
MAWSON RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MAY 31, 2018 AND 2017

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Mawson Resources Limited

We have audited the accompanying consolidated financial statements of Mawson Resources Limited, which comprise the consolidated statements of financial position as at May 31, 2018 and May 31, 2017, and the consolidated statements of comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended May 31, 2018 and May 31, 2017, 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.

Auditor's 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Mawson Resources Limited as at May 31, 2018 and May 31, 2017, and its financial performance and its cash flows for the years ended May 31, 2018 and May 31, 2017 in accordance with International Financial Reporting Standards.

Vancouver, B.C.
August 27, 2018

"D&H Group LLP"

Chartered Professional Accountants

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	May 31, 2018 \$	May 31, 2017 \$
ASSETS			
Current assets			
Cash		11,398,105	4,921,999
Amounts receivable		139	21,051
GST/VAT receivable		385,395	477,997
Prepaid expenses and deposits		<u>151,922</u>	<u>141,843</u>
Total current assets		<u>11,935,561</u>	<u>5,562,890</u>
Non-current assets			
Investments	4	29,727	35,176
Property, plant and equipment	5	43,183	33,041
Exploration and evaluation assets	6	<u>23,331,209</u>	<u>17,921,633</u>
Total non-current assets		<u>23,404,119</u>	<u>17,989,850</u>
TOTAL ASSETS		<u>35,339,680</u>	<u>23,552,740</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		<u>927,337</u>	<u>843,418</u>
TOTAL LIABILITIES		<u>927,337</u>	<u>843,418</u>
SHAREHOLDERS' EQUITY			
Share capital	7	62,283,444	48,301,018
Share-based payments reserve		7,125,361	6,958,017
Deficit		(34,964,586)	(32,523,286)
Accumulated other comprehensive loss		<u>(31,876)</u>	<u>(26,427)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>34,412,343</u>	<u>22,709,322</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>35,339,680</u>	<u>23,552,740</u>

These consolidated financial statements were approved for issue by the Board of Directors on August 27, 2018 and are signed on its behalf by:

/s/ Michael Hudson
Michael Hudson
Director

/s/ Nick DeMare
Nick DeMare
Director

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Note	Year Ended	
		May 31, 2018 \$	May 31, 2017 \$
Expenses			
Accounting and administration	8(b)	94,397	81,008
Audit		41,806	36,819
Corporate advisory fees	7(b)(i)	519,400	-
Corporate development		133,030	68,399
Depreciation	5	25,180	22,261
Directors and officers compensation	8(a)	321,931	268,948
General exploration		60,663	152,146
Legal		169,080	107,157
Office and sundry		105,080	84,441
Professional fees	8(a)	285,325	252,819
Regulatory fees		37,656	19,952
Rent		156,936	79,679
Salaries and benefits	8(a)	113,723	124,477
Share-based compensation	7(d), 8	84,000	886,800
Shareholder costs		40,125	17,270
Transfer agent		15,278	7,632
Travel		293,944	315,255
		<u>2,497,554</u>	<u>2,525,063</u>
Loss before other items		<u>(2,497,554)</u>	<u>(2,525,063)</u>
Other items			
Interest and other income		113,178	47,498
Foreign exchange		(48,635)	40,971
Impairment of exploration and evaluation assets	6	(8,289)	-
Realized loss on sale of investment	4	-	(575,000)
		<u>56,254</u>	<u>(486,531)</u>
Loss before deferred income tax		<u>(2,441,300)</u>	<u>(3,011,594)</u>
Deferred income tax		<u>-</u>	<u>(40,500)</u>
Net loss for the year		<u>(2,441,300)</u>	<u>(3,052,094)</u>
Other comprehensive (loss) income , net of deferred income tax	4	<u>(5,449)</u>	<u>694,723</u>
Comprehensive loss for the year		<u>(2,446,749)</u>	<u>(2,357,371)</u>
Basic and diluted loss per common share		<u>\$(0.02)</u>	<u>\$(0.03)</u>
Weighted average number of common shares outstanding		<u>119,157,201</u>	<u>97,705,123</u>

