



NORTHERN VERTEX
MINING CORP

Condensed Interim Consolidated Financial Statements

For the Three Months Ended September 30, 2018 and 2017

(Unaudited)

NORTHERN VERTEX MINING CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at September 30, 2018 and June 30, 2018
Expressed in Canadian Dollars
(Unaudited)

	Notes	September 30 2018	June 30 2018
ASSETS			
Current assets			
Cash		\$ 2,140,105	\$ 7,531,761
Trade and other receivables	4	32,730	33,805
Inventory	5	14,943,282	10,148,098
Prepaid expenses and deposits		1,206,775	669,652
Total current assets		18,322,892	18,383,316
Non-current assets			
Restricted cash		1,540,184	2,324,864
Plant and equipment	6	62,537,179	71,462,762
Mineral properties	6	38,043,596	30,156,454
Total assets		\$ 120,443,851	\$ 122,327,396
LIABILITIES			
Current liabilities			
Trade and other payables	7	\$ 10,856,221	\$ 9,515,040
Current portion of long term debt	8	17,383,100	17,680,433
Current portion of lease obligation	9	2,221,475	2,219,614
Total current liabilities		30,460,796	29,415,087
Non-current liabilities			
Long term debt	8	19,011,610	19,129,483
Lease obligation	9	5,783,956	6,463,947
Gold call options	10	768,675	665,350
Provision for reclamation and remediation	11	2,502,376	2,325,271
Total liabilities		58,527,413	57,999,138
SHAREHOLDERS' EQUITY			
Share capital	12	55,042,546	54,812,708
Share option reserve	12	6,214,924	6,120,291
Warrant reserve	12	25,601,236	25,601,236
Equity component of convertible debentures	8	1,348,690	1,399,014
Accumulated other comprehensive loss		(634,414)	588,514
Deficit		(25,656,544)	(24,193,505)
Total shareholders' equity		61,916,438	64,328,258
Total liabilities and shareholders' equity		\$ 120,443,851	\$ 122,327,396

Nature of operations and going concern	1
Commitments	20
Subsequent events	24

Approved and authorized on behalf of the Board:

"Kenneth Berry"
Director

"David Farrell"
Director

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

NORTHERN VERTEX MINING CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND
COMPREHENSIVE LOSS

Three Months Ended September 30, 2018 and September 30, 2017

Expressed in Canadian Dollars

(Unaudited)

	Notes	2018	2017
Revenue	13	\$ 1,543,031	\$ -
Cost of sales			
Production costs	14	(1,163,298)	-
Depreciation and depletion		(232,613)	-
Royalties		(107,378)	-
		(1,503,289)	-
Earnings from mine operations		39,742	-
Corporate administrative expenses	15	(951,626)	(715,681)
Operating loss		(911,884)	(715,681)
Foreign exchange gain (loss)		130,570	(1,712,095)
Finance costs	16	(681,725)	(118,359)
Net loss for the period		(1,463,039)	(2,546,135)
Foreign currency translation		(1,222,928)	(1,036,928)
Comprehensive loss for the period		\$ (2,685,967)	\$ (3,583,063)
Basic and diluted loss per share		\$ (0.01)	\$ (0.02)
Weighted average number of shares outstanding		180,515,074	166,020,501

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

NORTHERN VERTEX MINING CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Three Months Ended September 30, 2018 and September 30, 2017
Expressed in Canadian Dollars
(Unaudited)

	Notes	Number of Shares	Share Capital	Subscriptions Received in Advance	Share Option Reserve	Warrant Reserve	Equity Component of Convertible Debentures	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
Balance, June 30, 2017		141,279,215	\$ 40,571,513	\$ 2,381,600	\$ 5,812,653	\$ 20,103,160	\$ 1,479,734	\$ (1,751,068)	\$ (19,377,408)	\$ 49,220,184
Private placements		29,679,730	10,022,919	-	-	5,172,372	-	-	-	15,195,291
Subscriptions received in advance		-	-	(2,381,600)	-	-	-	-	-	(2,381,600)
Exercise of warrants		943,000	507,240	-	-	(82,890)	-	-	-	424,350
Exercise of options		750,000	427,384	-	(140,384)	-	-	-	-	287,000
Share-based payments	12	-	-	-	65,167	-	-	-	-	65,167
Foreign currency translation		-	-	-	-	-	-	(1,036,928)	-	(1,036,928)
Net loss		-	-	-	-	-	-	-	(2,546,135)	(2,546,135)
Balance, September 30, 2017		172,651,945	\$ 51,529,056	\$ -	\$ 5,737,436	\$ 25,192,642	\$ 1,479,734	\$ (2,787,996)	\$ (21,923,543)	\$ 59,227,329
Balance, June 30, 2018		180,308,552	\$ 54,812,708	\$ -	\$ 6,120,291	\$ 25,601,236	\$ 1,399,014	\$ 588,514	\$ (24,193,505)	\$ 64,328,258
Conversion of convertible debentures	8	500,000	229,838	-	-	-	(50,324)	-	-	179,514
Share-based payments	12	-	-	-	94,633	-	-	-	-	94,633
Foreign currency translation		-	-	-	-	-	-	(1,222,928)	-	(1,222,928)
Net loss		-	-	-	-	-	-	-	(1,463,039)	(1,463,039)
Balance, September 30, 2018		180,808,552	\$ 55,042,546	\$ -	\$ 6,214,924	\$ 25,601,236	\$ 1,348,690	\$ (634,414)	\$ (25,656,544)	\$ 61,916,438

