

GROSVENOR

RESOURCE CORPORATION

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

Year ended August 31, 2019



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Grosvenor Resource Corporation

We have audited the financial statements of Grosvenor Resource Corporation (the Entity), which comprise:

- the statements of financial position as at August 31, 2019 and August 31, 2018
- the statements of loss and comprehensive Income (loss) for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at August 31, 2019 and August 31, 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 audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity 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 is sufficient and appropriate to provide a basis for our opinion.



Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

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 International Financial Reporting Standards (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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' 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 auditors' 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 the 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Entity 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.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Andrew James.

Vancouver, Canada
November 6, 2019

GROSVENOR RESOURCE CORPORATION
STATEMENTS OF FINANCIAL POSITION
AS AT AUGUST 31,
(Expressed in Canadian Dollars)

	2019	2018
ASSETS		
Current		
Cash and equivalents	\$ 130,835	\$ 760,510
Short-term investments	1,090,376	589,858
Marketable securities (Note 4)	1,902,600	1,685,160
Receivables	13,583	11,930
Prepaid expenses	<u>5,592</u>	<u>5,042</u>
	3,142,986	3,052,500
Exploration and evaluation asset (Note 5)	<u>25,088</u>	<u>19,738</u>
	<u>\$ 3,168,074</u>	<u>\$ 3,072,238</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 6)	<u>\$ 28,036</u>	<u>\$ 26,936</u>
Shareholders' equity		
Capital stock (Note 7(a))	10,099,749	10,099,749
Reserves (Note 7(c))	2,083,737	2,083,737
Accumulated other comprehensive income	1,466,090	1,276,917
Deficit	<u>(10,509,538)</u>	<u>(10,415,101)</u>
	<u>3,140,038</u>	<u>3,045,302</u>
	<u>\$ 3,168,074</u>	<u>\$ 3,072,238</u>

Nature of operations (Note 1)

Subsequent event (Note 4)

Commitments (Note 12)

Approved by the Board of Directors:

<u>"Ian Rozier"</u> Ian Rozier	Director	<u>"Douglas Scheving"</u> Douglas Scheving	Director
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The accompanying notes are an integral part of these financial statements.

GROSVENOR RESOURCE CORPORATION
STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)
YEAR ENDED AUGUST 31,
(Expressed in Canadian Dollars)

	2019	2018
EXPENSES		
Consulting fees	\$ 84,000	\$ 80,000
Directors' fees	36,000	36,000
Management fees	96,000	88,000
Office and miscellaneous	11,185	18,735
Professional fees	93,629	110,365
Property investigation fees	43,452	86,410
Rent	30,000	30,000
Share-based payments (Note 7(c))	-	330,894
Shareholder communications	1,849	2,712
Transfer agent and filing fees	13,703	14,609
Travel and related	11,747	1,981
	<u>(421,565)</u>	<u>(799,706)</u>
OTHER ITEMS		
Dividend income (Note 4)	271,800	-
Interest income	27,061	25,740
Write-off of exploration and evaluation asset (Note 5)	-	<u>(447,048)</u>
	<u>298,861</u>	<u>(421,308)</u>
Loss before taxes	(122,704)	(1,221,014)
Deferred tax recovery (Note 13)	<u>28,267</u>	<u>56,534</u>
Loss for the year	(94,437)	(1,164,480)
OTHER COMPREHENSIVE INCOME		
Unrealized gain on marketable securities, net of tax (Note 4)	<u>189,173</u>	<u>378,346</u>
Comprehensive income (loss) for the year	\$ 94,736	\$ (786,134)
Basic and diluted loss per common share	\$ (0.00)	\$ (0.04)
Weighted average number of common shares outstanding	26,900,694	26,864,530