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Year Ended May 31, 2018					Total Equity \$
	Share Capital		Share-Based Payments Reserve \$	Deficit \$	Accumulated Other Comprehensive Loss \$	
	Number of Shares	Amount \$				
Balance at May 31, 2017	105,307,863	48,301,018	6,958,017	(32,523,286)	(26,427)	22,709,322
Common shares issued for:						
- private placements	34,023,285	13,808,150	-	-	-	13,808,150
- share options exercised	80,000	16,000	-	-	-	16,000
- finder's warrants exercised	18,750	5,625	-	-	-	5,625
- warrants exercised	2,161,695	648,509	-	-	-	648,509
Share issue costs	-	(505,358)	-	-	-	(505,358)
Transfer on exercise:						
- share options	-	8,000	(8,000)	-	-	-
- finder's warrants	-	1,500	(1,500)	-	-	-
Share-based compensation on:						
- share options	-	-	84,000	-	-	84,000
- compensation options and finder's warrants	-	-	92,844	-	-	92,844
Unrealized loss on investments	-	-	-	-	(5,449)	(5,449)
Net loss for the year	-	-	-	(2,441,300)	-	(2,441,300)
Balance at May 31, 2018	141,591,593	62,283,444	7,125,361	(34,964,586)	(31,876)	34,412,343

	Year Ended May 31, 2017					Total Equity \$
	Share Capital		Share-Based Payments Reserve \$	Deficit \$	Accumulated Other Comprehensive (Loss) Income \$	
	Number of Shares	Amount \$				
Balance at May 31, 2016	90,307,863	42,327,191	6,071,217	(29,471,192)	(721,150)	18,206,066
Common shares issued for:						
- private placement	15,000,000	6,000,000	-	-	-	6,000,000
Share issue costs	-	(26,173)	-	-	-	(26,173)
Share-based compensation	-	-	886,800	-	-	886,800
Unrealized gain on investments	-	-	-	-	9,223	9,223
Reclassification adjustment on sale of investment, net of deferred income tax	-	-	-	-	685,500	685,500
Net loss for the year	-	-	-	(3,052,094)	-	(3,052,094)
Balance at May 31, 2017	105,307,863	48,301,018	6,958,017	(32,523,286)	(26,427)	22,709,322

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

MAWSON RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year Ended May 31.	
	2018	2017
	\$	\$
Operating activities		
Net loss for the year	(2,441,300)	(3,052,094)
Adjustments for:		
Depreciation	25,180	22,261
Corporate advisory fees	29,400	-
Impairment of exploration and evaluation assets	8,289	-
Share-based compensation	84,000	886,800
Realized loss on sale of investment	-	575,000
Deferred income tax	-	40,500
Changes in non-cash working capital items:		
Amounts receivable	20,912	(13,428)
GST/VAT receivables	92,602	(445,901)
Prepaid expenses and deposits	(10,079)	(32,477)
Accounts payable and accrued liabilities	4,300	203,164
Net cash used in operating activities	(2,186,696)	(1,816,175)
Investing activities		
Expenditures on exploration and evaluation assets	(5,338,246)	(3,432,720)
Additions to property, plant and equipment	(43,573)	(30,187)
Proceeds on disposal of property, plant and equipment	8,251	-
Proceeds on sale of investment	-	140,000
Net cash used in investing activities	(5,373,568)	(3,322,907)
Financing activities		
Issuance of common shares	14,478,284	6,000,000
Share issue costs	(441,914)	(26,173)
Net cash provided by financing activities	14,036,370	5,973,827
Net change in cash	6,476,106	834,745
Cash at beginning of year	4,921,999	4,087,254
Cash at end of year	11,398,105	4,921,999

Supplemental cash flow information - Note 11

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

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

1. Nature of Operations

Mawson Resources Limited (the “Company”) was incorporated on March 10, 2004 under the provisions of the Company Act (British Columbia). The Company is listed and trades on the Toronto Stock Exchange (“TSX”) under the symbol “MAW”. The Company’s head office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

The Company is a resource company engaged in the acquisition and exploration of unproven mineral interests. As at May 31, 2018 the Company has not earned any production revenue, nor found proved reserves on any of its unproven mineral interests. On the basis of information to date the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Exploration and evaluation assets represent costs incurred to date, less amounts depreciated and/or written off, and do not necessarily represent present or future values.