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

NORTHERN VERTEX MINING CORP.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended September 30, 2018 and September 30, 2017
Expressed in Canadian Dollars
(Unaudited)

	Notes	2018	2017
Cash flows from operating activities			
Net loss for the period		\$ (1,463,039)	\$ (2,546,135)
Items not affecting cash:			
Share-based payments	12	94,634	65,167
Depreciation and depletion		235,520	3,486
Fair value loss on gold call options	10	115,407	31,763
Interest expense	16	584,208	191,058
Unrealized foreign exchange (gain) loss		(155,457)	1,950,944
Changes in non-cash working capital balances:			
Trade and other receivables		1,109	(12,994)
Inventory	14	(2,223,710)	-
Prepaid expenses and deposits		205,841	(127,131)
Trade and other payables		1,852,140	52,402
Cash used in operating activities		(753,347)	(391,440)
Cash flows from financing activities			
Proceeds of long term debt, net of issue costs		-	6,259,055
Proceeds of lease obligation		-	7,351,921
Repayment of debt		(29,729)	-
Repayment of lease obligation	9	(535,930)	(1,487,040)
Issuance of share capital, net of issue costs		-	15,904,781
Subscriptions received in advance		-	(2,381,600)
Interest paid		(1,005,672)	(469,953)
Restricted cash		-	(735,192)
Cash (used in) provided by financing activities		(1,571,331)	24,441,972
Cash flows from investing activities			
Mineral properties expenditures		(195,268)	(110,139)
Plant and equipment expenditures		(2,847,603)	(14,782,344)
Cash used in investing activities		(3,042,871)	(14,892,483)
Effect of foreign exchange on cash		(24,107)	(1,865,598)
(Decrease) increase in cash during the period		(5,391,656)	7,292,451
Cash, beginning of the period		7,531,761	24,985,035
Cash, end of the period		\$ 2,140,105	\$ 32,277,486
Supplemental disclosure of non-cash activities	17		

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

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017
 (All dollar amounts expressed in Canadian dollars, unless otherwise noted)
 (Unaudited)

1 Nature of operations and going concern

Nature of operations

Northern Vertex Mining Corp. (the "Company") is incorporated under the laws of the province of British Columbia, Canada and its principal business activity is the exploration, development and production of precious metals. The address of the Company's registered office is Suite 1650 – 1075 West Georgia Street, Vancouver, British Columbia, Canada.

The Company's primary project is the Moss Gold-Silver deposit (the "Moss Mine") located in Mohave County, Arizona. The Company transitioned into commercial production on September 1, 2018.

Going concern

These condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. There are conditions and events, which constitute material uncertainties that may cast significant doubt on the validity of this assumption.

The Company has experienced operating losses and negative operating cash flows since inception and has no assurances that sufficient financing will be available to continue in operation for the foreseeable future. Ongoing operations and continual development of the Moss Mine are dependent on the Company's ability to generate sufficient cash flow from production, to obtain equity financing by the issuance of share capital and to secure debt financing.

To continue development at the Moss Mine, the Company may require additional financing. While the Company has been successful at raising funds in the past, there can be no assurance that it will be able to do so in the future.

These condensed interim consolidated financial statements do not reflect any adjustments, which may be material, to the carrying values of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

As at September 30, 2018 and June 30, 2018 the Company had the following working capital and deficit balances:

	September 30, 2018	June 30, 2018
Working capital deficit	\$ (12,137,904)	\$ (11,031,771)
Deficit	\$ (25,656,544)	\$ (24,193,505)

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

2 Statement of compliance

These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards and Interpretations ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standards ("IAS") 34, Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors of the Company on November 28, 2018.