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

GROSVENOR RESOURCE CORPORATION
STATEMENTS OF CASH FLOWS
YEAR ENDED AUGUST 31,
(Expressed in Canadian Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (94,437)	\$ (1,164,480)
Items not affecting cash:		
Deferred tax recovery	(28,267)	(56,534)
Interest income	(27,061)	(25,740)
Share-based payments	-	330,894
Write-off exploration and evaluation asset	-	447,048
Change in non-cash working capital items:		
Increase in receivables	(798)	(1,054)
Increase in prepaids	(550)	-
Increase (decrease) in accounts payable and accrued liabilities	(3,750)	2,759
Interest received	<u>26,238</u>	<u>32,357</u>
Cash used in operating activities	<u>(128,625)</u>	<u>(434,750)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation asset, net	(500)	(11,738)
Short-term investment purchases	<u>(500,550)</u>	<u>(312,192)</u>
Cash used in investing activities	<u>(501,050)</u>	<u>(323,930)</u>
Decrease in cash and equivalents during the year	(629,675)	(758,680)
Cash and equivalents, beginning of year	<u>760,510</u>	<u>1,519,190</u>
Cash and equivalents, end of year	\$ 130,835	\$ 760,510
Cash and equivalents consists of:		
Cash	\$ 26,618	\$ 103,254
Guaranteed Investment Certificates and Mutual Funds	<u>104,217</u>	<u>657,256</u>
	<u>\$ 130,835</u>	<u>\$ 760,510</u>

Supplemental disclosure with respect to cash flows:

As at August 31, 2019, \$4,850 (2018 - \$Nil) of exploration and evaluation expenditures were included in accounts payable and accrued liabilities.

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

GROSVENOR RESOURCE CORPORATION
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	<div>Capital Stock</div>			Accumulated Other Comprehensive Income	Deficit	Total
	Number	Amount	Reserves			
Balance at August 31, 2017	26,850,694	\$ 10,091,249	\$ 1,752,843	\$ 898,571	\$ (9,250,621)	\$ 3,492,042
Loss for the year	-	-	-	-	(1,164,480)	(1,164,480)
Shares issued for exploration asset	50,000	8,500	-	-	-	8,500
Share-based payments	-	-	330,894	-	-	330,894
Unrealized gain on marketable securities, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,346</u>	<u>-</u>	<u>378,346</u>
Balance at August 31, 2018	26,900,694	10,099,749	2,083,737	1,276,917	(10,415,101)	3,045,302
Loss for the year	-	-	-	-	(94,437)	(94,437)
Unrealized gain on marketable securities, net of tax	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,173</u>	<u>-</u>	<u>189,173</u>
Balance at August 31, 2019	26,900,694	\$ 10,099,749	\$ 2,083,737	\$ 1,466,090	\$ (10,509,538)	\$ 3,140,038

The accompanying notes are an integral part of these financial statements

1. NATURE OF OPERATIONS

Grosvenor Resource Corporation (the “Company”) was incorporated on January 6, 2004 under the laws of the Province of Ontario and was granted certification of continuation by the Province of British Columbia and is considered to be in the exploration stage with respect to its evaluation and exploration asset. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation asset contains ore reserves. Recoverability of the carrying amount of the exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

The Company’s head office and principal address is 202 – 2168 Marine Drive, West Vancouver, British Columbia, Canada, V7V 1K3. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has financed its operations primarily through issuance of common shares. The Company currently has cash and equivalents, marketable securities and short term investments totalling \$3,123,811 and net working capital of \$3,114,950 which, the Company believes, is sufficient to fund its current business plans in the foreseeable future. In the longer term, additional equity or debt financing may be necessary to fund exploration and general and administrative activities or mine development.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on November 6, 2019 by the directors of the Company.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They have been prepared on a historical cost basis, except for financial instruments classified as fair value through other comprehensive income, which are stated at their fair value. These financial statements are presented in Canadian dollars unless otherwise noted.

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar for the Company. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in net loss in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Critical accounting estimates, judgments and assumption

The preparation of these 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 financial statements and the reported expenses during the year. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to the following:

- i) The carrying value and the recoverability of its exploration and evaluation assets, which are included in the statements of financial position. The Company capitalizes exploration and evaluation expenditures. At every reporting period, management assesses the potential impairment of the exploration and evaluation asset which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount. Such assessment requires judgement and estimates with respect to mineral resources, metal prices, capital and operating costs and considers management's plans with respect to an area of interest. Changes in these assumptions and judgements could result in an impairment of the carrying value of the exploration and evaluation asset.