As at May 31, 2018 the Company had working capital in the amount of \$11,008,224. These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business operations for the foreseeable future. The Company’s operations are funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. Although management considers that the Company has adequate resources to maintain its core operations and planned exploration programs on its existing exploration and evaluation assets for the next twelve months, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future.

2. Basis of Preparation

Statement of Compliance

These consolidated financial statements 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

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

These consolidated financial statements are presented in Canadian dollars unless otherwise stated.

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

2. Basis of Preparation (continued)

The subsidiaries of the Company are:

<u>Company</u>	<u>Location of Incorporation</u>	<u>Ownership Interest</u>
Mawson AB	Sweden	100%
Mawson Oy	Finland	100%
Mawson Canada Pty Ltd.	Australia	100%
M2 Resources Corp. (holding company)	Canada	100%
Mawson Resources USA Inc.	United States	100%

3. Summary of Significant Accounting Policies

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.
- (iv) Although the Company takes steps to verify title to exploration and evaluation assets 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.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

- (v) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized to the extent of the amount expected to be utilized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 9.

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Depreciation expense is allocated based on assumed useful life of property, plant and equipment. Should the useful life differ from the initial estimate, an adjustment would be made in the statement of operations.
- (ii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at May 31, 2018 and 2017 there were no decommissioning liabilities.
- (iii) The assessment of any impairment of exploration and evaluation assets, and property, plant and equipment is dependent upon estimates of the recoverable amount that take into account factors such as reserves, economic and market conditions and the useful lives of assets. An impairment charge of \$8,289 was made in fiscal 2018 for costs associated with surrendered claims. Management has concluded there were no impairment indicators with respect to other exploration and evaluation assets and property, plant and equipment. In fiscal 2017 management concluded that there were no impairment indicators and no impairment charge was required.
- (iv) Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at May 31, 2018 and 2017 the Company did not have any cash equivalents.

Amounts Receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and are subsequently measured at amortized cost using the effective interest method.

Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farmout of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying 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.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful life of the assets, at a rate of 20% - 25% for office furniture and equipment, field equipment and vehicles.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

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

Decommissioning Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted each period for the unwinding of the discount rate and for changes to the current market-based discount rate and amount or timing of the underlying cash flows needed to settle the obligation. As at May 31, 2018 and 2017 the Company does not have any decommissioning obligations.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). Cash is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. Investments in common shares are classified as available-for-sale.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Transaction costs associated with financial assets at FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive income (loss). At May 31, 2018 and 2017 the Company has not classified any financial liabilities as FVTPL.

Share Capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company adopted a residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in the private placements is determined by the closing quoted bid price on the price reservation date, if applicable, or the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

The tax expense comprises current and deferred tax. Tax is recognized separately in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other comprehensive income or directly in equity, respectively.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Current Tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date 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 relating to items recognized directly in equity or other comprehensive income ("OCI") is recognized in equity or OCI and not in the statement of comprehensive loss.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Loss Per Share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share.

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in comprehensive loss.

Accounting Standards and Interpretations Issued but Not Yet Effective

As at the date of these consolidated financial statements, the following standards have not been applied in these financial statements:

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. Management is currently assessing the impact of this new standard on the Company's accounting policies and consolidated financial statement presentation.

4. Investments

	As at May 31, 2018			
	Number	Cost \$	Accumulated Comprehensive (Loss) Gain \$	Carrying Value \$
Common shares				
Kingsmen Resources Limited ("Kingsmen")	37,500	45,000	(38,625)	6,375
Thomson Resources Ltd. ("Thomson")	600,000	<u>16,603</u>	<u>6,749</u>	<u>23,352</u>
		<u>61,603</u>	<u>(31,876)</u>	<u>29,727</u>

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

4. Investments (continued)

	As at May 31, 2017			
	Number	Cost \$	Accumulated Unrealized (Loss) Gain \$	Carrying Value \$
Common shares				
Kingsmen Resources Limited ("Kingsmen")	37,500	45,000	(39,937)	5,063
Thomson Resources Ltd. ("Thomson")	600,000	<u>16,603</u>	<u>13,510</u>	<u>30,113</u>
		<u>61,603</u>	<u>(26,427)</u>	<u>35,176</u>

The carrying values of the investments were determined using quoted market values.