3 Significant accounting policies

The significant accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with the accounting policies disclosed in Note 3 of the audited consolidated financial statements for the year ended June 30, 2018 except as noted below. These condensed interim consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended June 30, 2018.

Basis of consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has control. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. These consolidated financial statements include the accounts of two wholly-owned subsidiaries, Golden Vertex Corp. ("GVC") and Golden Vertex (Idaho) Corp. ("GVIC"), both incorporated in the United States. GVIC is an inactive subsidiary with less than \$10,000 in net assets. All inter-company balances, and gains and losses on intercompany transactions, have been eliminated for consolidation purposes.

During the period the Company adopted the following significant accounting policies:

Commercial production

The determination of when a mine is in the condition necessary for it to be capable of operating in the manner intended by management (referred to as "commercial production") is a matter of significant judgement which impacts when the Company recognizes revenue, operating costs and depreciation and depletion. In making this determination, management considers specific facts and circumstances. These factors include, but are not limited to, whether the major capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended by management have been completed, completion of a reasonable period of commissioning and consistent operating results being achieved at pre-determined levels of design capacity for a reasonable period of time. The Company determined commercial production was achieved for the Moss Mine on September 1, 2018.

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017
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(Unaudited)

3 Significant accounting policies (continued)

Stripping costs

Capitalization of stripping costs requires the Company to make judgments and estimates in determining the amounts to be capitalized. In open pit mining it may be required to incur costs to remove overburden and other mine waste materials in order to access the ore body ("stripping costs"). During the development of a mine, stripping costs are capitalized and included in the carrying amount of the related mining property and depleted over the productive life of the mine using the unit-of-production method. During the production phase of a mine, stripping costs incurred to provide access to gold and silver which will be produced in future periods that would not have otherwise been accessible are capitalized and included in the carrying amount of the related mineral property. Stripping costs incurred and capitalized during the production phase are depleted using the unit-of-production method over the estimated contained proven and probable reserves and measured and indicated resources that directly benefit from the specific stripping activity. Costs incurred for regular waste removal that do not give rise to future economic benefits are considered as costs of sales and included in production costs.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset includes the purchase price or construction cost, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, and borrowing costs related to the acquisition or construction of the qualifying assets.

Depreciation

Depreciation of plant and equipment commences when the asset is in the condition and location necessary for it to operate in the manner intended by management. Plant and equipment assets are depreciated using either the straight-line or units-of-production method over the shorter of the estimated useful life of the asset or the expected life of mine. Where an item of plant and equipment comprises of major components with different useful lives, the components are accounted for as separate items of plant and equipment. A majority of mine and site infrastructure assets are depreciated using a unit-of-production method over the life of the mine. Depreciation is determined each period using gold ounces mined over the estimated contained proven and probable reserves and measured and indicated resources of the mine. Depreciation is recognized in the statement of loss and comprehensive loss upon commercial production having been achieved.

Other ancillary assets are depreciated using the straight-line method to allocate cost over their estimated useful lives, as follows:

	Estimated useful life
Ancillary machinery and equipment	2-5 years
Light vehicles	3-5 years
Office furniture, leaseholds and computer equipment	3-5 years

Asset useful life and residual values are reviewed on an annual basis and adjusted, if required, on a prospective basis.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

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(Unaudited)

3 Significant accounting policies (continued)

Financial instruments

The Company has adopted IFRS 9 Financial Instruments ("IFRS 9") as of July 1, 2018. IFRS 9 replaces the provisions of IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

Classification and measurement of financial assets and financial liabilities

IFRS 9 eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale. IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) measured as amortized cost; (ii) measured at fair value through other comprehensive income ("FVOCI"); and (iii) measured at fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated and instead, the financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL.

IFRS 9 retains the existing requirements in IAS 39 for the classification of financial liabilities. Under IAS 39, all fair value changes on liabilities designated under the fair value option were recognized in earnings or loss. Under IFRS 9, those fair value changes are generally presented as follows: (i) the amount that is attributable to changes in the credit risk of the liabilities is presented in other comprehensive income ("OCI") and (ii) the remaining amount of change in the fair value is presented in earnings or loss. All other financial liabilities are measured at amortized cost unless the fair value option is applied.

Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss ("ECL") model for calculating impairment of financial assets. An entity is required to recognize ECL when financial instruments are initially recognized and to update the amount of ECL recognized at each reporting date to reflect changes in the credit risk of the financial instruments. IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

3 Significant accounting policies (continued)

Transition to IFRS 9

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. On adoption of IFRS 9, there were no differences in the carrying amounts of the Company's financial assets and financial liabilities.