Cash and equivalents

Cash and equivalents consist of cash, mutual funds, and guaranteed investment certificates with original maturity dates of less than ninety days or that are fully redeemable without penalty or loss of interest.

Short-term investments

Short-term investments include Canadian guaranteed investment certificates with a major Canadian Banking Institution with original maturity dates greater than ninety days. These investments are recognized at fair value on each balance sheet date.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Expenditures incurred before the Company has obtained the legal rights to explore an area are recognized in net loss.

Subsequent to the acquisition of the legal rights to explore, exploration and evaluation expenditures are capitalized. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Share-based payments

The Company has a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods based on the number of options that are expected to vest. Share-based payments to non-employees are measured at the fair value of 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. The corresponding credit amount is recorded as a reserve in shareholders' equity. The fair value of options is determined using a Black-Scholes pricing model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts included in reserves are transferred to capital stock.

Financial instruments

Financial assets and liabilities are initially recognized at fair value on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Subsequently, financial assets and liabilities are recognized based on the classification of these financial assets. The Company has classified financial assets into one of the following categories: (1) financial assets at fair value through profit or loss ("FVTPL"), (2) financial assets at fair value through other comprehensive income ("FVTOCI"), (3) financial assets at amortized cost. Financial liabilities are classified as either (1) financial liabilities at FVTPL or (2) financial liabilities at amortized cost.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in profit or loss. Financial assets at FVTOCI are subsequently measured at fair value with changes in those fair values recognized in other comprehensive income (loss), net of tax. Financial assets and liabilities at amortized cost are measured at amortized cost using the effective interest rate method.

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost and accounts payable and accrued liabilities are classified as liabilities at amortized cost. Accounts receivable, where applicable are net of a provision for expected credit losses. Marketable securities are classified as financial assets at FVTOCI.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. The Company is required to recognize expected credit losses when financial instruments are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to twelve month expected credit losses. For trade receivables the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Due to the nature of its receivables and that expected credit loss is nominal, no provision for credit loss was recognized by the Company (Note 10).

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Impairment of non-financial assets

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in net loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. A reversal of an impairment loss is recognized immediately in net loss.

Loss per share

Basic loss per share is calculated by dividing the loss by the weighted average number of common shares outstanding in the year. In calculating the diluted loss per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

Income taxes

Current income tax:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Income taxes (cont'd)

Deferred tax (cont'd):

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

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

3. NEW AND FUTURE ACCOUNTING PRONOUNCEMENTS

New Accounting Standards Adopted during the year

IFRS 15, Revenue from Contracts with Customers was adopted on September 1, 2018. The standard introduces a single, principles-based, five-step model for the recognition of revenue when control of goods is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The amended standard did not have an impact on the financial statements.

IFRS 9, Financial Instruments ("IFRS 9") replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") and introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. The amendment also introduces a third measurement category for financial assets: fair value through other comprehensive income, and includes a single, forward-looking 'expected loss' impairment model.

As the accounting reflected by the adoption of IFRS 9 under the above classifications is similar to that of IAS 39, there was no measurement impact on the Company's financial statements. The new policy is included in Note 2.

Future Accounting Pronouncements

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements:

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on September 1, 2019, and does not expect the effect of adoption to be material to the financial statements.