During fiscal 2017 the Company sold its investment in the 3,500,000 common shares of Hansa for \$140,000 and recorded a comprehensive gain of \$645,000 for unrealized losses recognized in prior periods and a realized loss of \$575,000.

During fiscal 2018 the Company recorded an unrealized comprehensive loss of \$5,449 (2017 - unrealized comprehensive gain of \$9,223) on its Kingsmen and Thomson shares.

5. Property, Plant and Equipment

	Office Furniture and Equipment \$	Field Equipment \$	Vehicles \$	Total \$
Cost:				
Balance at May 31, 2016	10,458	74,069	158,504	243,031
Additions	-	<u>5,535</u>	<u>24,652</u>	<u>30,187</u>
Balance at May 31, 2017	10,458	79,604	183,156	273,218
Additions	-	22,354	21,219	43,573
Disposal	-	-	<u>(10,961)</u>	<u>(10,961)</u>
Balance at May 31, 2018	<u>10,458</u>	<u>101,958</u>	<u>193,414</u>	<u>305,830</u>
Accumulated Depreciation:				
Balance at May 31, 2016	(9,882)	(54,017)	(154,017)	(217,916)
Depreciation	<u>(53)</u>	<u>(9,327)</u>	<u>(12,881)</u>	<u>(22,261)</u>
Balance at May 31, 2017	(9,935)	(63,344)	(166,898)	(240,177)
Depreciation	(523)	(15,569)	(9,088)	(25,180)
Disposal	-	-	<u>2,710</u>	<u>2,710</u>
Balance at May 31, 2018	<u>(10,458)</u>	<u>(78,913)</u>	<u>(173,276)</u>	<u>(262,647)</u>
Carrying Value:				
Balance at May 31, 2017	<u>523</u>	<u>16,260</u>	<u>16,258</u>	<u>33,041</u>
Balance at May 31, 2018	<u>-</u>	<u>23,045</u>	<u>20,138</u>	<u>43,183</u>

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

	<u>As at May 31, 2018</u>			<u>As at May 31, 2017</u>		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Rompas-Rajapalot	2,532,014	20,291,910	22,823,924	2,297,575	15,615,769	17,913,344
Other	<u>231,733</u>	<u>275,552</u>	<u>507,285</u>	<u>7,548</u>	<u>741</u>	<u>8,289</u>
	<u>2,763,747</u>	<u>20,567,462</u>	<u>23,331,209</u>	<u>2,305,123</u>	<u>15,616,510</u>	<u>17,921,633</u>

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

	Rompas- Rajapalot \$	Other \$	Total \$
Balance at May 31, 2016	<u>14,086,428</u>	<u>8,289</u>	<u>14,094,717</u>
Exploration costs			
Assays	306,470	-	306,470
Consulting	41,337	-	41,337
Core logging	36,830	-	36,830
Drilling	2,441,774	-	2,441,774
Exploration site	7,021	-	7,021
Field equipment	9,637	-	9,637
Field workers	66,853	-	66,853
Fuel	12,243	-	12,243
Geological	180,029	-	180,029
Geophysics	86,320	-	86,320
Salaries and benefits	490,872	-	490,872
Vehicle rental	20,963	-	20,963
	<u>3,700,349</u>	<u>-</u>	<u>3,700,349</u>
Acquisition costs			
Mining rights	<u>126,567</u>	<u>-</u>	<u>126,567</u>
Balance at May 31, 2017	<u>17,913,344</u>	<u>8,289</u>	<u>17,921,633</u>
Exploration costs			
Assays	482,062	28,787	510,849
Consulting	135,063	-	135,063
Core logging	2,824	-	2,824
Drilling	2,710,747	-	2,710,747
Exploration site	8,068	-	8,068
Field equipment	22,831	1,697	24,528
Field workers	87,059	-	87,059
Fuel	17,477	-	17,477
Geological	271,410	214,412	485,822
Geophysics	127,622	-	127,622
Salaries and benefits	763,817	-	763,817
Travel	9,786	29,915	39,701
Vehicle rental	37,375	-	37,375
	<u>4,676,141</u>	<u>274,811</u>	<u>4,950,952</u>
Acquisition costs			
Mining rights	234,439	108,204	342,643
Option payment	-	124,270	124,270
	<u>234,439</u>	<u>232,474</u>	<u>466,913</u>
Impairment of exploration and evaluation assets	<u>-</u>	<u>(8,289)</u>	<u>(8,289)</u>
Balance at May 31, 2018	<u>22,823,924</u>	<u>507,285</u>	<u>23,331,209</u>

