

ECUAGOLDMINING SOUTH AMERICA S. A.
(A SUBSIDIARY OF JUNEFIELD GOLD INVESTMENTS LIMITED)
Notes to the Financial Statements
(In United States Dollars - US\$)

Note 1 – Company Identification and Economic Activity

- Name: ECUAGOLDMINING SOUTH AMERICA S. A.
- RUC: 0190410617001
- Address: José Peralta 4-38 y Av. 12 de abril, Edif. Acrópolis, Piso 4, Ofi. 4, (Cuenca)
- Legal Constitution: Anonymous Society
- Country: Ecuador
- Activity:

ECUAGOLDMINING SOUTH AMERICA S. A. was constituted in Quito on March 19, 2015 and registered in the Mercantile Register of Cuenca, Republic of Ecuador on March 23 of the same year. The Company's corporate purpose is the extraction of precious metals such as gold, silver and platinum.

Cease of operations

On May 4, 2018, there is a presence of people outside the project in the vicinity of the mining camp, threatening to close roads and the taking of the camp, a notice to the authorities was given and to the respective control entities. Because of the threat of burning the camp, the company's administration reported the events to the governor of the province of Azuay; however, opposition groups closed the Yumate Rio Blanco road, blocking access to the mine.

On Tuesday, May 8, a group of people belonging to the aforementioned opposition groups entered the vicinity of the mining camp and burned part of the camp, affecting the dormitory modules, a rented excavator and a company motorcycle; and partially the solid waste management center and two dump trucks of the company; additionally, the aggressors entered by force in the explosive's deposit violating the securities and subtracting an important quantity of explosive material. In the early morning of May 9, 92 policeman and 95 army personnel were installed in the project; due to security measures, operations in the company's mining camp have been paralyzed to the date.

In such effect, the judicial actions for which the project is paralyzed were presented by the opposition groups against the Ecuadorian state (Ministry of Mining and Environment). The sentences issued by the first and second instance judges were unfavorable for the Ecuadorian State, so an extraordinary protection action was presented through the Ministries, before the Constitutional Court, so that mining activities could be reactivated. At the end of January 2019 and as it is public knowledge, the new members of the Constitutional Court were elected, who will have to solve more than 13,000 cases, so it is not possible to estimate a time in which the process initiated by the state will be resolved.

Capital Increase and shareholders

On September 8, 2015, by means of public deed No. 2015-17-01-02-P, the amendment of the bylaws and increase of capital in US \$ 1,000,000 was made, which was registered in the Mercantile Register on October 13, 2015. Of the increase, US \$ 250,000 is made immediately and US \$ 750,000 will be canceled within one year from the inscription of this deed in the Mercantile Registry. In effect said increase of capital will be in cash. The initial capital of the company is US \$ 800, arriving with the increase to US \$ 1,000,800 of capital. Its shareholders are JUNEFIELD RESOURCES ECUADOR S.A. JUNECLA, which owns 99.999% of its share capital and 0.001% of POWER FORTUNE DEVELOPMENT LIMITED, divided into 1,000,800 shares of US \$ 1 par value each.

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On August 3, 2018, in accordance with the private contract of "nonrecourse debt", JUNEFIELD RESOURCES ECUADOR S.A. JUNECSA delivers to JUNEFIELD GOLD INVESTMENTS LIMITED US \$ 1,000,799 shares of the company ECUAGOLDMINING SOUTH AMERICA S.A.; with a nominal value of one dollar each; declaring that the shares delivered are free of all liens, and therefore can be freely offered. As a result of the "nonrecourse debt" the company proceeded to reclassify the account's payable held with JUNEFIELD RESOURCES ECUADOR S.A. JUNECSA in favor of JUNEFIELD GOLD INVESTMENTS LIMITED for the value of US \$ 10,602,517; additionally, as part of this transaction, capitalizations were classified as future contributions according to the General Shareholders Meeting held on December 30, 2018, in which it decided to transfer to the account of contributions for future capitalizations the value of US \$ 2,500,000 of the account payable with JUNEFIELD GOLD INVESTMENTS LIMITED.

Obtaining the mining rights

The Ecuadorian State through the Ministry of Non-Renewable Natural Resources, Regional Subsecretariat of Mines granted the replacement of Mining Securities in favor of the company San Luis Minerales S.A, according to the following detail:

Concession	Code	Date of subscription of mining title	Location	Area (Ha)	Validity
Miguir	100566	26/3/2010	Molleturo, Cuenca	2,130	23 years, 1 m, 14 days
Canoas	3941.1	26/3/2010	Molleturo, Cuenca	2,940	21 years, 7 m, 5 days
Canoas 1	100262	14/4/2010	Molleturo, Cuenca	368	21 years, 7 m, 5 days
San Luis A2	100160	26/3/2010	Molleturo, Cuenca	270	21 years, 6 m, 28 days

San Luis Minerales S.A., in the exploration and evaluation phase, requested the Ministry of Non-Renewable Natural Resources to extend the term of the economic evaluation period of the concessions that make up the Río Blanco project under the provisions of Article 37, subsection 4 of the Law Of Mining. The Ministry of Non-Renewable Natural Resources, through official letter No. OF-501-MRNNR-VM-2013, of June 14, 2013, resolved to extend the term of the economic evaluation of the reservoir of the concessions that make up the Río Blanco project for Period of one year constituting the first extension requested. With official letter No. MAE-SCA-2014-1200 of May 21, 2014, Subsecretariat of Environmental Quality notifies San Luis Minerales that the Ministry of the Environment issues a favorable opinion to the Environmental Impact Study for the exploitation phase of metallic minerals of the project Miner Río Blanco, conformed by the four mining concessions detailed initially.

On June 18, 2014, the company requested the six-month extension to complete the economic evaluation studies of the Río Blanco Project. On June 27, 2014, the Regional Coordinator of ARCOM - Cuenca, through Memorandum No. ARCOM-C-CR-2014-0187-ME, sent the report of period extension of the economic evaluation of the mining companies concessions that are part of the Río Blanco mining project and on August 18, 2014, it is resolved to deny the request for extension of the period of the economic evaluation period, for which an appeal is filed, and on January 23, 2015 and the Ministry of Non-Renewable Natural Resources, accepted the request for extension submitted to the Ministry of Non-Renewable Natural Resources for a period of six (6) months to the economic evaluation period of the Concession Field.

On March 9, 2015, the legal representative of San Luis Minerales S.A. Presents to the Ministry of Mining the update of the feasibility study and on June 10, 2015, the Executive Director of the Mining Regulation and Control Agency issues a letter summarizing the analysis of the feasibility study carried out by the General Coordinator of Regulation and Mining Control, in which it concludes that the production of 800 tn / day, is part of the Medium Mining Regime.

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Assignment and transfer of mining rights

On June 15, 2015, the General Meeting of Shareholders of JUNEFIELD GOLD INVESTMENTS LIMITED owns 100% of the shares of Panamanian Company San Luis Minerales S.A. Which is also the owner of San Luis Minerales S.A. (Ecuador), resolves that the mining concessions granted by the Government of Ecuador in favor of San Luis Minerales SA, be exploited through an Ecuadorian company, for which, the company is required to request authorization from the government control entity in order to obtain the approval of the assignment of mining rights in favor of Ecuagoldmining South America SA.

On May 26, 2015, the Mining Regulation and Control Agency issued the approving report for the transfer of mining rights. On July 13, 2015, the Ministry of Mines issued resolutions authorizing San Luis Minerales S.A. (Ecuadorian) to transfer or assign the mining concessions to the company Ecuagoldmining South America S.A. By writing No. 20151701002P4158 held in Quito on July 20, 2015, San Luis Minerales S.A., grants to Ecuagoldmining South America S. A. the following mining concessions granted by the Ecuadorian Government:

Concession	Code	Area (Ha)
Migulr	100666	2,130
Canoas y Canoas 1 (1)	3941.1 y 100262	2,579
San Luis A2	100160	278

- (1) According to the Mining Law, Article 39 states that no mining concessionaire may have one or more titles that together add up to an area of more than 5,000 mining hectares from the exploitation stage. For this purpose, the concession (Canoas and Canoas 1) is accumulated in Canoas code 3941.1 to 3,308 Ha, for which it requests the Regional of Mining South-Central Zone 6 and accepts the partial waiver of 729 mining hectares requested by the Company, resulting in 2,579 mining hectares according to Report No. 019-3941.1-1C-C-CR-CMC-2017 issued by the Mining Regulation and Control Agency. On July 14, 2017, the Ministry of Mining, Regional of Mining South-Central Zone, number MM-CZM-CS-2017-0256-RM, is hereby registered with a partial waiver of the mining concession named Canoas code 3941.1 (cumulative).

The transfer of the mining concessions is carried out free of charge as JUNEFIELD GOLD INVESTMENTS LIMITED is the indirect owner of the company, in fact, the present transfer of rights does not imply a purchase or sale. The expenses related to this transfer are borne by the concessionaire.

Harnessing the water resource

According to a resolution dated December 14, 2010, the Regional Undersecretary of the Guayas Hydrographic Demarcation resolved to authorize the San Luis Minerales SA Company. The use of water resources from Quebrada Yantahuaycu, whose site is located within the jurisdiction of Molleturo Parish, Cuenca, province of Azuay, as well as authorize the right to use the waters from the Quebrada Yantahuaycu, in the total flow of 5.77 / LS.

Purchase and sale of Assets, liabilities of San Luis Minerales S.A.

On December 31, 2015, the purchase and sale of assets and liabilities of the branch of San Luis Minerales S.A. in favor of the company Ecuagoldmining South America S.A. For a total amount of US \$ 2,007,859; Detailed below:

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	<u>Value US\$</u>
Assets:	
Commercial Receivables	8,165
Related Receivables	262,322
Property, Plant and Equipment, Net	1,111,597
Research and exploration costs	5,612,968
Liabilities:	
Commercial Payables	(30,576)
Related Payables	(4,866,030)
Employee benefits provisions	(68,009)
Defined benefits provisions	(22,578)
Net	<u>2,007,859</u>

With the registration of the assets and liabilities resulting from this transaction, Ecuagoldmining South America S.A consolidates the records with the transactions from the mining rights stage, prior to the change of the exploitation phase.

