

**GRANADA GOLD MINE INC.**  
**(formerly Gold Bullion Development Corp.).**

**Condensed Interim Financial Statements**

**September 30, 2017**

**Unaudited**

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(formerly Gold Bullion Development Corp.).**

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**NOTICE TO READERS**

The accompanying unaudited interim financial statements of Granada Gold Mine Inc. have been prepared by and are the responsibility of the Company's management.

In accordance with National Instrument 51-102, Continuous Disclosure Obligations of the Canadian Securities Administrators, the Company herewith discloses that its independent auditor has not performed a review of these condensed unaudited interim financial statements.

*Signed 'Frank J. Basa'*

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**Frank J. Basa, President**

*Signed "Thomas P. Devlin"*

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**Thomas P. Devlin, Chief Financial Officer**

**GRANADA GOLD MINE INC.**  
**(Formerly Gold Bullion Development Corp.)**  
**Interim Statements of Financial Position**  
(Expressed in Canadian Dollars)

	September 30. 2017 unaudited	June 30. 2017 audited
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 75,743	\$ 119,610
Receivables	82,710	130,642
Prepaid expenses	1,000	37,667
<b>Total current assets</b>	<b>159,453</b>	<b>287,919</b>
<b>Deposit - long-term (Note 5)</b>	<b>171,800</b>	<b>171,800</b>
<b>Castle units receivable</b>	<b>1,847,063</b>	<b>1,847,063</b>
<b>Property, plant and equipment (Note 7)</b>	<b>56,698</b>	<b>60,995</b>
<b>Total Assets</b>	<b>2,235,014</b>	<b>2,367,777</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables and provisions (Note 9)	4,269,736	3,929,109
Secured loans payable (Note 8)	1,227,761	1,228,161
<b>Total Current Liabilities</b>	<b>5,497,497</b>	<b>5,157,270</b>
<b>Total Liabilities</b>	<b>5,497,497</b>	<b>5,157,270</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (Note 10)	57,899,588	57,899,588
Reserves (Note 11)	3,913,300	3,898,800
Deficit	(65,075,371)	(64,587,881)
<b>Total Shareholders' Equity (Deficiency)</b>	<b>(3,262,483)</b>	<b>(2,789,493)</b>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>	<b>\$ 2,235,014</b>	<b>\$ 2,367,777</b>

**Nature of operations and going concern (Note 1)**  
**Contingencies (Note 13)**  
**Commitments (Note 14)**  
**Subsequent events (Note 17)**

APPROVED ON BEHALF OF THE BOARD

Signed "Frank Basa" \_\_\_\_\_, Director

Signed "Jacques Monette" \_\_\_\_\_, Director

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**(Formerly Gold Bullion Development Corp.)**  
**Interim Statements of Loss and Comprehensive Loss**  
**(Expressed in Canadian Dollars)**

**For the three months ended September 30,** **2017** **2016**

**Expenses**

Exploration and evaluation (Note 7)				
Assaying and testing	\$	-	\$	10,008
Consulting fees		-		3,635
Core analysis		-		14,260
Depreciation		4,297		1,873
Drilling		-		60,294
Equipment Rental		208		24,140
Facility expenses		17,501		36,907
Geology, geophysics and surveys		35,000		35,180
Personnel costs		19,821		93,965
Project management and engineering		116,244		173,805
Security		-		300
Taxes, permits and licensing		14,213		2,597
		<b>207,284</b>		<b>456,964</b>
<b>Corporate</b>				
Administrative and general expenses		8,923		16,536
Consulting fees		169,574		116,660
Management fees		-		60,586
Professional fees		31,211		36,098
Filing costs and shareholders' information		42,530		98,304
Travel		13,473		55,200
		<b>265,711</b>		<b>383,384</b>
<b>Other items</b>				
Interest and other income		(5)		(29)
Stock-based compensation (Note 12)		14,500		87,050
Unrealized Gain/Loss on Marketable Securities		-		(311,073)
		<b>14,495</b>		<b>(224,052)</b>
<b>Net loss and comprehensive loss for the year</b>	<b>\$</b>	<b>487,490</b>	<b>\$</b>	<b>616,296</b>
<b>Net loss per share - basic and diluted</b>	<b>\$</b>	<b>0.00</b>	<b>\$</b>	<b>0.00</b>
<b>Weighted average number of shares outstanding</b> basic and diluted		<b>388,028,765</b>		<b>371,476,919</b>

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**(Formerly Gold Bullion Development Corp.)**  
**Statement of Changes in Equity**  
(Expressed in Canadian Dollars)