Rompas -Rajapalot

As at May 31, 2018 the Company holds a total of 15 claims and exploration permits (the Rompas-Rajapalot Gold Project") which have been granted or are under application in northern Finland.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

Other

During fiscal 2018 the Company entered into an agreement whereby it was granted the option to lease and to conduct exploration on mineral rights located in the USA. The Company is required to incur minimum exploration expenditures of US \$500,000 on or before December 27, 2018. As at May 31, 2018 the Company has expended approximately \$185,000.

During fiscal 2018 the Company surrendered its exploration claims in Sweden and recorded an impairment charge of \$8,289 in exploration and evaluation assets.

7. Share Capital

(a) ***Authorized Share Capital***

The Company's authorized share capital consists of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) ***Equity Financings***

Fiscal 2018

During fiscal 2018 the Company completed:

- (i) a brokered and non-brokered private placement totalling 15,023,285 units of the Company at \$0.35 per unit for gross proceeds of \$5,258,150. Each unit consisted of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$0.50 on or before December 8, 2019. The Company paid finders' fees of \$185,046 cash and issued compensation options to acquire 528,702 common shares, at a price of \$0.44 per share on or before December 8, 2019. The Company also issued finder's warrants to acquire 1,290 common shares at a price of \$0.50 on or before December 8, 2019. The total fair value of the compensation options and finder's warrants has been estimated to be \$63,444 using the Black-Scholes option pricing model. The assumptions used were: risk-free interest rate of 1.5%, estimated volatility of 75%; expected life of 2 years; expected dividend yield of 0%; and estimated forfeiture rate of 0%. The Company also incurred \$197,885 for legal and filing costs associated with the private placement.

Certain directors and officers of the Company purchased 425,000 units of this offering.

The Company had also entered into a corporate advisory arrangement whereby the Company paid \$85,000 cash and issued 245,000 compensation options under the same terms as the compensation options issued under the private placement. The fair value of the compensation options has been estimated to be \$29,400 using the same Black-Scholes option pricing model assumptions as the compensation and finder's warrants. These amounts were recorded as part of corporate advisory services in the consolidated statements of comprehensive loss.

- (ii) a non-brokered private placement of 19,000,000 units of the Company at \$0.45 per unit for gross proceeds of \$8,550,000 with each unit consisting of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.65 on or before February 14, 2020. The Company incurred \$57,938 for legal and filing costs associated with the private placement.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. Share Capital (continued)

Fiscal 2017

During fiscal 2017 the Company completed a non-brokered private placement of 15,000,000 units of the Company at \$0.40 per unit for gross proceeds of \$6,000,000 with each unit consisting of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at a price of \$0.60 for a period of two years expiring December 2, 2018. The Company incurred \$26,173 for legal and filing costs associated with the private placement.

A significant minority shareholder of the Company acquired 5,378,066 units of this private placement.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2018 and 2017 and the changes for the years ended on those dates, is as follows:

	2018		2017	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	15,378,944	0.45	17,113,272	0.45
Issued	17,786,635	0.58	7,500,000	0.60
Exercised	(2,180,445)	0.30	-	-
Expired	<u>(5,698,499)</u>	0.30	<u>(9,234,328)</u>	0.58
Balance, end of year	<u>25,286,635</u>	0.58	<u>15,378,944</u>	0.45

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at May 31, 2018:

Number	Exercise Price \$	Expiry Date
7,500,000	0.60	December 2, 2018
773,702	0.44	December 8, 2019
7,512,933	0.50	December 8, 2019
<u>9,500,000</u>	0.65	February 14, 2020
<u>25,286,635</u>		

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan") in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of ten years.

During fiscal 2018 the Company granted share options to purchase 400,000 (2017 - 4,670,000) common shares and recorded compensation expense of \$84,000 (2017 - \$886,800).