Change of exploration phase to exploitation and declaration of start of exploitation stage under the medium mining regime

The Ministry of Mining accepts and approves the request made by the Legal Representative of Ecuagoldmining South America SA, in which it requests the declaration of the phase change from the period of economic evaluation of the deposit to the stage of exploitation, within the legal regime according to the volumes of production of the project, for which it is declared the beginning of the exploitation phase of the following mining areas:

Concession	Code	Resolution phase change	Location	Area (Ha)	Validity
Miguir	100666	MM-DM-2015-001	Molleturo, Cuenca	2,130	23 years, 1 m, 14 days
Canoas	3941.1	MM-DM-2015-003	Molleturo, Cuenca	2,940	21 years, 7 m, 5 days
Canoas 1	100262	MM-DM-2015-004	Molleturo, Cuenca	368	21 years, 7 m, 5 days
San Luis A2	100160	MM-DM-2015-002	Molleturo, Cuenca	270	21 years, 6 m, 28 days

The Mining Regulation and Control Agency (ARCOM), Regional Coordination Cuenca, Issues the mining records on December 22, 2015, in which it grants the authorization and declaration of initiation of "Exploitation under the Regime of Medium Mining".

Environmental License

The Ministry of the Environment as National Environmental Authority, grants the Environmental License to Ecuagoldmining South America S.A. On November 6, 2015, to be subject to the Environmental Impact Study for the mining phase of the Río Blanco Project, consisting of the Miguir mining concessions (code 100666), San Luis A2 (code 100160), Canoas 1 (code 100262) and Canoas (code 3941.1) located in the province of Azuay, run the project in the established periods. For which the company is bound to the following:

- Comply with the Environmental Impact Study for the mining phase of the Río Blanco mining project.
- Maintain a continuous program of monitoring and follow-up to the measures contemplated in the Environmental Management Plan.
- Use in the execution of the project, processes and activities, technologies and methods to mitigate and, as far as possible, prevent negative impacts on the environment.
- The monitoring points of the components water, soil, air, flora and fauna should be established in the approved Environmental Management Plan.

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- Groundwater management, management and management of water from the mine shall be subject to control by the competent authority.
- Submit environmental compliance reports to the Ministry of the Environment.
- Provide technical personnel of the Ministry of the Environment with all the facilities to carry out the control and follow-up of compliance with the approved Environmental Management Plan.
- To comply with what is established in Article 3 of the Organic Law Reforming the Mining Law.
- Must comply with the Second Legislation of the Ministry of the Environment, on the integral management of hazardous and / or essential waste.
- The means of verification will be presented that shows the improvement achieved in the management of water resources.
- Ensure the quality and ecological flows of surface water bodies, according to the Mining Law.
- Cancel by administrative services of management and environmental quality by monitoring and control to the fulfillment of the approved Environmental Management Plan.
- Submit to the Ministry of the Environment the environmental compliance reports in accordance with the provisions of the Reform of the Environmental Regulation of Mining Activities.
- Use in the execution of the project, processes and activities, technologies and methods to mitigate and, as far as possible, prevent negative impacts on the environment.
- Comply with current environmental regulations at national and local level.
- Renew and maintain in force the guarantee of faithful compliance with the environmental management plan.

The term of validity of this Environmental License is from the date of issue to the term of execution of the project. Failure to comply with the provisions and obligations determined in the environmental license will cause the suspension and revocation of the same, according to the established in the legislation that governs it; is granted at the cost and risk of the interested party, leaving rights of third parties.

This Environmental License is governed by the provisions of the Environmental Management Law and Unified Text Standards of the Secondary Legislation of the Ministry of the Environment, and in the case of an administrative act, by the Statute of the Administrative Juridical Regime of the Executive Function.

The legal bond insurance policy was issued for US \$ 487,000.

Legal standards affecting the industry

In the Supplement to the Official Register (R.O.) No. 517 of January 29, 2009, the Mining Law was promulgated. The main aspects contemplated in this Law related to Medium Mining are as follows:

- The conservation patent from the granting of the concession until December 31 of the year in which the initial exploration period expires, will be equivalent to 2.5 percent of a basic unified remuneration for each concessioned mining hectare. This conservation patent will be increased to 5 percent of a unified basic remuneration for each concessioned mining hectare for the advanced exploration period and the economic assessment period of the reservoir. During the exploitation phase of the mining concession, the concessionaire must pay a conservation patent equivalent to 10 percent of a basic unified remuneration for each concessioned mining hectare.
- The mining concessionaire in the medium mining modality must pay a royalty equivalent to a percentage of four (4) percent on the sale of the main mineral and the secondary minerals. In addition to the payment corresponding to the income tax and value tax aggregate. In the case of workers linked to the mining activity, they will receive 5% of the profit percentage and the remaining 10% will be paid to the State, which will only be used for local development projects.

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- Production volumes in the medium-mining mode will be subject to the following ranges: (i) For metal ores: From 301 to 1000 tonnes per day in underground mining; From 1001 to 2000 tons per day in open pit mining; And, from 1501 to 3000 cubic meters per day in alluvial mining; (ii) For non-metallic minerals: From 1001 to 3000 tonnes per day; and (iii) For construction materials: From 801 to 2000 cubic meters for mining in alluvial terraces; And from 501 to 1000 metric tons in open pit mining in hard rock (quarry).
- The mining concession will have a term of up to twenty-five years that can be renewed for equal periods, provided the written request of the concessionaire has been submitted to the Sector Ministry for that purpose, before its expiration and favorable report from the Mining Regulation and Control Agency and the Ministry of the Environment.
- The mining concession will be divided into a stage of exploration and a stage of exploitation, in turn, the exploration stage will distinguish the initial exploration period, the advanced exploration period and the period of comprehensive economic evaluation of the deposit. It will incorporate the main, secondary and other minerals that have economic value.

In the Supplement to the Official Registry (R.O.) No. 67 of November 16, 2009, the General Regulation was promulgated to the Mining Law. The main aspects contemplated in this regulation related to the Medium Mining are as follows:

- The Sector Ministry will be in charge of formulating and executing the annual plan of investments in mining subject to the procedure and approval established in the current legal regulations.
- Creation of Advisory Councils, which are empowered to establish mechanisms of citizen participation, through the carrying out of public information processes and gathering of criteria and observations in information meetings, participatory workshops, etc.
- ARCOM (Mining Regulatory and Control Agency), which is the technical and administrative body responsible for the exercise of the state's power to supervise, inspect, audit and control, intervene, control and sanction in all phases of mining activity
- Contractual modalities, once the initial exploration or advanced exploration period has ended, the mining concessionaire will have a period of up to two years to carry out the economic evaluation of the deposit and request, before its expiration, the start of the exploitation phase.
- Mining Exploitation Contract, within six months from the resolution declaring the start of the exploitation stage, the mining concessionaire must subscribe with the State, through the Sector Ministry, a Mining Exploitation contract that will contain the terms conditions And term for the stages of construction and assembly, extraction, transport, and commercialization of the minerals obtained within the limits of the mining concession.
- Service contracts for carrying out work inherent in the preparation and development of the fields, as well as the extraction and transportation of their minerals. The contract will establish the form and the amount of the remunerations that correspond to the provider of mining services.

On March 9, 2012, Ministerial Agreement No. 323 was published in Official Register (RO) No. 657, which issued the audit and calculation of royalties and benefits of the metallic mining activity and is summarized in the following aspects:

- Royalties: the mining concessionaire will pay a royalty to the State during the term of the Mining Contract in the terms set forth in article 93 of the Mining Law, article 81 of the General Regulation of the Mining Law and as established in the Contract of Mining Exploitation and will form part of the economic benefits for the State as established in Article 408 of the Constitution of the Republic of Ecuador.

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- Formula to calculate the royalty, payment and basis of your deductibility.
- Transfer pricing and definition of related departments.
- Payment of anticipated royalty, liquidation, refund and anticipated royalty deductions.
- State benefits: these are established and the sovereign adjustment according to article 408 of the Constitution of the Republic of Ecuador, which among other matters establishes that the State will participate in the benefits of the use of nonrenewable natural resources in an amount that will not be lower than those of the company that exploits them.
- Audit, control and control, the procedures to be followed by ARCOM.

On November 28, 2014, Decree No. 476 was published in the Supplement to the Official Register (RO) No. 385, which amends the General Regulation to the Mining Law, by which it rethinks the calculation for certain taxes such as taxes on sovereign adjustment and extraordinary income.

By Executive Decree No. 1207 of June 26, 2012, published in the Supplement to the Official Registry No. 740 of July 5, 2012, article 58 of the General Regulation of the Mining Law was amended and it was established that, prior to the transfer of shares or shares of concession companies of mining rights, the company will have to obtain authorization from the Ministry of Non-Renewable Natural Resources.

On July 16, 2013, the Organic Law Reforming the Mining Law, the Reformatory Law for Tax Equity and the Organic Law on the Internal Tax Regime were issued in Official Registry No. 37.

On December 18, 2015, the Organic Law on Incentives for Public Private Partnerships and Foreign Investment was issued in the Official Register Supplement No. 652, in which the mining sector is allowed to recover the Value Added Tax. As a result of the above, the VAT paid by the Company after January 1, 2017, will be refunded once the Company begins to generate export sales.

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Note 2 – Significant Accounting Policies

The significant accounting policies adopted by the company in the preparation of the financial statements are described below:

2.1 Declaration of compliance

The company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), in effect as of December 31, 2018. These standards have been adopted by Ecuador and represent the integral, explicit and unreserved adoption of the aforementioned international standards.

2.2 Basis of Preparation

The financial statements have been prepared on the basis of historical cost.

Except for:

- Current provisions that are determined based on current legislation in Ecuador and on accrual basis.
- Provision for decommissioning, mine closure and rehabilitation, whose value is recorded in assets and liabilities based on future payments estimated to be made for this concept, according to the time of use of the asset. The estimated value of these costs is recorded at the current value at the effective reference rate.
- Obligations for long-term employee benefits that are valued based on actuarial methods.
- Assets and liabilities for deferred taxes are measured based on the current tax rate on the values that are estimated to be recovered and canceled in the long term.

The historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

The preparation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) requires the use of certain accounting estimates. It also requires the administration to exercise its judgment in the process of applying its accounting policies.

Subsequently, the areas that imply a higher degree of judgment or complexity or the areas where the assumptions and estimates are significant for the financial statements are disclosed. Due to the inherent subjectivity in this accounting process, the actual results may differ from the amounts estimated by the Administration.