	Share Capital	Reserves	Deficit	Total Equity (Deficiency)
Balance June 30, 2016	\$ 55,476,399	\$ 3,237,782	\$ (61,828,347)	\$ (3,114,166)
Private placements	145,091	89,290		234,381
Issued for debt	71,795			71,795
Exercise of options -cash	7,500			7,500
Exercise of options - book value	7,350	(7,350)		-
Exercise of warrants - cash	300,758			300,758
Exercise of warrants - book value	44,570	(44,570)		-
Warrants expired	163,626	(163,626)		-
Share issue costs	(9,033)	(5,267)		(14,300)
Options granted and vested		87,050		87,050
Options expired		(203,850)	203,850	-
Net loss for the three months ended Sept 30			(616,296)	(616,296)
Balance September 30, 2016	\$ 56,208,056	\$ 2,989,459	\$ (62,240,793)	\$ (3,043,278)
Private placements	1,445,830	1,029,033	-	2,474,863
Premium on flow through shares	(49,353)	-	-	(49,353)
Exercise of options -cash	6,550	-	-	6,550
Exercise of options - book value	6,550	(6,550)	-	-
Exercise of warrants - cash		-	-	-
Exercise of warrants - book value		-	-	-
Share issue costs	(191,948)	(120,089)	-	(312,037)
Options granted and vested	-	534,750	-	534,750
Options expired	-	(53,900)	53,900	-
Warrants expired	473,903	(473,903)	-	-
Issued to settle 2008 FT claims	71,795	-	-	71,795
Dividend distribution	-	-	(955,000)	(955,000)
Net loss for the nine months ended June 30,	-	-	\$ (1,445,988)	(1,445,988)
Balance June 30, 2017	\$ 57,899,588	\$ 3,898,800	\$ (64,587,881)	\$ (2,789,493)
Options granted and vested	-	14,500	-	14,500
Net loss for the three months ended Sept 30	\$ -	\$ -	\$ (487,490)	\$ (487,490)

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**(Formerly Gold Bullion Development Corp.)**  
**Statements of Cash Flows**  
**(Expressed in Canadian Dollars)**

<b>For the three months ended September 30,</b>	<b>2017</b>	<b>2016</b>
<b>Cash (used in) provided by:</b>		
<b>Operating activities</b>		
Net loss from continuing operations	\$ (487,490)	\$ (616,296)
Items not involving cash		
Depreciation	4,297	1,873
Stock-based compensation	14,500	87,050
Unrealized gain on Castle units	-	(311,073)
Changes in non-cash working capital items		
Receivables	47,932	(36,521)
Prepaid expenses	36,667	-
Trade and other payables and provisions	340,218	66,851
Financing fees included in secured loans	-	-
<b>Net cash flows (used in) operating activities</b>	<b>(43,876)</b>	<b>(808,116)</b>
<b>Financing activities</b>		
Issuance of common shares and warrants by private placement	-	230,181
Share issue costs	-	(10,100)
Exercise of warrants	-	300,759
Exercise of options	-	7,500
<b>Net cash flows generated from financing activities</b>	<b>-</b>	<b>528,340</b>
<b>Change in cash during the period</b>	<b>(43,876)</b>	<b>(279,776)</b>
<b>Cash, beginning of year</b>	<b>119,619</b>	<b>1,057,610</b>
<b>Cash, end of period\]</b>	<b>\$ 75,743</b>	<b>\$ 777,834</b>

See accompanying notes to the financial statements.

**GRANADA GOLD MINE INC.**  
**(formerly Gold Bullion Development Corp.)**  
**Notes to the Interim Financial Statements**  
**Three Months Ended September 30, 2017**  
**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern**

Granada Gold Mine Inc. (“Granada” or the “Company”) is domiciled in Canada and was incorporated on July 17, 1985 under the Company Act of British Columbia. The Company is a publicly-traded company with its shares listed on the TSX Venture Exchange (“TSXV”), the Frankfurt Stock Exchange, and the US over-the-counter (“OTC”) market. The principal business of the Company is the acquisition, exploration and development of mineral property interests. The Company’s head office is located at 2875 Avenue Granada, Rouyn-Noranda, Quebec, J9Y 1J1.

These financial statements were reviewed, approved and authorized for issue by the Board of Directors on November 22, 2017.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to obtain additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continuing existence is dependent upon the discovery of economically recoverable reserves and resources, the preservation of its interest in the underlying properties, the ability of the Company to obtain necessary financing to complete exploration, development and construction of processing facilities, obtaining certain government approvals and the achievement of profitable operations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, and renegotiation of contracts.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported revenues and expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed inappropriate. Such adjustments could be material.

As at June 30, 2017, the Company had not yet achieved profitable operations, has an accumulated deficit of \$65,075,371 (June 30, 2017 - \$64,587,881), has a working capital deficiency of \$4,869,351 (June 30, 2017 – working capital deficiency of \$4,869,351) and expects to incur further losses in the development of its business.

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**Notes to the Interim Financial Statements**  
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**(Expressed in Canadian Dollars)**

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**1. Nature of Operations and Going Concern (cont'd)**

Revenue Quebec has demanded immediate payment of certain amounts included in trade and other payables and provisions related to shortfalls in flow-through spending and the mining tax credits of previous years. The Company may face action from Revenu Québec if it cannot raise the funds to pay the amount in the short term.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing accumulated operating losses, a significant working capital deficiency, and action threatened by Revenu Québec the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. These conditions indicate the existence of material uncertainties which cast significant doubt about the ability of the Company to continue as a going concern.