GROSVENOR RESOURCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
AUGUST 31, 2019

4. MARKETABLE SECURITIES

The Company holds 5,436,000 (2018 – 5,436,000) common shares of Newport Exploration Ltd. (“Newport”). The Company received these shares as partial consideration from the sale of the Chu Chua Property. The Company recorded these shares at a fair value of \$217,440 upon receipt during the year ended August 31, 2014. As at August 31, 2019, the fair value of the common shares held was \$1,902,600 (2018 - \$1,685,160) which resulted in an unrealized gain on marketable securities, net of tax, of \$189,173 for the year ended August 31 2019 (2018 – \$378,346). During the year ended August 31, 2019, the Company received a cash dividend of \$271,800, which represents a dividend of \$0.05 per Newport common share. Subsequent to August 31, 2019, the Company received a cash dividend of \$326,160, which represents a dividend of \$0.06 per Newport common share.

5. EXPLORATION AND EVALUATION ASSET

Mineral Hill

In fiscal 2014, the Company acquired a 50% interest in the Mineral Hill gold-silver property (“Mineral Hill”), located in southwestern British Columbia, from Remington Resources Inc. (“Remington”). During the year ended August 31, 2016, the Company purchased the remaining 50% interest in Mineral Hill from Remington. During the year ended August 31, 2018, the Company chose not to continue exploring the Mineral Hill property and let its exploration rights laps. Accordingly, the Company recognized an impairment charge of \$447,048.

Powder

During the year ended August 31, 2018, the Company acquired a 100% interest in the Powder gold-silver property (“Powder”) for consideration of \$7,500 in cash and the issuance of 50,000 common shares (valued at \$8,500). The property is subject to a 1% NSR.

	2019		2018	
	Powder	Mineral Hill	Powder	Total
Acquisition costs				
Balance, beginning of year	\$ 16,000	\$ 400,000	\$ -	\$ 400,000
Additions	-	-	16,000	16,000
Impairment	-	(400,000)	-	(400,000)
Balance, end of year	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>16,000</u>
Exploration costs				
Balance, beginning of year	3,738	46,548	-	46,548
Claim maintenance	5,350	500	3,738	4,238
Impairment	-	(47,048)	-	(47,048)
Balance, end of year	<u>9,088</u>	<u>-</u>	<u>3,738</u>	<u>3,738</u>
Total, end of year	\$ 25,088	\$ -	\$ 19,738	\$ 19,738

GROSVENOR RESOURCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
AUGUST 31, 2019

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2019	2018
Trade payables	\$ 5,886	\$ 4,736
Due to related parties (Note 8)	6,000	6,000
Accrued liabilities	16,150	16,200
Total	\$ 28,036	\$ 26,936

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within these agreed credit terms. The Company's exposure to liquidity risk is included in Note 11.

7. CAPITAL STOCK AND RESERVES

a) Authorized share capital

As at August 31, 2019, the authorized share capital of the Company is an unlimited number of common shares without par value.

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the Company's Annual General Meeting.

During the year ended August 31, 2018, the Company issued 50,000 common shares, valued at \$0.17 per share, pursuant to the acquisition of the Powder property.

b) Stock options:

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to directors and employees to acquire up to 10% of the Company's issued and outstanding common shares. Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

Details of options outstanding as at August 31, 2019 are as follows:

Number of Options	Exercise Price	Expiry Date
2,650,000	\$0.17	May 29, 2023*

*these options vested 100% on the date of grant.

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7. CAPITAL STOCK AND RESERVES (cont'd)

b) Stock options (cont'd):

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2017	-	\$ -
Granted	2,650,000	0.17
Balance, August 31, 2018 and 2019	2,650,000	\$ 0.17
Number of options exercisable	2,650,000	\$ 0.17

c) Share-based payments

During the year ended August 31, 2018, the Company granted 2,650,000 stock options to directors, officers and a consultant of the company, with a grant date fair value of \$0.12 per option resulting in share-based payments expense of \$330,894.

The fair value method of these options was determined using the Black-Scholes option pricing model. The following assumptions were used to calculate the fair value of the stock options granted during the year ended August 31, 2018:

	2018
Risk-free interest rate	2.11%
Expected life of options	5 years
Annualized volatility	96.63%
Dividend rate	0%
Forfeiture rate	0%

8. RELATED PARTY TRANSACTIONS

The aggregate value of the transactions with key management personnel, consisting of the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and members of the board of directors, for compensation are as follows:

	2019	2018
Management fees	\$ 96,000	\$ 88,000
Professional fees	72,000	72,000
Directors fees	36,000	36,000
Share-based payments	-	264,090

In addition, during the year ended August 31, 2019, the Company reimbursed rent of \$30,000 (2018 - \$30,000) to a company controlled by a director of the Company.