2.3 Functional currency and presentation currency

The company's financial statements are presented in US dollars, which is the legal currency in Ecuador and corresponds to the functional and presentation currency.

2.4 Accounting pronouncements and their application

As of December 31, new norms, amendments, improvements and interpretations have been published to existing standards that have not entered into force and that the company has not adopted in advance. These are mandatory in the preparation of the financial statements within the dates indicated below:

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Rules	New and revised standards	Date of application
NIIF 9	Characteristics of Early Cancellation with Negative Compensation (Amendments to IFRS 9, Issued In October 2017).	01 of January of 2019
NIIF 9	Long Term Participation in Associates and Businesses Sets (Amendments to IAS 28, Issued In October 2017).	01 of January of 2019
NIIF 3, NIIF 11, NIC 12, NIC 23	Annual Improvements to the Standards: IFRS 2015-2017 cycle Amendments to IFRS 3 and IFRS 11 Amendments to IAS 12 Amendments to IAS 23, Issued in December 2017.	01 of January of 2019
NIIF 2	Practice Document of IFRS 2 Realization of Judgments on Materiality or Relative Importance, Issued In September 2017.	-
NIIF 16	Leases, Establishes the principles for recognition, measurement, presentation and disclosure of leases, Issued In January 2016.	01 of January of 2019

According to the preliminary evaluation carried out by the company, the effects will not be significant, in the application of IFRS 16 - Leases, whose application is as of January 01, 2019, on the leases maintained by the company.

2.5 Cash and Cash Equivalents

Cash and cash equivalents include liquid financial assets, deposits and liquid investments that can be converted quickly to cash in less than three months.

2.6 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or to an equity instrument in another entity. Financial instruments are recognized when the company becomes part of the contractual provisions of the instrument.

2.7 Financial assets and liabilities

Financial assets and liabilities are initially measured at fair value (fair value is the price that would be received for selling an asset or that would be paid for transferring a liability in an orderly transaction between market participants at the measurement date).

2.7.1 Classification

Financial assets are classified as they are subsequently measured, in the following categories:

- Measured at amortized cost
- Measures at fair value with changes in other comprehensive income
- Measures at fair value with changes in results

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The financial assets of the company are the following:

Measured at amortized cost

- o Related accounts receivable
- o Other accounts receivable

The financial liabilities of the company are the following:

Measured at amortized cost

- o Trade accounts payable
- o Related accounts payable
- o Other accounts payable

2.7.2 Initial measurement

Except for commercial accounts receivable, financial assets or financial liabilities are measured at their fair value plus or minus the transaction costs that are directly attributable to the acquisition of the financial asset or financial liability (except for a financial asset or liability that be posted at fair value with changes in results).

Despite the requirement of the previous paragraph, trade accounts receivable are measured by their transaction prices, if such commercial accounts receivable do not have a significant financial component determined in accordance with IFRS 15 (or when the entity applies a practical solution of in accordance with IFRS 15). The price of the transaction is the amount of the consideration to which an entity expects to be entitled in exchange for transferring the goods or services committed to the customer. The consideration that is committed in a contract with a client can include fixed amounts, variable amounts, or both. A significant financing component can exist regardless of whether the financing commitment is explicitly stipulated in the contract, or is implicit in the payment terms agreed by the parties to the contract. As a practical solution, an entity does not need to adjust the amount that has been committed as consideration to account for the effects of a significant financing component if the entity expects, at the beginning of the contract, that the period between the moment the entity transfers a good or service committed to the client and the moment in which the client pays for that good or service is one year or less.

2.7.3 Subsequent measurement

After the initial recognition, the company measures its financial assets and liabilities as follows:

2.7.3.1 Financial assets and liabilities measured at amortized cost

It is the amount to which a financial asset or a financial liability was measured on initial recognition, less repayments of the principal, more or less, the accumulated amortization, using the effective interest method, of any difference between the initial amount and the amount at maturity and, for financial assets, adjusted for any correction of value for losses.

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2.7.3.2 Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a financial instrument and of allocating financial income or expense over the relevant period. The effective interest rate is the discount rate that exactly equals estimated cash flows receivable or payable (including commission, basic points of interest paid or received, transaction costs and other premiums or discounts that are included in the calculation of the effective interest rate) over the expected life of the financial instrument or, when appropriate, in a shorter period, with the net carrying amount on initial recognition. The company uses the Active Referential Rate for Corporate Productive Issued by the Central Bank of Ecuador.

2.7.4 Deterioration of financial assets

A provision is established for impairment of its accounts receivable based on the expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk from initial recognition.

As of December 31, 2018, the company does not maintain commercial accounts receivable.

2.7.5 Derecognition of financial assets and liabilities

A financial asset is eliminated when the contractual rights on the cash flows of the financial asset expire or if the company transfers the asset to a third party without substantially retaining the risks and benefits of the asset.

A financial liability is eliminated when the company's obligations specified in the contract have been canceled or expired. The difference between the carrying amount of a derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

2.8 Inventories

The costs of inventories of spare parts, accessories and other materials are presented at the acquisition price and when they are consumed, they are included in the cost of production of the finished products using the weighted average method.

Imports in transit are presented at the cost of invoices plus other charges related to importation, including non-recoverable taxes.

2.9 Properties, plant and equipment

Property, plant and equipment are recorded at historical cost, less accumulated depreciation and impairment losses if they occur. The cost includes the disbursements directly attributable to the location of the asset, in the place and under the necessary conditions so that it can operate as expected. Initial costs include the purchase price or manufacturing cost, including non-recoverable import duties and taxes.

Additionally, it includes the initial estimate of the costs of dismantling and withdrawing the item, as well as the rehabilitation of the place on which it is based, the obligation incurred by an entity when it acquires the item or as a consequence of having used said item for a certain period of time, period, with purposes other than the production of inventories.

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Disbursements subsequent to the purchase or acquisition are only capitalized when it is probable that the entity obtains the future economic benefits derived from it; and when the cost of the item can be measured reliably. The other subsequent disbursements correspond to maintenance and repairs, which are recognized in results when they are incurred.

Interest and other borrowing costs are capitalized as long as they are related to the construction of qualifying assets. A qualifying asset is one that requires a long time to be ready for use.

Depreciation is calculated linearly based on the estimated useful life of the asset or significant identifiable components that have differentiated useful lives, and considers residual values (if applicable), because the management estimates a realizable value of the applicable asset at the end of its useful life.

Estimates of useful lives and residual values are reviewed and adjusted if necessary at each closing date of the financial statements, with the effect of any change in the estimate recorded on a prospective basis. The useful lives of the properties, plant and equipment are the following

<u>Depreciable Assets</u>	<u>Years</u>	<u>Percentage of Depreciation</u>
Vehicles	5	20
Furniture and furnishings	10	10
Office Equipment	10	10
Machinery and Equipment	10	10
Computer equipment	3	33.33

Losses and gains from the sale of property, plant and equipment are calculated by comparing the income obtained with the book value, and are included in the statement of comprehensive income.

When the book value of an asset of property, plant and equipment exceeds its recoverable amount, it is immediately reduced to its recoverable value.

2.10 Mining Investments

I. Exploration and Evaluation Investments

Exploration and evaluation activities are those costs necessary to find mineral resources and determine their commercial feasibility, and technical feasibility.

They include the costs of establishing an initial mineral resource and whether the indicated mineral resources can be converted into proven and probable reserves.

The exploration and evaluation costs are recorded as a non-current asset, until the phase change (extraction) in which they will be recorded at the cost of the mine, are all those costs and expenses incurred by the Company in the following concepts:

- Cost of acquisition of concessions and payments of mining patents.
- Exploration expenses.
- Community relations expenses
- Depreciation of property, plant and equipment.
- Expenses related to payments to technical staff and workers.
- Maintenance, fuel and maintenance expenses.
- Work equipment, clothes and supplies.

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- Feeding expenses for workers
- System and telecommunications expenses.
- Studies and technical reports.
- Legal expenses that are directly related to the project.

Administrative expenses that are not directly attributable to a specific exploration area are charged to the results at the time of recognition.

II. Mining concessions

Significant disbursements related to the acquisition of mining concession rights are capitalized. In the event that a deposit that is exploitable is not found, the costs incurred are charged to the results of the period in which it is determined that the rights will not have an economic value in the future. For concessions where there are proven deposits that are exploitable, they are amortized from the exploitation phase on the basis of the method of units produced.

III. Mines under construction

Disbursements are transferred from "Research, exploration and other costs" to mines under construction "in the development phase within" mining investments "once the work developed generates evidence supporting the need to carry out future development of the mining investment and said development have the corresponding approvals.

Once the productive process has begun, all the assets included in "mines under construction" are transferred to "mines in production" within "Mining Investments", Property, plant and equipment.

2.11 Current and deferred income tax

The income tax expense for the year includes the current income tax and the deferred tax. Deferred tax is recognized in comprehensive income, except when it corresponds to items that are recognized directly in equity. In this case, the deferred tax is also recognized in other comprehensive income (ORI) or directly in equity.

2.11.1 Current income tax

The assets and liabilities for the current income tax are measured by the amounts that are expected to be recovered from or paid to the tax authority. The tax rates and tax regulations used to compute this tax are those that are approved as of the closing date over the reporting period.

2.11.2 Deferred income tax

Deferred income tax is recognized using the liability method over temporary differences between the tax bases of assets and liabilities and their carrying amounts at the closing date of the reporting period.

Deferred tax assets are recognized for deductible temporary differences.
Deferred tax liabilities are recognized for taxable temporary differences.

The carrying amount of deferred tax assets is reviewed on each closing date of the reporting period and is reduced to the extent that the existence of sufficient future taxable income is no longer probable, allowing these assets to be deferred taxes are used as a whole or in part.

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Unrecognized deferred tax assets are revalued at each reporting date and are recognized to the extent that the existence of future taxable income becomes probable, which allows these assets to be recovered for deferred taxes not recognized with anteriority.

Deferred tax assets and liabilities are measured at the income tax rate in force on the date that the temporary differences are estimated to be reversed, considering the current income tax rates established in the Internal Tax Regime Law and its reforms.

The balance of deferred tax assets and liabilities are offset when there is the legal right required to offset current assets taxes with current tax liabilities and when the deferred tax asset and liability is related to the same tax authority.