**2. Basis of Preparation**

**(a) Statement of Compliance**

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"), which incorporates International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Accordingly, these condensed interim financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, as required by National Instrument 52-107 sec. 3.2(1)(b)(ii).

**(b) Basis of Presentation**

These financial statements have been prepared on the historic cost basis, except certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results may ultimately differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in Note 4.

**(c) Functional and Presentation Currency**

For the purpose of the financial statements, the results and financial position are expressed in Canadian dollars, which is also the functional currency of the Company. Transactions in currencies other than the functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transaction. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Foreign exchange gains and losses are presented in the statement of loss. The Company does not have any foreign operations.



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**Notes to the Interim Financial Statements**  
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**3. Significant accounting policies**

The accounting policies set out in the Company's audited financial statements for the year ended June 30, 2016 have been applied consistently to these interim condensed consolidated financial statements.

**4. Significant Judgements, Estimates and Assumptions**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions based on currently available information that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the year. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual results could differ from those estimates. By their very nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of future periods could be material.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the financial statements:

**Income taxes** The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

**Decommissioning and restoration costs** Decommissioning and restoration costs will be incurred by the Company at the end of the operating life of certain of the Company's assets. The ultimate decommissioning and restoration costs are uncertain and cost estimates can vary in response to many factors including changes to relevant legal and regulatory requirements, the emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure can also change, for example in response to changes in reserves or changes in laws and regulations or their interpretation. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates. As a result, there could be significant adjustments to the provisions established which would affect future financial results. In the Company's judgment, the most appropriate discount rate to use is one that reflects current market assessments and the risks specific to the liability.

**GRANADA GOLD MINE INC.**  
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**Notes to the Interim Financial Statements**  
**Three Months Ended September 30, 2017**  
**(Expressed in Canadian Dollars)**

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**4. Significant Judgements, Estimates and Assumptions (cont'd)**

**Share-based payments** The Company uses the fair value method of valuing compensation expense associated with the Company's stock option plan. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, expected forfeitures and distribution yield. Such judgements and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

**Premium on Flow-through shares** At the time of issue, the Company estimates the proportion of proceeds attributed to the flow-through share, the common share and the warrant with reference to closing market prices and such techniques as the Black-Scholes option-pricing model. The Flow-through Premium is estimated as the excess of the subscription price over the market value of the share and is recorded in trade and other payables on the statements of financial position. When the eligible expenditures are incurred, the Flow-Through Premium is reversed into the statement of loss within other income (expenses) when the eligible expenditures are incurred.

**5. Deposit – Long-term**

As at September 30, 2017 and 2016, the Company has a non-interest bearing cash deposit of \$171,800 with the Quebec government as a guarantee for the restoration of the Granada mine site. The Company has estimated that it has no material decommissioning obligations as at September 30, 2017 and 2016.

**6. Exploration and Evaluation Projects**

The Company has determined that as at September 30, 2017 the following projects have not met the technical feasibility and commercial viability criteria to be capitalized and classified in mining properties. Accordingly, the Company has expensed all exploration and evaluation expenditures in the year. As of September 30, 2017 and 2016, the Company did not hold any assets classified as mining properties.

Granada Property, Quebec, Canada

The Company holds a 100% interest to certain mining leases and claims. The mining leases are subject to a 2% Gross Metal Royalty ("GMR"), ½ of which may be purchased for \$1,000,000 and a 1% Net smelter royalty (NSR) and 23 of the original mining claims are subject to a 1% NSR. Additionally, there is a 2% NSR on 4 properties optioned from the D2D3 Group ("D2D3") in 2010, half of which may be purchased for \$1,000,000.

Castle Property, Ontario, Canada

The Company previously owned, through its wholly owned subsidiary, Castle Silver Mines Inc., "CSM" a 100% interest to certain claims. On September 15, 2015, the Company sold its wholly-owned subsidiary to Castle Silver Resources Inc, (CSR)(formerly Takara Resources Inc).

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**6. Exploration and Evaluation Projects (cont'd)**

Effective June 30, 2015, the Company, acquired a 1% NSR on the Castle Silver Mines property in return for the expenditure of \$1,000,000 in exploration expenses made on the Castle property.

On June 30, 2016, the Company entered into a Letter of Intent ("LOI") with Takara Resources Inc. to advance the "Castle Golden Corridor Zone". Under the terms of the LOI, CSR will transfer a 50% interest in certain contiguous mineral claims on the property in lieu of \$60,000 in property payments owed to Granada pursuant to an Assignment Agreement between the two companies dated October 8, 2015, concerning the Beaver and Violet cobalt-silver properties.

