 397,075 | – |
| INCREASE IN CASH DURING THE PERIOD | 282,888 | (24) | 266,244 | (1,236) |
| CASH, BEGINNING OF PERIOD | 218 | 11,991 | 16,862 | 13,203 |
| CASH, END OF PERIOD | $ 283,106 | $ 11,967 | $ 283,106 | $ 11,967 |
| SUPPLEMENTAL DISCLOSURES | | | | |
| Interest paid | $ – | $ – | $ – | $ – |
| Income taxes paid | $ – | $ – | $ – | $ – |
| Shares issued for and evaluation and exploration costs | $ 15,000 | $ – | $ 15,000 | $ – |

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

1. NATURE OF OPERATIONS

Nexco Resources Inc. ("the Company") was incorporated on December 14, 2012 under the laws of British Columbia. The address of the Company's corporate office and its principal place of business is 200-551 Howe Street, Vancouver, British Columbia, Canada.

The Company's principal business activities include the acquisition and exploration of mineral property assets. As at May 31, 2017, the Company had not yet determined whether the Company's mineral property asset contains ore reserves that are economically recoverable. The recoverability of amount shown for exploration and evaluation asset is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development of and the future profitable production from the property or realizing proceeds from its disposition. The outcome of these matters cannot be predicted at this time and the uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The Company had a deficit of $440,147 as at May 31, 2017 which has been funded by the issuance of equity. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These financial statements do not give affect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

The financial statements are prepared in accordance with IAS 34 Interim Financial Reporting ("IAS34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). They do not include all financial information required for full annual financial statements and should be read in conjunction with the Audited Financial Statements of the Company for the year ended August 31, 2016.

The financial statements are prepared in accordance with accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretation of the International Financial Reporting Interpretation Committee ("IFRIC").

The financial statements were authorized for issue by the Board of Directors on June 26, 2017.

b) Basis of presentation

The financial statements have been prepared on the historical cost basis, with the exception of financial instruments which are measured at fair value, as explained in the accounting policies set out below. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

There have been no material revisions to the nature of judgments and estimates of amounts reported in the Company's August 31, 2016 annual financial statements.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued, but not yet effective, up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

New accounting standards effective for annual periods on or after January 1, 2018:

IFRS 9 – *Financial Instruments*

In November 2009, as part of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities. In November 2013 the standard was revised to add the new general hedge accounting requirements. The standard was finalized in August 2014 and was revised to add a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income (FVOTCI) category for certain debt instruments and additional guidance on how to apply the business model and contractual cash flow characteristics test.

IFRS 15 – *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, 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.

The standard is effective for annual periods beginning on or after January 1, 2019:

IFRS 16 – *Leases*

In June 2016, the IASB issued IFRS 16 – Leases. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined.

(Expressed in Canadian Dollars) UNAUDITED

5. EXPLORATION AND EVALUATION ASSET

| | Acquisition Costs | Exploration Costs | Total |
|---|---|---|---|
| | $ | $ | $ |
| Balance, August 31, 2016 | 3,250 | 102,828 | 106,078 |
| Acquisition costs | 27,000 | – | 27,000 |
| Exploration costs | – | 4,350 | 4,350 |
| Balance, May 31, 2017 | 30,250 | 107,178 | 137,428 |

**Berger Property**

Pursuant to an initial and amended option agreements (the "Agreement") dated August 21, 2014 and July 31, 2015, with the Optionor, the Company was granted an option to acquire a 100% undivided interest in the Berger Property (the "Property") which consists of 2 mining claims located in the Kamloops Mining District of British Columbia.

In accordance with the Agreement, the Company has the option to acquire a 100% undivided interest in the Property by issuing a total of 100,000 common shares (issued) of the Company to the Optionor and making cash payment of $12,000 (paid) no later than 15 days after the date that the Company's common shares are listed, posted and called for trading on the CSE Exchange.

The Optionor will retain a 2% Net Smelter Returns ("NSR") royalty on the Property. The Company has the right to purchase the NSR at a purchase price of $1,000,000 per percentage point during the 5 year period commencing from the date upon which the Property is put into commercial production.

6. SHARE CAPITAL

a) Authorized:

The Company is authorized to issue an unlimited number of common shares without par value.

b) Escrow shares

The Company entered into an escrow agreement, whereby common shares will be held in escrow and are scheduled for release at 10% on the listing date and 15% on every six month from date of listing. At May 31, 2017, there were 2,160,000 common shares held in escrow.

c) Issued and Outstanding:

As at May 31, 2017 10,428,000 common shares were issued and outstanding.

On September 20, 2016 the Company completed the following stock splits:

- 1,600,000 common shares were subdivided on the basis of 1 old common share for 1.5 new common shares for total of 2,400,000
- 1,576,000 common shares were subdivided on the basis of 1 old common share for 3 new common shares for a total of 4,728,000

All current and comparative references to the number of shares, weighted average number of common shares and loss per share have been restated to give effect to the stock splits.

The Company did not have any share capital transactions for the year ended August 31, 2016. For the nine month period ended May 31, 2017 the Company issued 3,200,000 common shares

(Expressed in Canadian Dollars) UNAUDITED

6. SHARE CAPITAL (continued)

c) Issued and Outstanding: (continued)

pursuant to a prospectus offering at a price of $0.15 to net $397,075. The Company also issue 100,000 at deemed price of $0.15 for exploration and evaluation assets.

d) Stock options

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the shareholders which complies with the rules and policies of the Canadian Securities Exchange. Under the Plan, the aggregate number of common shares which may be subject to option at any time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of 5 years, and the term will be reduced to one year following the date of death of the Optionee. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately expire. All options vest when granted unless otherwise specified by the Board of Directors. Options granted to persons providing investor relations activities to the Company must vest in stages over at lease one-year period and no more than one-quarter of such options may be vested in any three month period.