The original measurement categories under IAS 39 and the new measurement categories under IFRS 9 are summarized as follows:

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Financial Liabilities		
Trade and other payables	Other financial liabilities	Amortized cost
Long term debt	Other financial liabilities	Amortized cost
Lease obligation	Other financial liabilities	Amortized cost
Gold call options	FVTPL	FVTPL

Future accounting policy changes issued but not yet in effect

Pronouncements that are not applicable or that do not have a significant impact to the Company have not been included in these condensed interim consolidated financial statements. The following standards are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company is currently evaluating the impact of these standards on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, Leases, which replaces IAS 17, Leases, and other lease related interpretations. The new standard established the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a lease contract. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted only in conjunction with IFRS 15.

4 Trade and other receivables

	September 30, 2018	June 30, 2018
Trade accounts receivable	\$ 14,183	\$ 14,579
Value-added taxes receivable	18,547	19,226
	\$ 32,730	\$ 33,805

5 Inventory

	September 30, 2018	June 30, 2018
Heap leach ore	\$ 13,292,835	\$ 8,603,866
Dore	1,390,568	924,701
Stockpiled ore	-	389,297
Consumables and supplies	259,879	230,234
	\$ 14,943,282	\$ 10,148,098

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017
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(Unaudited)

6 Mineral properties, plant and equipment

Mineral properties, plant and equipment for the three months ended September 30, 2018 and the year ended June 30, 2018 were as follows:

	Depletable mineral properties	Non-depletable mineral properties	Plant and equipment	Construction in progress	Total
Cost					
Balance at June 30, 2018	\$ 28,308,110	\$ 1,848,344	\$ 3,388,103	\$ 70,126,429	\$ 103,670,986
Additions	816,259	314,686	487,480	481,853	2,100,278
Transfer from construction in progress	7,537,534	139,635	62,414,752	(70,091,921)	-
Foreign exchange movement	(541,688)	(35,614)	(651,109)	(516,361)	(1,744,772)
Balance at September 30, 2018	\$ 36,120,215	\$ 2,267,051	\$ 65,639,226	\$ -	\$ 104,026,492
Accumulated Depreciation					
Balance at June 30, 2018	\$ -	\$ -	\$ 2,051,770	\$ -	\$ 2,051,770
Depreciation and depletion	346,273	-	1,092,655	-	1,438,928
Foreign exchange movement	(2,603)	-	(42,378)	-	(44,981)
Balance at September 30, 2018	\$ 343,670	\$ -	\$ 3,102,047	\$ -	\$ 3,445,717
Net book value at September 30, 2018	\$ 35,776,545	\$ 2,267,051	\$ 62,537,179	\$ -	\$ 100,580,775

	Depletable mineral properties	Non-depletable mineral properties	Plant and equipment	Construction in progress	Total
Cost					
Balance at June 30, 2017	\$ 27,169,699	\$ 1,195,681	\$ 1,767,966	\$ 16,725,142	\$ 46,858,488
Additions	706,880	623,825	1,413,414	50,782,792	53,526,911
Foreign exchange movement	431,531	28,838	206,723	2,618,495	3,285,587
Balance at June 30, 2018	\$ 28,308,110	\$ 1,848,344	\$ 3,388,103	\$ 70,126,429	\$ 103,670,986
Accumulated Depreciation					
Balance at June 30, 2017	\$ -	\$ -	\$ 1,425,529	\$ -	\$ 1,425,529
Depreciation	-	-	460,309	-	460,309
Foreign exchange movement	-	-	165,932	-	165,932
Balance at June 30, 2018	\$ -	\$ -	\$ 2,051,770	\$ -	\$ 2,051,770
Net book value at June 30, 2018	\$ 28,308,110	\$ 1,848,344	\$ 1,336,333	\$ 70,126,429	\$ 101,619,216

Depletable mineral properties consist of the Moss Mine Property. Non-depletable mineral properties consist of exploration on the Moss Mine Property and the Silver Creek Property.

During the three months ended September 30, 2018, \$235,520 (2017 - \$3,486) of depreciation and depletion was recognized in the statement of loss and comprehensive loss and \$64,924 (2017 - \$94,767) was capitalized within construction in progress prior to the Company declaring commercial production on September 1, 2018.