**7. Property, Plant and Equipment**

	September 30, 2017				
	Balance	Additions	Balance		
	June 30,	(Disposals)	June 30,		
	2017	(Write-down)	2017	Amortization	Net
Equipment	\$13,891	\$ -	\$13,891	\$2,777	\$11,114
Vehicles	23,555	47,704	71,259	21,378	49,881
	<u>\$37,446</u>	<u>\$47,704</u>	<u>\$85,150</u>	<u>\$24,155</u>	<u>\$60,995</u>

  

	June 30, 2017				
	Balance	Additions	Balance		
	June 30,	(Disposals)	June 30,		
	2015	(Write-down)	2016	Amortization	Net
Equipment	\$17,363	\$ -	\$17,363	\$3,473	\$13,890
Vehicles	33,650	-	33,650	10,095	23,555
	<u>\$51,013</u>	<u>\$ -</u>	<u>\$51,013</u>	<u>\$13,568</u>	<u>\$37,445</u>

**GRANADA GOLD MINE INC.**  
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**Notes to the Interim Financial Statements**  
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**8. Secured Loans Payable**

On August 4, 2015, the Company entered into two loan agreements and a Supply and Services agreement for proceeds totaling \$800,000.

The first loan agreement is with an existing shareholder and is a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The second loan is from a company owned by a director of the Company and comprises a \$100,000 demand loan also with a three-year term at an interest rate of 8% calculated monthly and payable annually. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The third agreement is a Supply and Services non-interest bearing loan for \$500,000 over the 12 months following the execution of the loan agreement from a company owned by a director of the Company. The lender has the option to obtain loan principal repayments including interest as applicable, in gold valued at US \$800 per ounce if the company reaches commercial production. The Supply and Services loan is to be used for specific projects on the property. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

On November 11, 2015 and January 8, 2016, the Company entered into a second and third loan agreement with an existing shareholder for a demand loan for proceeds of \$200,000 over a three-year term at an interest rate of 8% calculated monthly and payable annually. The loan will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the option to participate in future financings but is not obliged to do so. The outstanding loan balance is subject to repayment in full at any time at the sole discretion of the lender.

The Granada Gold property is registered as security against these loans. As a triggering event has not taken place, no value has been attributed to the derivative relating to the right of the lenders to demand repayment in gold valued at US \$800 per ounce.

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**(Expressed in Canadian Dollars)**

**9. Trade and Other Payables and Provisions**

	Sept 30 ,2017	June 30, 2017
Trade payable	\$ 1,122,201.00	\$ 738,621.00
Due to related parties	220,999	263,952
Part XII.6 taxes and interest <sup>(1)</sup>	405,145	405,145
Flow-through indemnification provision <sup>(1)</sup>	1,135,164	1,135,164
Part XII.6 taxes and interest <sup>(ii)</sup>	125,389	125,389
Flow-through indemnification provision <sup>(ii)</sup>	385,875	385,875
Part XII.6 taxes and interest <sup>(iii)</sup>	218,952	218,952
Flow-through indemnification provision <sup>(iii)</sup>	627,460	627,460
Part XII.6 taxes and interest <sup>(iv)</sup>	28,551	28,551
	<u>\$ 4,269,736.00</u>	<u>\$ 3,929,109</u>

- (i) The Company had been reassessed for a renunciation shortfall of \$1,759,590 on unspent flow-through expenditures for fiscal years 2006 to 2008. During the year ended June 30, 2017, the Company had accrued \$nil (June 30, 2017 - \$19,293) for Part XII.6 taxes, interest and penalties on the shortfall as, due to an administrative decision by the CRA, interest for the fiscal 2017 year was cancelled. The Company has reviewed the reassessment and has filed objections on certain of the CRA's claims, which were denied on April 11, 2016. During the year ended June 30, 2017, the Company settled \$71,795 in indemnified shareholder losses relating to this renunciation shortfall by the issuance of 717,952 common shares (refer also to Note 12). As at June 30, 2017, the Company has accrued \$1,135,164 (2016 - \$1,152,905) for potential indemnity for shareholders.
- (ii) The Company has estimated potential Part XII.6 taxes and indemnity in relation to unspent flow-through expenditures on flow-through issuance in fiscal year 2012. During the year ended June 30, 2017, the Company had accrued interest of \$5,971 (2016 - \$5,686 ). As at June 30, 2017, the Company has accrued \$125,389 (2016 - \$119,418) for Part XII.6 taxes, interest and penalties on the shortfall. In addition, the Company has accrued \$385,875 (2016 - \$367,500) for potential indemnity for shareholders.
- (iii) The Company has estimated potential Part XII.6 taxes, interest and indemnity in relations to unspent flow-through expenditures on flow-through issuance in fiscal year 2013. During the year ended June 30, 2017, the Company has accrued interest of \$6,135 (2016 - \$2,957). The Company has accrued \$218,952 (2016 - \$122,697) for Part XII.6 taxes and penalties on the shortfall. In addition, the Company has accrued \$627,460 (2016 - \$597,580) for potential indemnity for shareholders.
- (iv) The Company has estimated potential Part XII.6 taxes, interest and indemnity in relations to unspent flow-through expenditures on flow-through issuance in fiscal year 2017. The Company has accrued \$28,551 for Part XII.6 taxes.