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. Share Capital (continued)

The fair value of share options granted and vested during fiscal 2018 and 2017 is estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2018</u>	<u>2017</u>
Risk-free interest rate	0.79%	0.53% - 0.90%
Estimated volatility	85%	75% - 83%
Expected life	3 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average grant date fair value of all share options granted during fiscal 2018 was \$0.21 (2017 - \$0.19) per share option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at May 31, 2018 and 2017 and the changes for the years ended on those dates, is as follows:

	<u>2018</u>		<u>2017</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	5,050,000	0.35	4,170,000	0.51
Granted	400,000	0.39	4,670,000	0.35
Exercised	(80,000)	0.20		
Expired	<u>(300,000)</u>	0.45	<u>(3,790,000)</u>	0.52
Balance, end of year	<u>5,070,000</u>	0.35	<u>5,050,000</u>	0.35

The following table summarizes information about the share options outstanding and exercisable at May 31, 2018:

Number	Exercise Price \$	Expiry Date
4,620,000	0.35	September 23, 2019
50,000	0.365	May 12, 2020
<u>400,000</u>	0.39	June 15, 2020
<u>5,070,000</u>		

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

8. Related Party Disclosures

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's current and former Board of Directors and its executive officers.

(a) *Transactions with Key Management Personnel*

During fiscal 2018 and 2017 the following compensation amounts were incurred:

	2018 \$	2017 \$
Professional fees and salaries	594,596	596,748
Share-based compensation	<u>84,000</u>	<u>684,000</u>
	<u>678,596</u>	<u>1,280,748</u>

During fiscal 2018 the Company allocated the \$594,596 (2017 - \$596,748) professional fees and salaries based on the nature of the services provided: expensed \$321,931 (2017 - \$268,948) to directors and officers compensation; capitalized \$272,665 (2017 - \$254,488) to exploration and evaluation assets and recovered \$nil (2017 - \$73,312) for shared office personnel from public companies with common directors and officers. As at May 31, 2018 \$38,294 (2017 - \$40,967) remained unpaid and has been included in accounts payable and accrued liabilities.

The Company has a management agreement with its Chairman and CEO which provides that in the event the CEO's services are terminated without cause or upon a change of control of the Company, a termination payment of two years and six months of compensation, at \$12,000 per month, is payable. If the termination had occurred on May 31, 2018, the amount payable under the agreement would be \$360,000.

- (b) During fiscal 2018 the Company incurred a total of \$51,900 (2017 - \$46,200) with Chase Management Ltd. ("Chase"), a private corporation owned by the CFO of the Company, for accounting and administration services provided by Chase personnel, excluding the CFO, and \$4,020 (2017 - \$4,020) for rent. As at May 31, 2018, \$4,570 (2017 - \$3,670) remained unpaid and has been included in accounts payable and accrued liabilities.

During fiscal 2017 the Company also recorded \$19,000 for share-based compensation for share options granted to Chase.

- (c) See also Note 7(b).

9. Income Taxes

Deferred income tax assets and liabilities of the Company as at May 31, 2018 and 2017, are as follows:

	2018 \$	2017 \$
Deferred income tax assets (liabilities)		
Losses carried forward	6,991,200	5,996,700
Other	<u>129,700</u>	<u>34,400</u>
	7,120,900	6,031,100
Valuation allowance	<u>(7,120,900)</u>	<u>(6,031,100)</u>
Net deferred income tax asset	<u>-</u>	<u>-</u>

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

9. Income Taxes (continued)

The recovery of income taxes shown in the consolidated statements of comprehensive loss differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

	2018 \$	2017 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>26.4%</u>	<u>26.0%</u>
Expected income tax recovery	578,700	783,000
Foreign income tax rate differences	(52,300)	(25,000)
Non-deductible share-based compensation	(22,200)	(230,600)
Other	23,200	(68,800)
Unrecognized benefit of income tax losses	<u>(527,400)</u>	<u>(458,600)</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at May 31, 2018 the Company has non-capital losses of approximately \$11,261,400 (2017 - \$9,709,400), allowable capital losses of approximately \$275,000 (2017 - \$275,500) and tax pools of approximately \$129,700 (2017 - \$140,500) carried forward for Canadian income tax purposes and are available to reduce taxable income in future years. The non-capital losses expire commencing in 2026 through 2038. The allowable capital losses and tax pools can be carried forward indefinitely.