2.12 Current provisions

The company recognizes provisions when: i) the company has a present obligation, whether legal or implicit, as a result of past events, ii) it is probable that an outflow of resources will be necessary to settle the obligation, iii) the amount has been estimated reliably. The amounts recognized as a provision are the best estimate of the administration, at the closing date of the financial statements, of the disbursements necessary for settlement of the obligation.

2.13 Benefits to employees

2.13.1 Short-term benefits

They are recorded in the provisions item of the statement of financial position and correspond mainly to:

Participation of workers in profits

Calculated based on 15% of the annual accounting profit before income tax, as established by current Ecuadorian legislation. It is recorded with a charge to results for the year and is presented as part of the cost of products sold (cost of sales), administrative expenses or sales expenses, depending on the work of the beneficiary of this benefit of the Law.

Vacations

The cost corresponding to staff vacations is recorded on the accrual basis.

Thirteenth and fourteenth salaries and social security benefits

They are provisioned and paid according to the legislation in force in Ecuador.

2.13.2 Long-term benefits

Provision for employer retirement and severance

The Company has a defined benefit plan for employer retirement, regulated by Ecuadorian labor laws.

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According to the laws in force, in cases of termination of employment by severance requested by the employer or worker, the employer will reward the worker with twenty-five percent (25%) of the equivalent of the last monthly payment for each one of the years of service provided to the same company or employer, this benefit is called severance.

The company determines annually the provision for employer retirement and severance based on actuarial studies performed by an independent professional and are recognized with charge to the costs and expenses (results) of the year applying the Projected Unit Credit Costing method and represents the present value of the obligations at the date of the statement of financial position, which is obtained by discounting cash outflows at a rate of 4.25% (2017: 3.91%) per year, equivalent to the average rate of high-quality corporate bonds in the United States, which are in the same currency in which the benefits will be paid and which have terms that approximate the terms of the obligations until their maturity.

The actuarial assumptions in addition to the discount rate include variables such as mortality rate, age, sex, years of service, remunerations, future increases in remuneration, turnover rate, among others.

Actuarial gains and losses arising from adjustments based on experience and changes in actuarial assumptions are recorded under Other Comprehensive Results - ORI. The costs of past services are recognized in the results of the year.

At the end of the year, the provisions cover all the employees who were working for the company.

2.14 Revenue recognition

Ordinary income for the sale of goods and services

The company recognizes revenue from ordinary activities for the transfer of goods and / or services committed to customers, for an amount that reflects the consideration to which the company expects to be entitled, in exchange for said goods or services.

The company for recognition of income considers the terms of the contract and all the relevant facts and circumstances according to IFRS 15, including the use of any practical solution, in a manner consistent with contracts with similar characteristics and in similar circumstances.

The company accounts a contract when the following criteria are met:

- i) The parties to the contract have approved the contract (in writing, orally or in accordance with other traditional business practices) and undertake to comply with their respective obligations,
- ii) The company can identify the rights of each party with respect to the goods or services to be transferred,
- iii) The company can identify the payment terms with respect to the goods or services to be transferred,
- iv) The contract has a commercial basis (that is, it is expected that the risk, timing or amount of the future cash flows of the entity will change as a result of the contract), and
- v) It is probable that the company collects the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the client.

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To assess whether collection of the consideration amount is probable, an entity will consider only the client's capacity and the intention to pay that consideration when due. The amount of the consideration to which the entity will be entitled may be less than the price established in the contract if the consideration is variable, because the entity can offer the client a price reduction.

2.15 Costs and expenses

They are recorded at historical cost. Costs and expenses are recognized as they are incurred, regardless of the date on which the payment was made, and are recorded in the period in which they are known.

2.16 Compensation of balances and transactions

As a general rule, the financial statements do not compensate the assets and liabilities, nor the income and expenses, except in those cases in which compensation is required or permitted by a standard and this presentation is a reflection of the essence of the transaction. Income and expenses arising from transactions that, contractually or by a legal rule, contemplate the possibility of compensation and the company intends to settle for its net amount or to realize the asset and proceed to the payment of the liability simultaneously, present net in results.

2.17 Significant accounting estimates and criteria

Several of the amounts included in the financial statements involve the use of criteria and estimates. These criteria and estimates were made on the basis of their better knowledge of the relevant facts and circumstances, taking into account previous experience; however, the final results may differ from the estimates included in the financial statements. The detail of these criteria and estimates are included in the accounting policies or in the Notes to the Financial Statements.

The preparation of the financial statements includes the following criteria and estimates used by the Administration:

a) Obligations for employee benefits

The present value of employee benefit obligations is determined by actuarial valuations. Actuarial valuations involve several assumptions that could differ from the events that will actually take place in the future. These assumptions include the determination of the discount rate, future wage increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and their long-term nature, defined benefit obligations are extremely sensitive to changes in these assumptions. All these assumptions are reviewed at each closing date of the reporting period.

For the determination of the discount rate, the expert considered the interest rates of the high quality corporate bonds that are traded on the United States markets, which have similar maturities or approximate the terms of the respective ones. obligations for pension plans.

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b) Useful life of properties, plant and equipment

Property, plant and equipment is recorded at cost and depreciated based on the straight-line method over the estimated useful life of said assets. In those cases in which it can be determined that the useful life of the assets should decrease, the excess between the net book value and the estimated recovery value is depreciated, according to the remaining useful life reviewed. Factors such as changes in the planned use of the different assets may cause the useful life of the assets to be reduced. The estimates are based mainly on projections of future use of the assets.

c) Impairment of assets

At the closing date of each period, or on that date deemed necessary, the value of the assets is analyzed to determine if there is any indication that said assets had suffered an impairment loss. If there is any indication, an estimate of the recoverable amount of said asset is made. In the case of identifiable assets that do not generate cash flows independently, the recoverability of the cash-generating unit to which the asset belongs is estimated. Impairment losses recognized in an asset in prior periods are reversed when there is a change in the estimates of their recoverable amount, increasing the value of the asset with a credit to results with the limit of the book value that the asset would have had if it had not been recognized, the loss due to deterioration.

d) Recovery of exploration and evaluation costs

The application of the policy of exploration and evaluation costs requires judgment to determine if the obtaining of future economic benefits is likely through future exploitation or if said activities have not reached a stage that allows a reasonable evaluation of the existence of reserves. If after having capitalized, the current information suggests that the recoverability of said costs is unlikely, the capitalized amount is charged to results in the period in which said information becomes available.

e) Provision for restoration and rehabilitation

The company analyzes its restoration and rehabilitation provision once new and significant information is available. Mining and exploration activities are subject to various environmental laws and regulations. In effect the Company intends to make related future expenses. The accounting of the restoration and rehabilitation obligations requires the administration to make estimates about the future costs that the company incurs to comply with the work required by the pertinent regulations for restoration and rehabilitation in each mining operation. The actual costs can be significantly different from the estimated costs. Likewise, future changes to environmental laws and regulations could increase the scope of the restoration and rehabilitation work required by the Company. An increase in future costs could increase the amounts charged to results for this concept. The provision is the best estimate of the administration at the present value of the restoration and rehabilitation commitments and is reviewed annually.

f) Deferred income tax

The company has estimated its deferred tax considering that the resulting temporary differences between the book value and the tax base of the assets and liabilities will be reversed in the future.

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g) Provisions

Due to the uncertainties inherent in the estimates necessary to determine the amount of the provisions, the actual disbursements may differ from the amounts originally recognized based on the estimates made.

The determination of the value to be provisioned is based on the best estimate of the disbursements that will be necessary to pay for the corresponding obligation, taking into account all the information available at the date of the statement of financial position, including the opinion of independent experts such as legal advisors, and consultants.

h) Contingencies

Currently the company has a series of cases related to legal, regulatory and labor disputes.

The company's estimate of the costs to be incurred for the resolution of these claims was consulted with its legal advisors. Management and its legal advisors consider that the company has important legal bases that support its position and consider that the losses derived from the legal actions, in its case, will not have a significant impact on the financial statements. It is possible, however, that the future results of the operations could be affected by changes in the estimates or in the effectiveness of the strategies of this procedure.

Note 3 – Risk management

The Company's activity exposes it to a variety of risks that could lead to financial impacts, such as: market risks (including: exchange rate risk, interest rate risk and other price risks), credit risk and liquidity risk. In this area, the Company's risk management focuses mainly on the application of strategies in the different areas of the business in order to ensure the necessary cash flow to cover its working capital needs and minimize potential adverse effects on the profitability of its business units through the identification, measurement and risk control procedure.

3.1 Market risk

It is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in market prices. The analysis of market risk is based primarily on the evaluation of the characteristics of the commercial sector in Ecuador. Market risk comprises three types of risk:

3.1.1 Risk of exchange rate

The risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in the exchange rates of a foreign currency.

The company makes its sales of gold concentrate to its related companies, Hunan Xianzhong Mining Group and Hunan Gold International Ltd - Hong Kong in United States dollars, for which there is no exchange rate risk.

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3.1.2 Interest rate risk

The risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in market interest rates.

The company does not obtain loans from financial institutions or third parties, because the operation is financed by its related companies. In fact, the balances of these financial liabilities do not generate interest, therefore there is no interest rate risk.

3.1.3 Other price risks

The risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of changes in market prices (other than those arising from interest rate risk and exchange rate risk), be it that they are caused by factors specific to the financial instrument in particular or to its issuer, or by factors that affect all similar financial instruments traded on the market.

The sale of gold is carried out with its related companies, through the subscription of contracts that establish a certain amount, whose price is determined based on the Canadian market price (Kitco), in this sense, the variation of the prices in the market could generate a price risk.

3.2 Credit risk

The risk that one party to a financial instrument causes a financial loss to the other party for breaching an obligation.

The sale of gold is carried out with its related companies, through the signing of contracts, for which the company obtains significant advances that allow it to cover accounts receivable generated by its sales. In this sense, there is no credit risk.

3.3 Liquidity risk

The risk that an entity will find it difficult to comply with obligations associated with financial liabilities that are settled through the delivery of cash or another financial asset.

The liabilities presented by the company are in favor of its related companies, for advance payments as clients, as well as for funds delivered for its operation, which allows controlling the risk of a short and long term shortfall of funds. The objective of the company is to maintain a balance between the continuity of the financing of its operations, the obtaining of advances and the compensation of its portfolio for the sale of gold and silver.