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**(Expressed in Canadian Dollars)**

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**9. Trade and Other Payables and Provisions (cont'd)**

- (v) During the year ended June 30, 2016, the Company was reassessed for mining tax claims made during the 2012-2014 fiscal years in the province of Quebec. As a result, a \$718,541 liability was accrued. During the year ended June 30, 2017, various credits were applied to this balance owing and certain amounts were reassessed again. In connection with this amount owing to Revenu Québec and to Part XII.6 tax assessed in relation to the 2012 and 2013 flow-through expenditure shortfalls, the Company received on August 18, 2017 a demand for payment of \$608,957. Revenu Québec has indicated that action may be taken to collect this amount owing.

**10. Share Capital**

**Authorized**

Unlimited number of common shares without par value

**Issued**

As at September 30, 2017 and June 30, 2017 there were 388,025,755 common shares issued and outstanding.

On March 8, 2016, the Company closed a private placement offering raising gross proceeds of \$830,000. The Company issued 16,600,000 units at a price of \$0.05 per unit. Each unit is comprised of one common share and one share purchase warrant with each warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.10 per share, for a period of two years.

On March 23, 2016, the Company closed a private placement offering raising gross proceeds of \$920,138. The Company issued 18,402,743 units at a price of \$0.05 per unit. Each unit is comprised of one common share and one share purchase warrant with each warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.10 per share, for a period of two years.

On May 16, 2016, the Company closed a private placement offering raising gross proceeds of \$804,000. The Company issued 8,040,000 flow-through ("FT") units at a price of \$0.10 per unit.

Each FT unit is comprised of one common share and one half of one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.15 per share, for a period of two years from closing.

Finder's fees were paid in connection with the private placement in the amount of \$62,800 in cash and the issuance of 628,000 broker warrant, on the same terms as the purchasers warrants. A settlement fee was also paid to the finder in connection with the private placement in the amount of \$21,000.

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**11. Share Capital (cont'd)**

On June 28, 2016, the Company closed a private placement offering raising gross proceeds of \$200,000. The Company issued 2,000,000 FT units at a price of \$0.10 per unit. Each FT unit is comprised of one common share and one half of one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.15 per share, for a period of two years from closing.

Finder's fees were paid in connection with the private placement in the amount of \$16,000 in cash and the issuance of 160,000 broker warrant, on the same terms as the purchasers warrants.

On July 6, 2016, the Company closed a private placement offering raising gross proceeds of \$230,181 by way of combined flow-through ("FT") and non-flow-through ("NFT") units.

The Company issued 1,500,000 flow-through units at a price of \$0.10 per unit. Each FT unit is comprised of one common share and one half of one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.15 per share, for a period of two years from closing. Finder's fees were paid in connection with the private placement in the amount of \$10,000 in cash and the issuance of 105,000 broker warrants, on the same terms as the purchaser warrants.

The Company also issued 1,002,262 non-flow-through units at a price of \$0.08 per unit. Each NFT unit is comprised of one common share and one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.13 per share, for a period of two years from closing, subject to the acceptance of the TSXV.

On July 28, 2016, the Company issued 717,952 common shares to settle a portion of the Flow through indemnification provision for \$71,795.

On October 28, 2016, the Company closed a private placement offering raising gross proceeds of \$2,405,000. The Company issued 25,315,789 FT units at a price of \$0.095 per unit. Each FT unit is comprised of one common share and one share purchase warrant with each whole warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.14 per share, for a period of two years from closing.

Finder's fees were paid in connection with the private placement in the amount of \$226,585 in cash and the issuance of 1,705,263 broker warrants. Each broker warrant entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.095 per share, for a period two years from closing.

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**11. Reserves - Warrants**

The Company records the estimated fair value of warrants issued on the grant date. The fair value is determined using the Black-Scholes option pricing model.

**Warrants Issued**

As at September 30, 2017 and June 30, 2017 there were 60,739,057 warrants issued and outstanding.'

**Warrants Outstanding**

Number of Warrants	Exercise Price	Expiry Date
50,000	\$ 0.100	August 19, 2018
16,600,000	0.100	March 3, 2018
18,402,743	0.100	March 17, 2018
4,020,000	0.150	May 16, 2018
628,000	0.150	May 16, 2018
1,000,000	0.150	June 28, 2018
160,000	0.150	June 28, 2018
750,000	0.150	July 6, 2018
1,002,262	0.130	July 6, 2018
105,000	0.150	July 6, 2018
25,315,789	0.140	October 28, 2018
1,705,263	0.095	October 28, 2018
<u>69,739,057</u>		

**Reserves - Options**

The Company's Stock Option Plan (the "Plan") provides for the granting of stock options to directors, officers, employees and consultants of the Company. Share options are granted for a term not to exceed ten years from the date of grant. All options are subject to a four month holding period from the date of grant if granted at the price lower than the market price; options granted at market prices are not subject to the hold period. The Plan is administered by the Board of Directors, which determines individual eligibility under the Plan, number of shares reserved for optioning to each individual (not to exceed 5% of issued and outstanding shares to any one individual) and the vesting period. The maximum number of shares of the Company which may be reserved for the issuance shall be 10% of the issued and outstanding shares at the time of the option grant.