The following table summarizes stock option transactions during the period:

| | Number of Options | | Weighted Avg. Exercise Price |
|---|---|---|---|
| Outstanding, August 31, 2016 | – | $ | – |
| Granted | 800,000 | | 0.15 |
| Outstanding, May 31, 2017 | 800,000 | $ | 0.15 |

During the period ended May 31, 2017, the Company granted 800,000 stock options to directors and officers of the Company. The options vested immediately upon grant and their fair value of $96,893 was charged to statement of comprehensive loss. The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

The weighted average assumptions used in calculating the fair value of the options were as follows:

| | May 31, 2017 |
|---|---|
| Risk-free rate | 1.22% |
| Exercise price | $0.15 |
| Expected life of options in years | 5 |
| Expected volatility | 115% |
| Expected dividend yield | 0% |

The weighted average grant date fair value for the options for the period ended May 31, 2017 was $0.15.

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of a set of representative companies with similar risk profile.

(Expressed in Canadian Dollars) UNAUDITED

6. SHARE CAPITAL (continued)

d) Stock options (continued)

The following table summarizes the stock options outstanding and exercisable:

| Exercise Price | Number of Options Outstanding | Exercisable | Expiry Date |
|---|---|---|---|
| $ 0.15 | 800,000 | 800,000 | May 5, 2022 |

The weighted average remaining useful life of outstanding options is 4.92 years as at May 31, 2017.

e) <u>Warrants</u>

A Summary of the Company's share purchase warrants are as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Outstanding and exercisable, August 31, 2016 | – | – |
| Granted | 256,000 | $0.15 |
| Outstanding and exercisable, May 31, 2017 | 256,000 | $0.15 |

On May 5, 2017, the Company issued 256,000 agent warrants related to the IPO. The agent warrants are exercisable at $0.15 per share and expire on May 5, 2019. The weighted average remaining contractual life of the warrants is 1.83 years.

The following assumptions were used for the Black-Scholes valuation of warrants issued:

| | **2016** |
|---|---|
| Share price | $0.15 |
| Risk – free interest rate | 0.67% |
| Expected life of warrants | 2 years |
| Dividend rate | 0% |
| Annualized volatility | 115% |

The fair value per agent's warrant issued is $0.10.

(Expressed in Canadian Dollars) UNAUDITED

## 7. RELATED PARTY BALANCES AND TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

The following amounts are due to related parties and have been included in accounts payable and accrued liabilities:

| | **May 31, 2017** | **August 31, 2016** |
|---|---|---|
| | $ | $ |
| Accounts payable and accrued liabilities | 5,460 | 18,456 |

The amounts are due to a company controlled by a director of the Company. The amounts are non-interest bearing, unsecured and are due upon demand.

The Company had the following related party transactions for the six month period ended:

| | **2017** | **2016** |
|---|---|---|
| | $ | $ |
| Professional fees | 12,600 | – |
| Total | 12,600 | – |

Professional fees and rent were provided by companies owned or controlled by directors of the Company. Key management includes directors and key officers of the Company, including the President, Chief Executive Officer and Chief Financial Officer.

## 8. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of its resource property. The Company does not have any externally imposed capital requirements to which it is subject.

The Company considers the aggregate of its share capital, contributed surplus and deficit as 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 the capital structure, the Company may attempt to issue new shares or dispose of assets or adjust the amount of cash.

## 9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair Value of Financial Instruments

The Company's financial assets include cash and are classified as Level 1. The carrying value of these instruments approximates their fair values due to the relatively short periods of maturity of these instruments.

Assets measured at fair value on a recurring basis were presented on the Company's statements of financial position as at May 31, 2017 are as follows:

| | Fair Value Measurements Using | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets For Identical Instruments (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | $ | $ | $ | $ |
| Cash | 283,106 | – | – | 283,106 |

Fair value

The fair value of the Company's financial instruments approximates their carrying value as at May 31, 2017 because of the demand nature or short-term maturity of these instruments.

Financial risk management objectives and policies

The Company's financial instruments include cash and accounts payable. The risks associated with these financial instruments 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.

(i) *Currency risk*

The Company's expenses are denominated in Canadian dollars. The Company's corporate office is based in Canada and current exposure to exchange rate fluctuations is minimal.

The Company does not have any significant foreign currency denominated monetary liabilities. The principal business of the Company is the identification and evaluation of assets or a business and once identified or evaluated, to negotiate an acquisition or participation in a business subject to receipt of shareholder approval and acceptance by regulatory authorities.

(ii) *Interest rate risk*

The Company is exposed to interest rate risk on the variable rate of interest earned on bank deposits. The fair value interest rate risk on bank deposits is insignificant as the deposits are short-term.

The Company has not entered into any derivative instruments to manage interest rate fluctuations.

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK (continued)

(iii) *Credit risk*

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with a high quality financial institution.

(iv) *Liquidity risk*

In the management of liquidity risk of the Company, the Company maintains a balance between continuity of funding and the flexibility through the use of borrowings. Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations.

10. COMMITMENT

The Company is committed to certain cash payments and common share issuances as described in Note 5.