During the three months ended September 30, 2018, the Company capitalized borrowing costs of \$1,009,639 (2017 - \$578,793) related to the Moss Mine project into construction in progress prior to the Company declaring commercial production on September 1, 2018 at a capitalization rate of 8.56% (2017 - 12.99%)

Moss Mine Property – Mohave County, Arizona

The Company owns 100% of the Moss Mine and has royalty agreements with various parties whereby the Company pays net smelter returns ("NSR") royalties ranging from 1% to 3.5% on certain patented and unpatented claims related to the Moss Mine.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
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6 Mineral properties, plant and equipment (continued)

In addition, a fee of up to US\$15 per troy ounce of gold produced and up to US\$0.35 per troy ounce of silver produced is payable to a non-related party. The fee can be purchased by the Company for US\$2,400,000 in cash and/or shares of the Company within 90 days of the commencement of commercial production as defined by the agreement. Subsequent to the three months ended September 30, 2018, the Company purchased a twelve month extension to repurchase this royalty for US\$100,000 (Note 24).

Silver Creek Property – Mohave County, Arizona

On May 7, 2014, the Company secured an option on the Silver Creek property, located adjacent to the Moss Mine with La Cuesta International, Inc. ("LCI"). To fulfill the terms of the 35 year mineral lease and option agreement, the Company paid LCI US\$5,000 and issued 100,000 common shares of the Company upon execution of the agreement.

On June 28, 2017, the Company entered into an amendment to the mineral lease and option agreement to defer the minimum work commitment of US\$200,000 from May 7, 2017 to May 7, 2019. Upon the execution of the amendment, the Company must meet the following commitments:

- i. Pay LCI US\$10,000 cash (paid) and fund a minimum of US\$15,000 (completed) on work commitments by May 7, 2015;
- ii. Pay LCI US\$20,000 cash (paid) and fund a minimum of US\$20,000 (completed) on work commitments by May 7, 2016;
- iii. Pay LCI US\$30,000 cash (paid) by May 7, 2017 and US\$20,000 cash (paid) by July 28, 2017;
- iv. Pay LCI US\$45,000 cash by May 7, 2018 (paid);
- v. Pay LCI US\$50,000 cash by May 7, 2019 and fund a minimum of US\$200,000 on work commitments by May 7, 2019; and
- vi. Pay LCI US\$25,000 cash every six months, thereafter.

The agreement provides for a production royalty of 1.5% NSR on claims owned 100% by LCI and 0.5% NSR on third party claims within the claim block. To acquire the claims, the Company is required to make payments to LCI totalling US\$4,000,000 in any combination of aggregate royalty payments and lump-sum payments at its sole discretion. All payments other than the work commitments are credited against the royalty. Once US\$4,000,000 has been paid, the NSR rates, on claims not otherwise acquired, reduce by 50%.

7 Trade and other payables

	September 30, 2018	June 30, 2018
Trade accounts payable	\$ 6,548,908	\$ 5,839,829
Accrued liabilities	4,307,313	3,675,211
	\$ 10,856,221	\$ 9,515,040

8 Long term debt

	Note	September 30, 2018	June 30, 2018
Senior secured credit facility, net of issue costs	(i)	\$ 23,564,406	\$ 23,810,946
Convertible debentures – 2016	(ii)	5,008,424	5,066,257
Convertible debentures – 2018	(iii)	7,511,686	7,588,266
Equipment loans, net of costs	(iv)	310,194	344,447
		\$ 36,394,710	\$ 36,809,916
Current portion of long term debt		(17,383,100)	(17,680,433)
		\$ 19,011,610	\$ 19,129,483

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

8 Long term debt (continued)

(i) Senior secured credit facility:

Pursuant to the terms of the \$25,890,000 (US\$20,000,000) senior secured credit facility ("the Facility"), interest is due monthly at an annual interest rate of 8% plus the greater of twelve month USD LIBOR or 1.25%. The Facility is secured with a first charge over assets and shares of all subsidiaries. Fees of 3% of the principal amount outstanding are due on November 4 of each year and are payable in cash or shares at the option of the lender. As at September 30, 2018 pursuant to the terms of the Facility agreement, the Company has issued an aggregate of 1,267,024 common shares with a fair value of \$598,538 in satisfaction of the anniversary fee.

In connection with the Facility the Company issued call options (the "Gold Call Options") to purchase 6,000 ounces, with an exercise price of US\$1,275 per ounce (Note 10).

The Company made a principal payment of \$1,438,333 (US\$1,111,111) in June 2018. An amendment was made to the Facility agreement subsequent to the quarter ended September 30, 2018, whereby the Company extended the maturity date of the Facility from November 2019 to December 2020. As part of the amendment monthly principal payments of \$1,438,333 (US\$1,111,111) were waived from July 2018 to October 2018 (Note 24).