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**Reserves - Options (cont'd)**

The Company records the fair value of stock-based compensation on the granting of stock options over the period in which they vest. The fair value is determined using the Black-Scholes option pricing model.

**Option Activity**

	Number of Options	Weighted Average Exercise price	Value	Number of Options	Weighted Average Exercise price	Value
Balance, beginning of year	29,169,000	0.08	\$ 1,965,500	19,600,000	0.08	\$1,615,350
Exercised	-	-	-	(281,000)	0.05	(13,900)
Expired	-	-	-	(1,850,000)	0.15	(257,750)
Granted	259,999	0.08	14,500	11,700,000	0.05	621,800
Balance, end of period	29,428,999	0.08	\$ 1,980,000	29,169,000	0.08	1,965,500

A summary of the Company's outstanding options issued as at September 30, 2017 is presented below. Each option entitles the holder to purchase one common share.

**Options Outstanding**

Number of Options	Options Vested	Exercise Price	Expiry Date
3,350,000	3,350,000	0.130	January 4, 2022
150,000	150,000	0.100	March 11, 2018
600,000	600,000	0.100	March 11, 2018
600,000	600,000	0.100	June 12, 2018
4,000,000	4,000,000	0.050	July 23, 2019
300,000	300,000	0.050	August 5, 2019
400,000	400,000	0.050	May 14, 2020
4,900,000	4,900,000	0.050	February 12, 2021
600,000	600,000	0.100	May 9, 2021
1,400,000	1,400,000	0.105	May 25, 2021
300,000	300,000	0.080	June 23, 2021
500,000	500,000	0.100	June 23, 2018
500,000	500,000	0.100	June 23, 2021
400,000	400,000	0.100	July 7, 2021
400,000	400,000	0.100	September 8, 2021
250,000	250,000	0.100	September 9, 2021
250,000	250,000	0.060	December 12, 2021
10,269,000	10,269,000	0.050	March 24, 2022
250,000	250,000	0.075	July 11, 2022
29,169,000	29,169,000	0.069	

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**12. Related Party Transactions**

The Company determined that key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company. The Board of Directors (executive and non-executive), President and Chief Executive Officer and Chief Financial officer are key management personnel.

The remuneration to key management personnel during the three months ended September 30, 2017 and the year ended June 30, June 30, 2017 is as follows:

	September 30, 2017	June 30, 2017
Key management compensation	\$ 173,996	\$ 806,622
Stock-based compensation	-	252,300
	<u>\$173,996</u>	<u>\$1,058,922</u>

- a) The Company retains the services of a company owned by an officer and director of the Company to carry out exploration work on its resource properties and for management services. During the three months ended September 30, 2017, the total amount for such services provided was \$110,000 (2017 – \$440,001) of which \$110,000 (2016 – \$440,000) was recorded in exploration expenses and \$1 (2016 - \$1) in management fees.
- b) The Company retains the services of one director and two officers to carry out administrative services. During the three months ended September 30, 2017, the total amount for such services provided was \$63,996 (June 30, 2017 – \$426,621) which was recorded in management and consulting fees. As at September 30, 2017 an amount of \$12,030 (2016 - \$263,954) was included in trade and other payables. The amount is unsecured, non interest-bearing, generally due by 30 days.
- c) As part of the March 8, 2016 private placement, a corporation controlled by an officer and director of the Company subscribed for 3,087,400 non-flow-through units, and one director of the Company subscribed for 2,000,000 non-flow-through units. See note 11.
- d) As part of the March 23, 2016 private placement, a corporation controlled by an officer and director of the Company subscribed for 1,000,000 non-flow-through units, and one former director of the Company subscribed for 882,743 units. See note 11.
- e) As part of the May 16, 2016 private placement, a director of the Company subscribed for 190,000 flow-through units. See note 11.
- f) As part of the July 6, 2016 private placement, a director of the Company subscribed for 237,500 non-flow-through units. See note 11.
- g) As of September 30, 2017, the Company owed \$13,303 to a company of which a senior officer of the Company is also a senior officer.

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**13. Contingencies**

The Company's operations are subject to governmental laws and regulations regarding environmental protection. The environmental consequences are hardly identifiable, whether with the outcomes, the impacts or the deadline. As at September 30, 2017 and to the best knowledge of its management, the Company is, in conformity with the laws and regulations.

a) The Company is partly financed by the issuance of flow-through shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenditures, even if the Company has taken all the necessary measures for this purpose. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors.