As at August 31, 2019, accounts payable and accrued liabilities included \$6,000 (2018 - \$6,000) owing to directors of the Company.

9. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of resource assets. The Company's exploration and evaluation assets are located in Canada.

10. FAIR VALUES

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and equivalents, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of short term investments and marketable securities was \$589,826 (2018 - \$589,858) and \$1,902,600 (2018 - \$1,685,160) respectively, as at August 31, 2019, which are level 1 fair value measurements.

11. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial risk factors

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of financial loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables, the carrying value totalling \$1,234,794, represents the Company's maximum exposure to credit risk. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of GST and interest. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is low due to the historical success of collecting receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at August 31, 2019, the Company had a cash and equivalents balance of \$130,835, marketable securities of \$1,902,600 and short-term investments of \$1,090,376 to settle current liabilities of \$28,036. All of the Company's financial liabilities are subject to normal trade terms.

11. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd)

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 equity prices. These fluctuations may be significant.

a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect on net loss of a 1% change in interest rates is approximately \$8,000.

b) Equity risk

The Company is exposed to equity risk with respect to the market price of its Newport shares. A change in market price will impact the value of its Newport shareholdings and have an impact on other comprehensive income and working capital. The effect on net loss of a 1% change in market price is approximately \$13,900.

Capital management

Grosvenor's objectives when managing capital is to pursue the exploration and evaluation of its mineral property, possibly acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

Grosvenor 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 issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company monitors its expenditures against its available capital.

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

12. COMMITMENTS

Grosvenor has management and consulting contracts with a company controlled by Ian Rozier, a director and Chief Executive Officer, and a company controlled by Tyler Friesen, Chief Financial Officer. The companies are paid a combined total of \$14,000 per month and the contracts remain in force on a continuous basis but can be terminated by Grosvenor with three months written notice. If Grosvenor terminates services of either or both companies, Grosvenor will be obligated to pay 36 months of service fees to the company controlled by Ian Rozier, and 12 months of service fees to the company controlled by Tyler Friesen.

Effective January 1, 2018, the Company entered into a consulting contract with Prospect Point Consulting Ltd to provide corporate consulting services for Grosvenor at \$7,000 per month. The contract remains in force on a continuous basis but can be terminated by Grosvenor with three months written notice. If Grosvenor terminates the services of the company, Grosvenor will be obligated to pay 24 months services fees to the company.

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13. INCOME TAXES

A reconciliation of income taxes at statutory rate of 27% (2018 – 26.7%) with the reported taxes is as follows:

	2019	2018
Loss before taxes	\$ (122,704)	\$ (1,221,013)
Expected income tax recovery	\$ (33,130)	\$ (324,789)
Change in statutory rate	-	(16,401)
Other items	(71,137)	66,657
Change in deferred tax assets not recognized	76,000	218,000
Deferred tax expense (recovery)	\$ (28,267)	\$ (56,534)

The significant components of the Company's recognized deferred tax assets are as follows:

	2019	2018
Deferred tax assets (liabilities):		
Non-capital losses available for future periods	\$ 227,000	\$ 198,000
Marketable securities	(227,000)	(198,000)
Deferred tax assets recognized	\$ -	\$ -

The Company has the following deductible temporary differences and unused tax losses that are available to reduce future taxable income for which no deferred tax assets have been recognized as it is not currently probable that the benefits of these temporary differences and unused tax losses will be realized:

	2019	Expiry Dates	2018
Non-capital losses	\$ 3,294,000	2028-2038	\$ 2,900,000
Exploration and evaluation assets	\$ 2,221,000	Not Applicable	\$ 2,222,000