(ii) Convertible debentures – 2016:

The unsecured convertible debentures issued in fiscal 2017 mature on May 31, 2021 and bear interest at 5% per year with interest payable semi-annually on November 30 and May 31. The convertible debentures are convertible into common shares at the option of the holder at any time prior to maturity at a conversion price of \$0.50 per common share. The debentures may be redeemed in cash on or after July 14, 2018 upon redemption notice at a redemption price equal to their face value plus accrued interest provided the trading price of the common shares for 20 consecutive trading days, ending five trading days prior to the date of the redemption notice, must be less than the conversion price. The Company also has the option, to repay the face value of the debentures in common shares, provided certain circumstances are met including: no default has occurred and the trading price of the common shares for 20 consecutive trading days ending five trading days prior to the date of the redemption notice or maturity date is at least 150% of the conversion price. Interest may be payable in cash or common shares at the option of the Company.

	Three Months Ended September 30, 2018	Year Ended June 30, 2018
Balance, beginning of period	\$ 5,066,257	\$ 5,037,622
Converted debentures	(183,782)	(277,996)
Interest accretion	125,949	306,631
Balance, end of period	\$ 5,008,424	\$ 5,066,257

During the quarter ended September 30, 2018, \$250,000 of convertible debentures were converted to 500,000 common shares with a fair value of \$229,838.

(iii) Convertible debentures – 2018

On January 17, 2018 and March 7, 2018, the Company completed two tranches of an unsecured subordinated non-revolving loan facility in the amount of \$3,883,500 (US\$3,000,000) each for a total of \$7,767,000 (US\$6,000,000).

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

8 Long term debt (continued)

The convertible debentures mature on January 31, 2020 at which time the principal amount is to be repaid in full, subject to the holder having not elected to convert the principal amount outstanding. The convertible debentures bear interest at 12% per annum, payable quarterly in arrears in cash and are convertible at the holder's option at any time prior to the maturity date. The conversion price is the lower of: (i) \$0.70; and (ii) if the Company has announced a potential merger, amalgamation, arrangement, acquisition or other type of business transaction that results in a change of control, or a merger and acquisition transaction, including the issuance by the Company of more than 20% of its stock, the 20 day volume weighted average price prior to such announcement, subject to the conversion price not being less than \$0.51 for tranche one and \$0.52 for tranche two. The conversion price of debentures issued under any subsequent advance will be as above, but will be subject to the minimum market price determined on the date preceding the date of issuance of any such subsequent debentures. Cash fees of 3% of the amount of each advance were paid upon completing the tranches and 3% of the aggregate amount outstanding is due on the anniversary date.

	Three Months Ended September 30, 2018	Year Ended June 30, 2018
Balance, beginning of period	\$ 7,588,266	\$ -
Issued	-	7,900,800
Financing costs	-	(366,722)
Interest accretion	52,779	73,737
Foreign exchange movement	(129,359)	(19,549)
Balance, end of period	\$ 7,511,686	\$ 7,588,266

(iv) Equipment loans

At September 30, 2018, the Company had equipment loans outstanding totalling \$310,195 (US\$239,625) (June 30, 2018 - \$344,447) at interest rates ranging from 4.34% to 11.99% with monthly payments of \$11,776 (US\$9,097).

9 Lease obligation

During the year ended June 30, 2018, the Company executed a definitive Master Lease Agreement (the "MLA") for up to \$11,650,500 (US\$9,000,000) of equipment purchases. The significant terms and conditions of the MLA include: a maximum of US\$9,000,000 available to fund equipment purchases with 10% to 30% due as advance payments at lease commencement, fixed quarterly payments over a four year lease period, interest rate of 3-month USD LIBOR plus additional interest rates ranging from 5.00% to 6.25% per annum and the right to buy the equipment at the end of the lease period for nominal consideration. The MLA is secured with the acquired assets in favour of the lender and a guarantee from the Company.

The Company paid fees of \$291,263 (US\$225,000) in connection with the MLA and commitment fees of 0.5% of the unused portion of the MLA are due quarterly. As of September 30, 2018, \$3,158,583 (US\$2,440,002) of the MLA remains unused.