Moreover, tax rules regarding flow-through investments set deadlines for carrying out the exploration work no later than the first of the following dates:

- i) Two years following the flow-through investment;
- ii) One year after the Company has renounced the tax deductions relating to the exploration work.

a) During the year ended June 30, 2017, the Company received \$2,555,000 (2016 – \$1,004,000) from flow-through share issuances. According to the tax rules, the Company has until December 31, 2017 to spend these amounts on qualified exploration expenditures. As at September 30, 2017, the Company had an unspent amount of approximately \$1,150,000

b) The Company has indemnified the subscribers of current and previous flow-through offerings against any tax related amounts that become payable by shareholders in the event the Company does not meet its expenditure commitment. As at June 30, 2017, in relations to renunciation shortfalls from fiscal years 2006 to 2008, the Company has accrued \$405,145 (2016 – \$405,145) for Part XII.6 taxes and penalties on the \$1,759,590 shortfall. In addition, \$1,135,164 (2016 - \$1,152,905) has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors. The Company reviewed the reassessment proposed by the CRA, and filed objections on certain of the claims. The CRA denied these objections. During the year ended June 30, 2017, the Company settled \$71,795 in indemnified shareholder losses relating to this renunciation shortfall by the issuance of 717,952 common shares (refer also to Note 11). In relation to renunciation shortfall from fiscal year 2012, the Company has accrued \$125,389 (2016 – \$119,418) for Part XII.6 taxes and penalties on the \$765,495 shortfall. In addition, \$385,000 (2016 – 367,000) has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors. In relation to a renunciation shortfall from fiscal year 2014, the Company has accrued \$218,952 (2016 – \$122,697) for Part XII.6 taxes and penalties on the \$1,064,850 shortfall. In addition, \$627,460 (2016 - \$597,580) has been accrued for potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors

c) On March 15, 2012, Genivar Inc. ("Genivar") instituted a lawsuit against the Company in the Quebec Superior Court, claiming approximately \$785,000 in unpaid fees. The action relates to work which Genivar performed for Granada Gold (then Gold Bullion), primarily with respect to its Granada gold property in northwestern Quebec.

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**13. Contingencies (cont'd)**

The Company instituted a counter-claim against Genivar, under which the Company has claimed damages from Genivar, claiming poor quality of the work performed by Genivar and the costs incurred by the Company to have portions of the work redone.

During the year ended June 30, 2016, the Company and Genivar entered into a settlement agreement for \$265,000, releasing all claims by all parties. A gain on debt settlement of \$550,772 was recognized.

**14. Commitments**

The Company has consulting service agreements with related parties (certain officers and directors).

- i) Effective January 1, 2007, and amended December 1, 2010, May 16, 2013 and March 1, 2015, the Company entered into a management agreement with Grupo Moje Limited ("Grupo"), a company owned by a director and officer of the Company to provide management services of Frank Basa in consideration for a nominal annual fee of \$1.

This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to Grupo equal to 480 ounces of gold with the dollar amounts to be calculated based on the price of gold on the date of termination of the agreement. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

- ii) Effective January 1, 2014, the Company entered into a management agreement with Mineral Recovery Management Systems Corp. ("MRMSC"), a company controlled by Frank Basa and Elaine Basa, to provide project management, engineering and geological services to the Company in consideration of \$25,000 per month for the services of Frank Basa and \$11,666.67 per month for the services of Elaine Basa. Either party may terminate this agreement by giving a four months' notice to the other, subject to certain provisions of the agreement.
- iii) Effective July 1, 2010 and amended January 1, 2012, and March 1, 2015, the Company entered into a consulting agreement with a former director and officer of the Company who resigned from those positions in April 2017 but continues to offer services under these contracts. The fee for consulting services was \$9,500 per month. Either party may terminate this engagement by giving four months' notice to the other, subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of \$228,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

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**14. Commitments (cont'd)**

Effective March 1, 2011 and amended February 1, 2012 and March 1, 2015, the Company entered into a consulting agreement with an officer of the Company. The fee for consulting services is USD \$8,000 per month. Either party may terminate this engagement by giving four months' notice to the other subject to certain provisions of the agreement. This agreement also requires that if the agreement is terminated by the Company upon or following a change in control or change of management the Company shall make a payment to the consultant of USD \$192,000. As a triggering event has not taken place, the contingent payment has not been reflected in these financial statements.

**15. Financial Risk Management**

**Overview**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk, including commodity price risk;
- foreign currency exchange risk;
- interest rate risk; and
- operational risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board fulfills its responsibility through the Audit Committee, which is responsible for overseeing the Company's risk management policies.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practices are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company has an established code of conduct which sets out the control environment within which framework all directors' and employees' roles and obligations are outlined.

The Company's risk and control framework is facilitated by the small-sized and hands-on executive team. There have been no changes in the risks, objectives, policies and procedures during the years ended June 30, 2017 and 2016.