3.4 Capital risk

For capital management purposes of the company, the capital includes the issued share capital and all other equity reserves attributable to the owners of the parent. The main objective of the capital management of the company is to maximize the value for shareholders.

The company manages its capital structure and makes the appropriate adjustments based on changes in economic conditions and the requirements of financial clauses.

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Note 4 – Financial Instruments

A detailed confirmation of the financial instruments of the company:

	<u>2018</u>	<u>2017</u>
<u>Financial assets</u>		
Cash and cash equivalents	177,587	230,387
Related Receivables	781,274	707,704
Other Receivables	<u>1,499,983</u>	<u>1,615,148</u>
Total	<u><u>2,458,844</u></u>	<u><u>2,553,239</u></u>
<u>Financial liabilities</u>		
Commercial payables	427,542	211,659
Related Payables	11,647,402	10,133,440
Other Payables	<u>4,868,055</u>	<u>1,797,686</u>
Total	<u><u>16,942,999</u></u>	<u><u>12,142,785</u></u>

Note 5 – Cash and Cash Equivalents

Cash and cash equivalents as shown in the cash flow statement can be reconciled to the related items in the financial statements as follows:

	<u>2018</u>	<u>2017</u>
Cash	1,600	720
Credit Cards	370	26,011
Banks (1)	<u>175,617</u>	<u>203,656</u>
Total	<u><u>177,587</u></u>	<u><u>230,387</u></u>

- (1) Checking account that the company maintains strong domestic financial institutions excellent track record of profitability.

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Note 6 – Other Receivables

A summary of other accounts receivable is as follows:

	2018	2017
Environmental guarantees (1)	1,277,000	1,337,000
Warranties leases	6,680	7,557
Warranty delivered in Import	-	10,900
Other warranties	375	375
Employees	2,834	13,952
Suppliers Advance Payments	206,449	245,140
Other Receivables	6,111	-
Other advances	534	224
Total	1,499,983	1,615,148

(1) Corresponds to the environmental guarantees required by the Ministry of the Environment of the Rio Blanco mining project, as follows:

Policy	Institution	Initial Date	End Date	Valor
Legal Security	Seguros Confianza	27/7/2019	27/7/2020	427,000
Bank Guarantee	Banco Pacifico	18/5/2018	13/5/2019	850,000
Total				1,277,000

Note 7 – Inventories

A summary of inventories is as follows:

	2018	2017
Fuel	629	833
Spares and cables	173,075	35,855
Tools	1,720	466
Explosives	36,191	15,961
Electric supplies	9	64
Personal protection equipment	7,855	-
Construction materials	4,020	-
Mine Supplies	6,418	1,761
Total	229,917	54,940

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Note 2 – Property, plant and equipment

The movements of property, plant and equipment were as follows:

	Final Balance 2016	Additions	Reclassifications	Final Balance 2017	Additions	Reclassifications/ Adjusts	Lower's	Final Balance 2018
Ongoing constructions								
Mining Investments (1)	8,656,281		247,534	247,534		(140,072)		107,462
Land	1,093,977	2,037,115	-	10,693,396	2,635,294	132,535		13,461,225
Machinery and Equipment	19,570	137,256	-	1,093,977				1,093,977
Vehicles		157,909	-	150,826	1,043,168			1,193,994
Office Equipment	4,732		-	157,909			(53,894)	104,015
Computer Equipment	2,602	2,998	-	4,732		(3,800)		932
Communications Equipment			-	5,600	4,892			10,492
Camping Equipment			-		7,500	3,800		11,300
Furniture and fixtures	9,591	14,417	-	24,008	8,162			8,162
					7,708			31,716
Subtotal	9,786,753	2,343,695	247,534	12,377,982	3,706,724	(7,537)	(53,894)	16,023,275
Accumulated depreciation	(3,661)	(22,986)	-	(26,647)	(125,760)	1,804	14,245	(136,358)
Total	9,783,092	2,320,709	247,534	12,351,335	3,580,964	(5,733)	(39,649)	15,886,917

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(1) The detail of mining investments by concept (nature) is as follows:

	2018	2017
Personal expenses	2,037,005	2,037,005
Consulting fees	934,433	934,433
Technical and Environmental Studies	1,116,559	1,116,559
Logistics and operation of the camp	1,495,439	1,427,881
General expenses and camp administration	1,234,641	689,312
Depreciation of plant and equipment	153,635	47,800
Mining concessions	587,617	587,617
Gunpowder Room	85,111	80,015
Air Supply Equipment	1,500	1,500
Rehabilitation of access roads	76,451	62,839
Topographical Stake	3,509	3,509
Access road constructions	158,135	158,135
Mining platform construction	164,249	30,452
Excavation of soil for mine field	36,887	23,494
Rubble handling	141,633	140,941
Exploitation Engineering	247,535	-
Drilling studies	51,607	-
Construction of road to Relavera	15,190	15,190
Profit engineering	90	90
Topographical Stake of Relavera	1,754	1,754
Drainage system	1,935	1,935
Water supply engineering	26,236	26,236
Camp building	210,535	216,847
Air quality conservation plan	32,630	32,522
Water management plan	12,499	4,424
Soil protection plan	57,401	44,466
Waste management plan	4,901	4,511
Access roads plan	2,994	2,812
Occupational health and safety plan	78,681	58,220
Social responsibility plan	1,024,921	420,349
Audit and environmental management program	48,259	25,113
Monitoring plan	170,424	151,333
Community relations	2,109,603	1,201,339
Costs for dismantling mine closure and rehabilitation	1,137,226	1,144,763
Total	13,461,225	10,693,396

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Below is the detail of the mining investments activated and in the process of construction:

	<u>2018</u>	<u>2017</u>
<u>Capitalization exploration and evaluation of Assets</u>	5,865,220	5,865,220
<u>Exploitation and profit Assets</u>		
Gunpowder Room	85,111	80,015
Canchamina and facilities	36,887	23,494
Equipment for exploiting	1,500	1,500
Engineering of galleries	840,619	395,876
Profit engineering	2,590	90
Engineering of Relavera	15,190	15,190
Relavera Dam	1,754	1,754
Relavera drainage system	1,935	1,935
Water supply engineering	26,236	26,236
Construction of campsites	210,535	216,847
Cost dismantling, mine closure and rehabilitation	1,137,226	1,144,763
Depreciations	130,778	24,943
<u>Other Intangibles - Environmental management plan</u>		
Air Quality Conservation Plan	32,630	32,522
Water Managing Plan	12,499	4,424
Soil protection plan	57,401	44,466
Solid Waste Management Plan	4,901	4,511
Access roads plan	2,994	2,812
Occupational Health and Safety Plan	78,681	58,220
Social responsibility plan	1,024,921	420,349
Monitoring plan	170,424	151,333
Audit and environmental management program	15,600	15,600
Environmental management system	32,659	9,513
Workforce	2,109,603	1,201,339
Operation of camps	345,667	278,109
Services auxiliary to camps	819,518	539,079
General services	398,146	133,256
Total	<u>13,461,225</u>	<u>10,693,396</u>

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Note 9 – Commercial accounts payable

A summary of the commercial accounts payables is as follows:

	2018	2017
Suppliers	427,542	211,659
Total	427,542	211,659

Note 10 – Other payables

A summary of the other payables is as follows:

	2018	2017
IESS payments	17,190	63,684
Salary payables	301	33,731
Clients advance payments (1)	4,848,329	1,700,000
Provisions	800	-
Other payables	1,435	271
Total	4,868,055	1,797,686

- (1) Corresponds to the advances received on the "LONG-TERM GOLD CONCENTRATE PURCHASE AGREEMENT" with the Company HUNAN XIANGZHONG MINING GROUP LIMITED received in the month of December for US \$ 1,200,000, of which US\$ 700,000 was delivered directly to its shareholder JUNEFIELD GOLD INVESTMENTS LIMITED, and for advances received on the "LONG-TERM GOLD CONCENTRATE PURCHASE AGREEMENT" with the Company HUNAN GOLD INTERNATIONAL INVESTMENTS LIMITED received in the month of November 2017 for a value of US\$ 500,000.

The advances received during the year 2018 by Hunan Xiangzhong Mining Group as stipulated in the contract will be up to US \$ 4,200,000, the value of the advance delivered to the seller must be paid to the buyer in 12 equal parts US \$ 350,000 discounted value in each monthly shipment.

Advances received during 2018 by Hunan Gold International Ltd, as stipulated in the contract will be up to US \$ 1,800,000. The buyer will make payments of the total value of the provisional proforma with a monthly discount of US \$ 150,000.

A detail of the movement of the advances received:

	Final Balance 2017	Advances received	Reclassification / crossings with advances	Reclassification / crossings with accounts receivable	Final Balance 2018
Hunan Xiangzhong Mining Group	1,200,000	3,000,000	(501,671)	(350,000)	3,348,329
Hunan Gold International Ltd.	500,000	1,250,000	(100,000)	(150,000)	1,500,000
Total	1,700,000	4,250,000	(601,671)	(500,000)	4,848,329

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Note 11 – Current Provisions

The summary of current provisions is as follows:

	<u>2018</u>	<u>2017</u>
Social Benefits	<u>131,650</u>	<u>117,015</u>
Total	<u><u>131,650</u></u>	<u><u>117,015</u></u>

Note 12 – Taxes

12.1 Current Tax Assets

A summary of current tax assets is as follows:

	<u>2018</u>	<u>2017</u>
Withholding	12	12
Tax credit - VAT	<u>741,837</u>	<u>336,688</u>
Total	<u><u>741,849</u></u>	<u><u>336,700</u></u>

12.2 Current tax liabilities

A summary of tax liabilities includes:

	<u>2018</u>	<u>2017</u>
Withholding taxes - payable	3,396	8,956
Withholding at source – Income payable	4,811	17,494
Remittance of currencies tax - payable	43,896	-
Mining royalties	<u>13,458</u>	<u>-</u>
Total	<u><u>65,561</u></u>	<u><u>26,450</u></u>

12.3 Income tax recognized in the results

Income tax expense includes:

	<u>2018</u>	<u>2017</u>
(Income) for Deferred Taxes	<u>(155,017)</u>	<u>(244,174)</u>
Total tax expense	<u><u>(155,017)</u></u>	<u><u>(244,174)</u></u>

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12.4 Tax reconciliation

Reconciliation between the profit according to financial statements and the taxable profit is as follows:

	2018	2017
Accounting profit (before workers participation and income tax)	(850,285)	(1,005,858)
(-) Exempt income	(121,295)	-
(+) Non-deductible expenses	168,656	177,959
(+) Expenses incurred to generate exempt	172,052	-
(+/-) Temporal Differences	43,897	-
Tributary Loss	(586,975)	(827,899)

12.5 Determination of generation and reversals of temporary differences

	Initial balance	Adjustment	Generation	Reversion	Final balance
Year 2018					
Provision for dismantling mine closure and rehabilitation	1,144,763	-	-	(7,536)	1,137,227
Provision for employer retirement	-	-	9,142	-	9,142
Provision for severance bonus	-	-	4,319	-	4,319
Tributary losses	1,730,113	(24,264)	586,975	-	2,292,824
Remittance of currencies tax provision	-	-	43,896	-	43,896
Dismantling costs, mine closure and rehabilitation	(1,144,763)	-	-	7,536	(1,137,227)
Total	1,730,113	(24,264)	644,332	-	2,350,181
Net between generation and reversal			620,068		25% 587,545

	Initial balance	Generation	Reversion	Final balance
Year 2017				
Provision for dismantling mine closure and rehabilitation	1,051,432	93,331	-	1,144,763
Tributary losses	902,214	827,899	-	1,730,113
Dismantling costs, mine closure and rehabilitation	(1,051,432)	(93,331)	-	(1,144,763)
Total	902,214	827,899	-	1,730,113
Net between generation and reversal		827,899		22% 432,528

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12.6 Deferred tax balances

The movements of deferred tax assets (liabilities) were as follows:

	<u>2018</u>	<u>2017</u>
<u>Deferred tax assets</u>		
Provision for dismantling, mine closure and rehabilitation	284,307	251,848
Provision for retirement bonuses	2,285	-
Provision for severance bonus	1,080	-
Remittance of currencies tax provision	10,974	-
Tributary loss	573,206	432,528
Total deferred tax assets	<u>871,852</u>	<u>684,376</u>
<u>Deferred tax liabilities</u>		
Cost of dismantling, mine closure and rehabilitation	<u>(284,307)</u>	<u>(251,848)</u>
Total deferred tax liabilities	<u>(284,307)</u>	<u>(251,848)</u>
Total (net)	<u>587,545</u>	<u>432,528</u>

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12.7 Movements of assets (liabilities) for deferred taxes

Movements of assets (liabilities) for deferred taxes were as follows:

Year 2018	Balance at the beginning of the year	Recognized at Results	Recognized at Equity	Recognized at Assets	Recognized at Liabilities	Balance at the end of the year
<u>Deferred tax assets</u>						
Provision for dismantling of mine closure and rehabilitation	251,848	-	-	32,459	-	284,307
Provision for retirement bonuses	-	2,285	-	-	-	2,285
Provision for severance bonus	-	1,080	-	-	-	1,080
Remittance of currencies tax provision	-	10,974	-	-	-	10,974
Tributary loss	432,528	140,678	-	-	-	573,206
Total deferred tax assets	684,376	155,017	-	32,459	-	871,852
<u>Deferred tax liabilities</u>						
Costs for dismantling mine closure and rehabilitation	(251,848)	-	-	-	(32,459)	(284,307)
Total deferred tax liabilities	(251,848)	-	-	-	(32,459)	(284,307)
Total (net)	432,528	155,017	-	32,459	(32,459)	587,545

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<u>Year 2017</u>	<u>Balance at the beginning of the year</u>	<u>Recognized at Results</u>	<u>Recognized at Equity</u>	<u>Recognized at Assets</u>	<u>Recognized at Liabilities</u>	<u>Balance at the end of the year</u>
<u>Deferred tax assets</u>						
Provision for dismantling of mine closure and rehabilitation	231,315	-	-	20,533	-	251,848
Provision for retirement bonuses	5,137	-	(5,137)	-	-	-
Tributary loss	188,354	244,174	-	-	-	432,528
<u>Total deferred tax assets</u>	<u>424,806</u>	<u>244,174</u>	<u>(5,137)</u>	<u>20,533</u>	<u>-</u>	<u>684,376</u>
<u>Deferred tax liabilities</u>						
Costs for dismantling mine closure and rehabilitation	(231,315)	-	-	-	(20,533)	(251,848)
<u>Total deferred tax assets</u>	<u>(231,315)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,533)</u>	<u>(251,848)</u>
<u>Total (net)</u>	<u>193,491</u>	<u>244,174</u>	<u>(5,137)</u>	<u>20,533</u>	<u>(20,533)</u>	<u>432,528</u>

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12.8 Accounting and fiscal basis

The deductible and taxable temporary differences are the following:

	<u>Accounting Base</u>	<u>Tributary Base</u>	<u>Temporary Difference</u>	<u>Deferred Tax</u>
<u>Year 2018</u>				
Provision for dismantling, mine closure and rehabilitation	1,137,227	-	1,137,227	284,307
Provision for retirement bonuses	9,142	-	9,142	2,285
Provision for severance bonus	4,319	-	4,319	1,080
Remittance of currencies tax provision	43,896	-	43,896	10,974
Tributary loss	-	2,292,824	2,292,824	573,206
Cost of dismantling, mine closure and rehabilitation	<u>(1,137,227)</u>	<u>-</u>	<u>(1,137,227)</u>	<u>(284,307)</u>
Total	<u><u>57,357</u></u>	<u><u>2,292,824</u></u>	<u><u>2,350,181</u></u>	<u><u>587,545</u></u>
	<u>Accounting Base</u>	<u>Tributary Base</u>	<u>Temporary Difference</u>	<u>Deferred Tax</u>
<u>Year 2017</u>				
Provision for dismantling, mine closure and rehabilitation	1,144,763	-	1,144,763	251,848
Tributary loss	-	1,730,113	1,730,113	432,528
Cost of dismantling, mine closure and rehabilitation	<u>(1,144,763)</u>	<u>-</u>	<u>(1,144,763)</u>	<u>(251,848)</u>
Total	<u><u>-</u></u>	<u><u>1,730,113</u></u>	<u><u>1,730,113</u></u>	<u><u>432,528</u></u>

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Note 13 – Transfer pricing legislation

The current tax regulations incorporate the arm's length principle for transactions carried out with related parties. By resolution No. NAC-DGERCGC15-00000455 published in the second supplement of R.O. 511 of Friday, May 29, 2015 the Internal Revenue Service - SRI, requires companies to prepare and forward an annex of operations with related parties, provided that transactions have been carried out with related companies domiciled abroad and local in it, fiscal period and whose accumulated amount is greater than US \$ 3,000,000, and for operations for an accumulated amount exceeding US \$ 15,000,000, a transfer pricing report must be presented. It is included as a related party to companies domiciled in tax havens. The indicated study must be submitted until the month of June 2019 according to the ninth digit of the RUC. Additionally, the Company must declare the operations of assets, liabilities, income and expenses on its annual income tax return.

Therefore, the company does not have the obligation to present the annex of operations with related parties and the transfer pricing report for fiscal years 2018 and 2017, since in those periods there were transactions with related parties that do not exceed the amounts aforementioned.

13.1 Fiscal situation

As of the date of issuance of the financial statements, Years 2015 to 2017 are subject to possible control.

Note 14 – Provision for dismantling, mine closure and rehabilitation

The dismantling, mine closure and rehabilitation provision is as follows:

	<u>2018</u>	<u>2017</u>
Provision for the dismantling of mine closure and rehabilitation (1)	1,137,226	1,144,763
Total	<u>1,137,226</u>	<u>1,144,763</u>

- (1) Decommissioning and rehabilitation provisions are presented at their present value, based on the future payments estimated to be made for this concept, according to the time of exploitation of the mine. Mine closure obligations require management to make estimates about the future costs that the company incurs to comply with the work required by the relevant regulations for restoration and rehabilitation in each mining operation. The actual costs can be significantly different from the estimated costs. The provision is the best estimate of the administration at the present value of the restoration and rehabilitation commitments and is reviewed annually. Mine closure costs presented at present value were calculated at an effective referential discount rate issued by the Central Bank of Ecuador of 8.81% for 2018 (7.75% for 2017), the details and calculation of which are presented below:

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Year	State	Study of Environmental Impact of Exploitation Closing Plan	Study of Environmental Impact of Benefit Closing Plan	Total	Today Value 31-dic-2018 (rate 8.81%)
1	Construction	-	-	-	-
2	Construction	-	-	-	-
3	Operation	20,000	5,000	25,000	22,976
4	Operation	20,000	5,000	25,000	21,255
5	Operation	20,000	5,000	25,000	19,774
6	Operation	20,000	5,000	25,000	18,486
7	Operation	20,000	5,000	25,000	17,355
8	Operation	20,000	5,000	25,000	16,355
9	Operation	20,000	5,000	25,000	15,463
10	Operation	20,000	5,000	25,000	14,664
11	Close	400,000	900,000	1,300,000	725,082
12	Close	100,000	400,000	500,000	265,816
	Total	660,000	1,340,000	2,000,000	1,137,226

The current value of the provision for dismantling, mine closure and rehabilitation costs was recorded in the cost of mining investments, which will be amortized from the beginning of the operation, in the life of the mine and in accordance with the amount of exploited.

Note 15 – Defined benefit obligation

A summary of the defined benefit obligation is as follows:

	2018	2017
Employer retirement	23,644	75,643
Severance bonus	11,821	22,127
Total	35,465	97,770

15.1 Employee retirement

According to provisions of the Labor Code, workers who for twenty years or more have provided their services on a continuous or interrupted basis will be entitled to be retired by their employers, without prejudice to their retirement as members of the Institute Ecuadorian Social Security.

The balance of the employer retirement provision corresponds to the current value of the mathematical reserve calculated actuarially by an independent professional, for all the workers who, as of December 31 of each year, were providing services for the company.

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The movements in the present value of the employer's retirement obligation were as follows:

	2018	2017
Balance at the beginning of the year	75,643	54,248
Labor cost	30,014	20,753
Financial cost	3,044	2,246
Actuarial losses	(85,057)	(1,604)
Balance at the end of the year	<u>23,644</u>	<u>75,643</u>

15.2 Severance bonus

In accordance with provisions of the Labor Code, in the cases of termination of the employment relationship for eviction requested by the employer or the worker, the Company will deliver 25% of the last monthly remuneration for each of the years of service.