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

9 Lease obligation (continued)

Minimum lease payments and present value of finance lease are as follows:

	Three Months Ended September 30, 2018	Year Ended June 30, 2018
Balance, beginning of period	\$ 8,683,561	\$ -
Minimum lease payments	-	12,448,972
Principal payments	(535,930)	(2,669,187)
Finance charges	-	(1,502,603)
Foreign exchange movement	(142,200)	406,379
	8,005,431	8,683,561
Current portion of finance lease	(2,221,475)	(2,219,614)
Balance, end of period	\$ 5,783,956	\$ 6,463,947

	Within 1 Year	2-5 Years	Total
Future minimum lease payments	2,741,187	6,338,318	9,079,505
Finance charges	(519,712)	(554,362)	(1,074,074)
Present value of finance lease	\$ 2,221,475	\$ 5,783,956	\$ 8,005,431

10 Gold call options

	Three Months Ended September 30, 2018	Year Ended June 30, 2018
Balance, beginning of period	\$ 665,350	\$ 543,560
Gold Call Options revaluation	115,407	100,196
Foreign exchange movement	(12,082)	21,594
Balance, end of period	\$ 768,675	\$ 665,350

In connection with the senior secured credit facility (Note 8), the Company issued Gold Call Options to the lender to purchase 6,000 ounces of gold at an exercise price of US\$1,350 per ounce. Pursuant to an amendment to the Facility agreement, the exercise price was repriced and were exercisable at US\$1,275 per ounce as at September 30, 2018. Subsequent to the three months ended September 30, 2018, the exercise price was reduced from US\$1,275 to US\$1,200 per ounce pursuant to a third amendment to the Facility agreement (Note 24). The Gold Call Options expire on November 4, 2021 and may be settled by a cash payment, or an increase in the principal amount of the Facility, based on the difference between the exercise price and the prevailing market price of gold at the time of settlement.

The fair value of the Gold Call Options was calculated when issued and are revalued each subsequent reporting period using the Black-Scholes option pricing model with the fair value gain or loss recorded in the consolidated statements of loss. The following assumptions were used when valuing the options:

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

10 Gold call options (continued)

	September 30, 2018	June 30, 2018	At Issue
Exercise price (US\$ per ounce)	\$1,275	\$1,275	\$1,350
Gold price (US\$ per ounce)	\$1,187	\$1,250	\$1,303
Volatility	19.7%	11.0%	14.5%
Interest rate	2.21%	1.91%	0.52%
Expected life of options (years)	1.6	1.85	2.5

11 Provision for reclamation and remediation

	Three Months Ended September 30, 2018	Year Ended June 30, 2018
Balance, beginning of period	\$ 2,325,271	\$ 2,078,876
Change in estimate	204,250	166,803
Accretion	12,233	48,994
Foreign exchange movement	(39,378)	30,598
Balance, end of period	\$ 2,502,376	\$ 2,325,271

The Company's provision for reclamation and remediation relates to the environmental restoration and closure costs associated with the Moss Mine. The provision has been recorded at its net present value using a discount rate of 2.43% and a long-term inflation rate of 2%, with expenditures anticipated over a ten year period beginning in 2028. The provision is remeasured at each reporting date, with accretion being charged to the associated property asset.

The total undiscounted amount of the Company's estimated obligation, based on land disturbances at the Moss Mine as of September 30, 2018, was \$3,241,314 (US\$2,503,912). All assumptions used in the calculation of the reclamation and remediation provision are subject to change.

12 Share capital, option reserve and warrant reserve

a) Share Capital

Authorized share capital consists of an unlimited number of common shares without par value.

No private placements were completed during the three months ended September 30, 2018. Private placements completed during the year ended June 30, 2018 were as follows:

In April 2018, the Company closed a non-brokered private placement, raising gross proceeds of \$2,404,000. Pursuant to the private placement, the Company issued an aggregate of 4,623,076 units at a purchase price of \$0.52 per unit. Each unit consists of one common share of the Company and one-half non-transferable common share purchase warrant. Each warrant has a term of two years and entitles the holder to acquire one common share of the Company at an exercise price of \$0.68 until April 27, 2020. The fair value at the date of issuance was \$408,594. Cash finders' fees of 6% on a portion of the gross proceeds raised, totaling \$102,120, were paid to certain finders at arm's length to the Company.

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

12 Share capital, option reserve and warrant reserve (continued)

In July 2017 the Company completed the final tranche of a \$25,890,000 (US\$20,000,000) non-brokered private placement, issuing 23,849,230 units at a price of \$0.52 per unit for gross proceeds of \$12,191,579 (US\$9,417,983). Each unit consists of one common share of the Company and one half non-transferable common share purchase warrant. Each warrant has a term of five years and entitles the holder to acquire one common share of the Company at an exercise price of \$0.91 for a period of two years from the date of issuance of the warrant and at a price of \$1.04 for the remainder of the term of the warrant. The fair value of the warrants at the date of issuance was \$4,134,250.