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**15. Financial Risk Management (cont'd)**

**Credit Risk**

Credit risk is the risk of an unexpected financial loss to the Company if a customer or third-party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's cash and receivables.

**a) Cash and cash equivalents**

The Company's cash is held through large Canadian financial institutions. The Company has a corporate policy of investing its available cash in Canadian government instruments and certificates of deposit or other direct obligations of major Canadian banks, unless otherwise specifically approved by the Board. The Company does not own asset-backed commercial paper. Management believes the risk of loss to be minimal.

**b) Receivables**

When necessary, the Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures. Further, when the Company engages in corporate transactions, it seeks to manage its exposure by ensuring that appropriate recourse is included in such agreements upon the counterparty's failure to meet contractual obligations. Management believes that the credit risk with respect to financial instruments included in receivables is minimal.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking undue damage to the Company's reputation. The Company generates cash flow primarily from its financing activities.

As at September 30, 2017, the Company had cash of \$75,743 (20176 - \$119,610) to settle current liabilities of \$5,497,492 (2016 - \$5,157,270).

The Company's objective is to maintain sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. This is accomplished by budgets and forecasts which are updated on a periodic basis to understand future cash needs and sources. Spending plans are adjusted accordingly when possible to provide for liquidity.

The Company manages its liquidity risk through the mechanisms described above and as part of Capital Disclosures below. The Company has historically relied on issuances of shares to develop projects and to finance day-to-day operations and may do so again in the future.

The Company has no significant long-term liabilities. All other contractually obligated cash flows are payable within the next fiscal year.

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**15. Financial Risk Management (cont'd)**

**Classification of Financial Instruments**

As at September 30, 2017, the Company's financial assets measured at fair value, consisting of Castle Silver Resources units receivable are classified as level 2 in the fair value hierarchy.

**Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rate risk, and commodity prices will affect the Company's income, the value of its Evaluation and Exploration properties or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

**a) Commodity price risk**

The Company is exposed to price risk with respect to fluctuation in gold and silver prices which impacts the future economic feasibility of its mining interests. Gold and silver prices are affected by numerous factors such as the sale or purchase of gold and silver by various institutions, interest rates, exchange rates, inflations in the value of the US dollar and foreign currencies, global and regional supply and demand, and the political and economic conditions of major gold and silver producing countries throughout the world. As the Company is still in the exploration and evaluation stage, the fluctuation of gold and silver prices does not have a significant impact on the Company.

**b) Foreign currency exchange risk**

The Company is exposed to foreign currency exchange risk with respect to future gold and silver sales, since gold and silver sales are denominated in US dollars and the Company's functional and reporting currency is the Canadian dollar. The movement on US rates related to the Canadian dollar may impact the future economic feasibility of the Company's mining interests. As the Company is still in the exploration and evaluation stage, the fluctuation of the US dollar does not have a significant impact on the Company.

**c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk. The Company's policy as it relates to its cash balance is to invest excess cash in financial instruments guaranteed by and held with a Canadian chartered bank.

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- i) The Company receives low interest rates on its cash balances and carries debt with fixed interest rates. As such, the Company does not have significant interest rate risk.
- ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign currency risk.

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**16. Capital Management Disclosures**

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, exploration and development of exploration and evaluation projects. 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 considers its capital to be equity, which is comprised of common shares, reserves and deficit, which as at September 30, 2017 totalled a shareholders' deficiency of \$2,789,493 (June 30, 2016 – \$3,114,166).

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. 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.

The Company currently has no significant source of revenues, and therefore is dependent on external financing to fund activities. In order to carry future projects and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the years ended September 30, 2017 and 2016.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

As of September 30, 2017, the Company may not be compliant with all of the policies of the TSXV. The impact of this violation is not known and is ultimately dependent on the discretion of the TSXV.



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**17. Subsequent Events**

On September 22, 2017, the Company entered into a Service Agreement with a marketing consultant for consideration of 1,814,750 common shares, issuable in tranches of 604,917 on the date of receipt of Exchange approval of the agreement and on November 22, 2017, and 604,916 shares issuable on December 22, 2017. The first tranche of shares was issued on October 23, 2017.

On November 21, 2017, the Company entered into two \$125,000 secured, convertible, loan agreements with existing shareholders for demand loans for total proceeds of \$250,000 at an interest rate of 8% calculated monthly and payable annually. The loans will automatically renew for an additional three-year term until such time as the lender agrees to terminate the agreement. The lender also has the option to obtain interest and principal loan repayments in gold rather than cash should the Company reach commercial production while the loan remains in place. In that event, the gold is to be valued at US \$800 per ounce. The lender also has the right to convert the loan into units of the company's shares at \$0.05 per unit for a period of one year and \$0.10 per unit until maturity. Each share unit shall contain one common share and one common share purchase warrant which will entitle the holder to purchase one common share at a price of \$0.075 for a period of two years from the date of conversion.