The movements in the present value of the eviction bonus obligation were as follows:

	2018	2017
Balance at the beginning of the year	22,127	19,620
Paid Benefits	(22,127)	(1,840)
Labor cost	13,777	6,540
Financial cost	878	812
Actuarial losses	(2,834)	(3,005)
Balance at the end of the year	<u>11,821</u>	<u>22,127</u>

Note 16 – Equity

16.1 Capital Stock

The authorized, subscribed and paid capital of the company As of 31 of December of 2018 and 2017 is US \$ 1,000,800 divided into 1,000,800 ordinary shares with a nominal value of US \$ 1 each, which grant one vote per share and right to the dividends. The company does not list its shares on the stock exchange.

As of December 31, 2018, the capital stock is constituted as follows:

Shareholder	Shares	Participation %	Nationality
Junefield Gold Investments Limited (1)	1,000,799	99.99%	Ecuador
Power Fortune Development Limited	1	0.01%	Hong Kong
Total	<u>1,000,800</u>	<u>100%</u>	

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- (1) On August 3, 2018, in accordance with the private contract of "nonrecourse debt", JUNEFIELD RESOURCES ECUADOR S.A. JUNEUA delivers to JUNEFIELD GOLD INVESTMENTS LIMITED US \$ 1,000,799 shares of the company ECUAGOLDMINING SOUTH AMERICA S.A.; with a nominal value of one dollar each; declaring that the shares delivered are free of all liens, and therefore can be freely offered.

16.2 Legal reserve

The Law of Companies requires that at least 10% of the annual profit is appropriate as a legal reserve until it reaches at least 50% of the capital. This reserve is not available for the payment of cash dividends with exception of in the case of liquidation of the Company, but may be entirely capitalized or used to cover losses in operations.

16.3 Accounts from the adoption of IFRS

In accordance with the provisions of the Superintendency of Securities and Insurance Companies, in Resolution No. SC.ICL.CPAIFRS.G.11.007 of September 9, 2011, published in R.O. 566 of October 28, 2011, the regulation on the treatment of:

16.3.1 Balance of the accumulated results sub-account from the first adoption of IFRS

The adjustments resulting from the first adoption of the International Financial Reporting Standards "IFRS", which were recorded in equity in the Accumulated Results account, sub-account "Accumulated Results from the first adoption of IFRS", that generated a credit balance, can only be capitalized in the part that exceeds the value of the accumulated losses and those of the last financial year concluded, if any; used in absorbing losses; or returned in the case of liquidation of the company. If a debit balance is recorded in the "Accumulated Results from the first-time adoption of IFRS" sub-account, it may be absorbed by the Accumulated Results and the last financial year, if any.

16.3.2 Adjustments arising from the adoption of the "IFRS" for the first time

The adjustments made under the International Financial Reporting Standards "IFRS" and the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs), must be known and approved by the general meeting of shareholders or partners approved by the first Annual financial statements issued in accordance with the aforementioned regulations.

16.4 Cumulative results

The results from profits or losses for each year are included in this item, keeping records that allow you to identify your Year of origin. With the approval of the General Shareholders' Meeting and complying with the applicable regulatory provisions, the profits are distributed or allocated to reserves, while the losses are maintained in accumulated results or are offset by the reserves and patrimonial accounts freely available to the shareholders.

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Note 17 – Ordinary Income

A summary of ordinary income is as follows:

	2018	2017
Gold concentrate	1,907,770	-
Total	1,907,770	-

A detail of the sales:

Date	Settlement	Humid tons	Humidity	Dry tons	Product	Fob price
07-04-18	HAU 17014L A1	47.835	22.80%	36.929	Gold concentrate	215,924.23
14-04-18	HAU 17014L A2 A	127.496	16.78%	106.102	Gold concentrate	75,208.280
14-04-18	HAU 17014L A2 B	25.342	23.49%	19.389	Gold concentrate	168,661.230
19-04-18	XJIP201701301 A1 B	178.991	17.73%	147.256	Gold concentrate	98,386.150
19-04-18	XJIP201701301 A1A	25.533	26.67%	18.723	Gold concentrate	112,224.350
26-04-18	HAU 17014L A3	46.760	33.58%	31.058	Gold concentrate	207,106.86
13-05-18	XJIP201701301 A2	101.183	15.807%	85.189	Gold concentrate	71,164.33
22-05-18	HAU 17014L B1 A	52.505	30.17%	36.663	Gold concentrate	129,949.44
22-05-18	HAU 17014L B1 B	118.853	15.833%	100.035	Gold concentrate	51,923.17
22-05-18	HAU 17014L B1 C	12.205	33.64%	8.099	Gold concentrate	21,721.84
19-06-18	HAU 17014L C1	52.086	25.137%	38.993	Gold concentrate	105,668.30
03-07-18	HAU 17014L C2	103.614	26.44%	76.224	Gold concentrate	266,848.79
03-07-18	XJIP201701301 B1	182.114	25.021%	136.547	Gold concentrate	382,982.93
						1,907,769.90

Note 18 – Costs and expenses by their nature

A summary of the costs reported in the Financial States is as follows:

	2018	2017
Direct materials	124,905	-
Direct labor	90,474	-
Indirect labor	288,303	-
Indirect costs of production	311,906	-
Rent of benefit plant	249,942	-
Total	1,065,530	-

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A detail of administration expense by its nature is as follows:

	<u>2018</u>	<u>2017</u>
Staff costs	692,466	251,207
Other staff costs	7,448	8,821
Professional Consulting	228,256	127,674
Maintenance	5,485	14,811
Utilities and communications	27,515	22,856
Leases	74,584	65,283
Legal expenses	13,688	5,332
General office expenses	85,478	106,253
Camps General expenses	31,426	15,077
Travel expenses	107,051	116,013
Vehicles Fuel	291	466
Parts	15	-
Taxes and contributions	79,903	47,428
Royalties	60,529	-
Patent mining concession	183,643	186,713
Withdrawal of assets	40,095	-
Other expenses	104,461	66,576
Total	<u><u>1,742,334</u></u>	<u><u>1,034,510</u></u>

A detail of sales expenses by its nature is as follows:

	<u>2018</u>	<u>2017</u>
Expenses for assessment and management of exports	24,886	-
Container transport expense	20,160	-
Total	<u><u>45,046</u></u>	<u><u>-</u></u>

A summary of the financial expenses by nature is as follows:

	<u>2018</u>	<u>2017</u>
Remittance Tax	6,795	2,415
Bank Commissions	21,250	20,051
Loans Interests	1,156	127
Banking Expenses	66	321
Total	<u><u>29,267</u></u>	<u><u>22,914</u></u>

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Note 19 – Other Income and Expenses

A summary of other income and expenses of the Company is as follows:

	<u>2018</u>	<u>2017</u>
Other Income	51,326	746
Interest earned by certificates of deposit	72,797	50,820
Other expenses	<u>(1)</u>	<u>-</u>
Total	<u>124,122</u>	<u>51,566</u>

Note 20 – Transactions with Related Parties

The following is a summary of the balances and main transactions made during Years 2018 and 2017 with related companies. It is included under the name of related companies, to companies of common shareholders or with a significant shareholding in the company.

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20.1 Balances

	Final Balance 2016	Loans	Advance Payments	Charges /Payments	Final Balance 2017	Gold Sales by contract	Loans	Advance Payments	Charges /Payments	Reclassify / advance crosses	Final Balance 2018
Commercials Receivables											
Huan Xianzhong	-	-	-	-	-	741,341	-	-	-	(350,000)	74,440
Huan Gold International Ltd.	-	-	-	-	-	564,758	-	-	-	(150,000)	3,120
Loans Receivables											
Sichuan Jintan S.A.	2,172	-	-	(2,172)	-	-	-	-	-	-	-
Casalogic S.A.	2,625	852	-	(2,625)	852	-	424	-	-	17	1,293
JuneField Resources Ecuador	-	6,890	-	(38)	6,852	-	865	-	(3,242)	(581)	3,894
JuneField Ingsa	-	-	-	-	-	-	46	-	-	-	46
JuneField Gold Investments Limited	-	-	700,000	-	700,000	-	-	1,050,000	(450,000)	(601,519)	698,481
Total	4,797	7,742	700,000	(4,835)	707,704	1,306,099	1,335	1,050,000	(1,181,781)	(1,302,083)	781,274

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	Final Balance 2016	Loans	Advance Payments	Charges /Payments	Final Balance 2017	Gold Sales by contract	Loans	Advance Payments	Charges /Payments	Reclassify / advance crosses	Final Balance 2018
Payables											
Sun Luis Minerales S.A.	1,939,233	37,500	(25,810)	-	-	1,950,923	-	(16,038)	-	1,934,885	1,934,885
JuneField Gold Investments Limited	-	80,000	-	(2,500,000)	10,602,517	8,182,517	1,610,000	-	(80,000)	9,712,517	9,712,517
JuneField Resources Ecuador S.A.	7,068,517	3,564,000	(30,000)	-	(10,602,517)	-	-	-	-	-	-
TOTAL	9,007,750	3,681,500	(55,810)	(2,500,000)	-	10,133,440	1,610,000	(16,038)	(80,000)	11,647,402	11,647,402

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20.2 Business transactions

During the Year, the Company made the following commercial transactions with related parties:

	<u>2018</u>	<u>2017</u>
<u>Sales</u>		
Concentrated gold Hunan Xianzhong Mining Group	1,243,012	-
Concentrated gold Hunan Gold International Ltd	<u>664,758</u>	<u>-</u>
Total	<u>1,907,770</u>	<u>-</u>

20.3 Remuneration to key management personnel

The remuneration and / or compensation paid to key management personnel who have the authority and responsibility to plan, direct and control the company's activities directly or indirectly is detailed below: Short-term benefits, 2018 was US\$ 44,826.48 (US\$ 0.00 on the year 2017)

Note 21 – Commitments

Drilling contract for the study of the ground of the Río Blanco project

On December 12, 2017, the company signs the contract with GEOWORKENGINEERINGSERVICES CIA. LTDA to carry out the soil studies of the Río Blanco project and perform the drilling, obtaining from this study the engineering of the area for the plant, which is base of dam of relavera. Obligations of the contractor:

- Deliver the studies according to the engineering and exploration standards applicable to the industry,
- Provide the company with visas for foreign work personnel (if necessary).