The Company's subsidiary in Sweden has losses for income tax purposes of approximately \$8,241,000 (2017 - \$8,663,500) which may be carried forward indefinitely. The Company's subsidiary in Finland has losses for income tax purposes of approximately \$10,688,200 (2017 - \$7,831,300) which expire commencing in 2022 through 2028.

10. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; and available-for-sale. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	May 31, 2018 \$	May 31, 2017 \$
Cash	FVTPL	11,398,105	4,921,999
Amounts receivable	Loans and receivables	139	21,051
Investments	Available-for-sale	29,727	35,176
Accounts payable and accrued liabilities	Other liabilities	(927,337)	(843,418)

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities and time value and volatility factors, which can be substantially observed or corroborated in the market place.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

10. Financial Instruments and Risk Management (continued)

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for amounts receivable and accounts payable and accrued liabilities approximate their fair value due to their short-term nature. The recorded amounts for cash and investments approximate their fair value. The Company's fair value of cash and investments under the fair value hierarchy are measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the potential loss related to the credit risk included in cash and amounts receivable is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

	Contractual Maturity Analysis at May 31, 2018				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	11,398,105	-	-	-	11,398,105
Amounts receivable	139	-	-	-	139
Investments	-	-	29,727	-	29,727
Accounts payable and accrued liabilities	(927,337)	-	-	-	(927,337)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian Dollars, Euros and Swedish Kronors ("SEK"). The Company maintains Euros bank accounts in Finland, SEK bank accounts in Sweden, and a US Dollar bank account in Canada to support the cash needs of its foreign operations. Management believes the foreign exchange risk related to currency conversions is minimal and therefore does not hedge its foreign exchange risk. At May 31, 2018, 1 Canadian Dollar was equal to 0.66 Euro, 6.80 SEK and 0.77 US Dollar.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

10. Financial Instruments and Risk Management (continued)

Balances are as follows:

	Euros	Swedish Kronors	US Dollars	CDN \$ Equivalent
Cash	380,560	124,182	113,917	742,811
VAT receivable	52,071	1,588	-	79,129
Accounts payable and accrued liabilities	<u>(513,307)</u>	<u>-</u>	<u>(22,466)</u>	<u>(806,914)</u>
	<u>(80,676)</u>	<u>125,770</u>	<u>91,451</u>	<u>15,026</u>

Based on the net exposures as of May 31, 2018 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the Euro, SEK and US Dollar would result in the Company's net loss being approximately \$17,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, cash and cash equivalents and short-term investments. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

11. Supplemental Cash Flow Information

During fiscal 2018 and 2017 non-cash activities were conducted by the Company as follows:

	2018 \$	2017 \$
Operating activity		
Accounts payable and accrued liabilities	<u>79,619</u>	<u>394,196</u>
Investing activity		
Exploration and evaluation assets	<u>(79,619)</u>	<u>(394,196)</u>
Financing activities		
Share-based payments reserve	53,944	-
Share issue costs	(63,444)	(7,500)
Issuance of share capital	<u>9,500</u>	<u>7,500</u>
	<u>-</u>	<u>-</u>

12. Segmented Information

The Company operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Company's primary exploration and evaluation assets are located in Finland and its corporate assets, comprising mainly of cash, are located in Canada. The Company is in the exploration stage and has no reportable segment revenues or operating results.

MAWSON RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian Dollars)

12. Segmented Information (continued)

The Company's total assets are segmented geographically as follows:

	As at May 31, 2018			
	Canada	Finland	Other	Total
	\$	\$	\$	\$
Current assets	10,904,010	1,010,131	21,420	11,935,561
Investments	29,727	-	-	29,727
Property, plant and equipment	-	43,183	-	43,183
Exploration and evaluation assets	-	22,823,924	507,285	23,331,209
	<u>10,933,737</u>	<u>23,877,238</u>	<u>528,705</u>	<u>35,339,680</u>
	As at May 31, 2017			
	Canada	Finland	Other	Total
	\$	\$	\$	\$
Current assets	4,943,652	586,221	33,017	5,562,890
Investments	35,176	-	-	35,176
Property, plant and equipment	523	32,518	-	33,041
Exploration and evaluation assets	-	17,913,344	8,289	17,921,633
	<u>4,979,351</u>	<u>18,532,083</u>	<u>41,306</u>	<u>23,552,740</u>