This contract will have a validity of 40 days from the signing of the It, the company must pay the sum of US \$ 105,252.00 which includes a total cost of the study area of the Río Blanco project. The additional costs that may arise due to the development of the work, must be duly demonstrated and justified, in the event that there is the respective approval of the contracting party, the liquidation will proceed and only the value corresponding to the VAT will be paid.

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Contract for Mining Material Processing Services

On December 28, 2017, the company signs the aforementioned contract with the company Agriplaza S.A., in which it is agreed.

- The processing service of mining material will be of a maximum amount of three hundred tons per day or more according to the agreement of the parties.
- Within the plant the process will be carried out in different ways, no specific part of the plant will be assigned, since the technicians determine independent circuits for the best plant performance and its respective process, being that the contractor can supervise the process at all times by your staff.
- The contractor cannot be responsible for the delivery of the material or its quality.
- In accordance with the agreement between the parties, the contracting party will pay the contracted the value of US \$ 35 per ton of material processed, plus VAT.
- In addition, the parties agree to establish a recovery percentage of 80% of the ore, calculated on the processed material, which is accepted by the parties.

Obligations of the contracting party

- Preserve, conserve and protect the ecological balance.
- Comply with the legal and regulatory regulations in force, related to tax aspects.
- Do not hire minors for the realization or execution of tasks related to mining activities.
- Comply with the safety, health and environmental regulations established in the current legal regulations.

Obligations of the contracted

- Respect the term of the contract.
- Maintain the mining concession in force where the beneficiation plant and its operation permits are located.
- It undertakes not to incur the grounds for revocation contemplated in the Mining Law.
- Ensure high quality maintenance to the beneficiation plant during this contract.
- Cover operating costs such as electricity, maintenance, water consumption and labor payments.

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Civil contract for the provision of services - security and surveillance

In the city of Quito, on November 1, 2017, the company hires the services of MAXIECUASEGURIDAD CIA, LTDA., represented by Marcela del Rocio Calle Vintimilla, to provide the service of complementary activities in the branch of armed surveillance to guard and provide professional security to the facilities and personnel required.

Among the obligations of the contractor are:

- Assign trained and well-behaved personnel with the necessary equipment.
- List of personnel that will work on the project.
- Submit a safety regulation to be fulfilled within the project.
- Deliver continuous reports of special news about integral security in the places where the service is provided.

The present will have a duration of 1 Year from the date of subscription, the company will cancel the value of US \$ 31,200 per month once it is evidenced that the service was provided to your satisfaction.

Long-term contract for the sale of gold concentrate

On October 19, 2017, ECUAGOLDMINING SOUTH AMERICA SA, signed a "LONG-TERM CONTRACT OF PURCHASE OF GOLD CONCENTRATE" with the company HUNAN XIANGZHONG MINING GROUP LIMITED (incorporated company and existing in accordance with the laws of the People's Republic of China),

Quantity and object:

The seller is obliged to deliver the amount of 400 TMH (Humid Metric Tons) per month from January to December 2017. The product must reach its destination in accordance with the regulations of the IMO (International Maritime Organization) in order to avoid shrinkage in the material.

Term and prices:

The term of the contract is one year starting from January 2018. For the transaction, the price of the gold content will be paid to the average of the price of gold on the day of shipment in the port of Guayaquil according to the website of Kitco, which will be paid in United States Dollars.

Payment Methods:

Advances: For an amount of up to US \$ 4,200,000 to the seller for their cash flow that will cover their production costs and rates within 4 months after signing the contract.

Monthly payments: The value of the advance paid to the seller must be paid to the buyer in 12 equal parts US \$ 350,000 value discounted in each monthly shipment.

Payment of Liquidation: The Buyer will deduct US \$ 350,000 in each monthly payment in order to pay the total value of the advance payment. If after the final settlement there is a balance in favor of the buyer, this will be discounted in the next monthly payment. Otherwise, if after the settlement the discount exceeds the value of US \$ 350,000, this difference will be returned to the seller in the next monthly payment.

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Long-term contract for the sale of gold concentrate

On October 31, 2017, ECUAGOLDMINING SOUTH AMERICA SA, signed a "LONG-TERM CONTRACT OF PURCHASE OF CONCENTRADO DE ORO" with the company HUNAN GOLD INTERNATIONAL INVESTMENTS LIMITED (incorporated and existing company in accordance with the laws of the People's Republic of China),

Quantity and object:

The seller is obliged to deliver the amount of 180 TMH (Humid Metric Tons) per month from January to March 2019 (for the Year 2017 on the contract before modification until December 2018). The product must reach its destination in accordance with the regulations of the IMO (International Maritime Organization) in order to avoid depletion of the material.

Term and prices:

The term of the contract is one year starting from the month of January of 2018. For the transaction the price of the gold content will be paid to the average of the price of the gold on the day of shipment in the port of Guayaquil according to the web page of Kitco, which will be paid in Dollars of the United States of America.

Payment Methods:

Advances.- For an amount of up to US \$ 1,800,000 to the seller for their cash flow that will cover their production costs and rates within 4 months after signing the contract.

Monthly payments.- The buyer will make payments of the total value of the provisional pro forma with a monthly discount of US \$ 150,000 (for the Year 2017 on the contract before modification US \$ 100,000).

Payment of Settlement.- The buyer will deduct US \$ 150,000 (for the Year 2017 on the contract before modification US \$ 100,000) in each monthly payment in order to pay the total value of the advance. If after the final settlement there is a balance in favor of the buyer, this will be discounted in the next monthly payment. Otherwise, if after the settlement the discount exceeds the value of US \$ 150,000 (for the Year 2017 on the contract before modification US \$ 100,000), this difference will be returned to the seller in the next monthly payment. The advance will be fully deducted at the end of March 2019.

Civil contract for the provision of services - monitoring

On February 7, 2018, ECUAGOLDMINING SOUTH AMERICA S.A., signed a "SERVICE PROVISION CONTRACT" with the company GRUENTEC CIA LTDA

Object of the contract:

Carry out all the monitoring and analysis with their respective reports of the components of water, soil, air, noise and other environmental parameters.

Price:

They have freely and voluntarily agreed to pay according to the samples taken or reports presented. The sum will be calculated based on each analysis, the payment will be made within a 15-day plate and prior to the delivery of the reports.

Term:

Duration of this contract is two Years counted from February 7, 2018, which may be renewed for the periods agreed

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Civil contract for the provision of services - for the management of infectious solid waste

On March 16, 2018, ECUAGOLDMINING SOUTH AMERICA S.A., signed a "SERVICE PROVISION CONTRACT" with the Company EMAC EP-

Object of the contract:

The selective collection and treatment of infectious solid waste generated in the establishment.

Price:

The cost of the service is established by the company EMAC EP based on the monthly weight of the collected waste

Term:

By virtue of the nature of the contract the also will be for an indefinite time or while the establishment is in operation

Civil contract for the provision of services - Consulting

On May 2, 2018, ECUAGOLDMINING SOUTH AMERICA S.A., signed a "SERVICE PROVISION CONTRACT" with the Company AMBIENCONSUL CÍA LTDA.

Object of the contract:

Perform the bi-annual flora and fauna monitoring in the mining areas of the Río Blanco project that include the CANOAS, MINQUIR and SAN LUIS mining concessions.

Price:

The company will recognize and pay the amount of US \$ 24,000.

Term:

Undefined.

Note 22 – Information by segments

IFRS 8 "Operating Segments" requires that operating segments be identified based on internal reports on the company's components, which are reviewed regularly by decision makers of the company in order to allocate the resources to the segments and evaluate their performance. The information by segment of the company is structured according to the following categories:

The company in the 2018 period made sales of its inventories in the mining materials segment.

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Note 23 – Contingencies

The contingent liabilities maintained by the company are detailed below:

23.1 Legal

Complaints filed by the company:

- Investigation by persecution, by Dr. Santiago Ortiz, external lawyer, value agreed by the defense is US \$ 800, closed process.
- Complaint filed for robbery of the company's vehicle, process by Dr. Santiago Ortiz, value agreed to US \$ 500, closed process.

Complaints filed by company personnel, with financial support from the company:

- Complaint for intimidation filed by Alexis Guerrero and Bernardo Barquea workers of the administrative area of the company (Relacionadores Comunitarios) process that is in charge of Dr. Santiago Ortiz, external lawyer.
- Complaint filed for injuries filed by Mr. Mauro Ochoa, a company employee against several people in the community where the mining project is being carried out by Dr. Santiago Ortiz, an external lawyer.
- Complaint filed for injuries filed by Mrs. Etelvina Durazno, a company employee against several people in the community where the mining project is being carried out by Dr. Santiago Ortiz, an external lawyer.

Complaints filed by the community of Cochapamba with the financial support of the company:

- Complaint filed by a year attempt to good to others, complaint raised by Mr. Juan Quiroz, against several people who attacked the facilities of his property, this process is in charge of Dr. Iván Ulloa, agreed value US \$ 3,000, of which 50% has been canceled.
- Complaint for intimidation raised by Mr. Walter Morales against several people in the community this process is in charge of Dr. Iván Ulloa, agreed value US \$ 2,000, of which 50% has been paid.

Complaints about crimes against water:

- Complaint filed by opponents to the mining activity against the company, this process is in charge of Dr. Santiago Ortiz, external lawyer, agreed value US \$ 2,500 of which 50% has been paid.

23.2 Labor

- Labor process initiated by the former worker, who is in charge of Dr. Teodoro Gonzáles, external lawyer of the company.

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23.3 Other litigation related to the company


Protection action filed by opponents to the mining activity, this process was prosecuted against the Ministry of Mining and the Ministry of the Environment, an action that was favorably sentenced in favor of the opponents, affecting the continuity of the company's economic operations.

Note 24 – Subsequent events

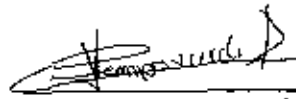
Between December 31, 2018 and the date of issuance of the financial statements (08 of February of 2019) there were no events that in the opinion of the Administration could have a significant effect on the accompanying financial statements.

Note 24 – Approval of financial statements

The financial statements of the company for the year ended December 31, 2018, were approved and authorized on February 8, 2019, by the General Management. Subsequently, they will be put before the General Board for final approval.



Xiao Juan
GERENTE



Viviana Campoverde
CONTADOR GENERAL