In July 2017 the Company also closed a non-brokered private placement raising gross proceeds of \$3,031,860, of which \$2,381,600 was received during the year ended June 30, 2017. Pursuant to the private placement, the Company issued an aggregate of 5,830,500 units at a purchase price of \$0.52 per unit. Each unit consists of one common share of the Company and one half non-transferable common share purchase warrant. Each warrant has a term of five years and entitles the holder to acquire one common share of the Company at an exercise price of \$0.91 for a period of two years from the date of issuance of the warrant and at a price of \$1.04 for the remainder of the term of the warrant. The fair value of the warrants at the date of issuance was \$1,038,122. Cash finders' fees of 6% on a portion of the gross proceeds raised under the private placement, totaling \$147,513 were paid to certain finders at arm's length to the Company.

b) Stock Options

The Company has adopted an incentive stock option plan under the rules of the TSX Venture Exchange ("TSXV") pursuant to which it is authorized to grant options to employees, consultants, directors and officers, enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option is equal to the market price of the Company's shares on the date of grant. The options can be granted for a maximum term of 10 years with vesting terms determined by the Board of Directors. No individual may be granted options exceeding 5% of the Company's common shares outstanding in any 12-month period.

Continuity of the Company's stock options issued and outstanding was as follows:

	September 30, 2018		June 30, 2018	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	5,505,000	\$ 0.47	8,505,000	\$ 0.71
Granted	-	-	1,300,000	0.61
Exercised	-	-	(775,000)	0.38
Forfeited /cancelled	(100,000)	0.52	(625,000)	0.36
Expired	(685,000)	0.65	(2,900,000)	1.28
Outstanding, end of period	4,720,000	\$ 0.44	5,505,000	\$ 0.47

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

12 Share capital, option reserve and warrant reserve (continued)

As at September 30, 2018, the following stock options were outstanding and exercisable:

Exercise price	Number of options outstanding	Expiry date	Number of options exercisable	Remaining contractual life (years)
0.25	1,600,000	February 24, 2020	1,600,000	1.40
0.46	1,420,000	July 15, 2021	1,420,000	2.79
0.46	250,000	September 14, 2021	250,000	2.96
0.46	250,000	October 26, 2021	250,000	3.07
0.68	750,000	September 29, 2022	500,000	4.00
0.52	450,000	May 20, 2023	-	4.64
	4,720,000		4,020,000	2.71

The weighted-average remaining contractual life of options outstanding at June 30, 2018 was 2.66 years.

c) Share-based payment

Share-based payment expense is measured at fair value and recognized over the vesting period from the date of grant. Share-based payment expense recognized in the consolidated statements of loss for the three months ended September 30, 2018 totalled \$94,634 (2017: \$65,167).

The fair value of stock options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2018	June 30, 2018
Risk-free interest rate	-	1.75% - 2.22%
Expected life of options	-	5.0 years
Dividend rate	-	Nil
Expected forfeiture rate	-	0%
Expected volatility	-	108% - 109%

Option pricing models require the input of highly subjective assumptions, including the expected price volatility. The Company has used historical volatility in its share price to estimate expected volatility. Changes in the subjective input assumptions can materially affect the fair value estimated.

d) Warrants

Share purchase warrants enable the holders to acquire common shares of the Company upon exercise. Continuity of warrants issued and outstanding for the three months ended September 30, 2018 and the year ended June 30, 2018 were as follows:

	September 30, 2018		June 30, 2018	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of period	46,682,807	\$ 0.82	38,246,845	\$ 0.72
Issued	-	-	17,151,403	0.88
Exercised	-	-	(943,000)	0.45
Expired	-	-	(7,772,441)	0.48
Outstanding, end of period	46,682,807	\$ 0.82	46,682,807	\$ 0.82

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

12 Share capital, option reserve and warrant reserve (continued)

As at September 30, 2018, the Company had outstanding share purchase warrants as follows:

Number of warrants	Exercise price	Expiry date
1,693,125	\$ 0.65	December 3, 2018
7,504,875	0.50	March 31, 2019
500,000	0.50	April 4, 2019
516,600	0.50	July 14, 2019
2,311,538	0.68	April 27, 2020
5,356,804	1.00	March 24, 2021
13,960,000	0.91	June 9, 2022
2,676,250	0.91	July 13, 2022
11,924,615	0.91	July 19, 2022
239,000	0.91	September 14, 2022
46,682,807	\$ 0.82	

The fair value of warrants issued is estimated using the Black-Scholes option-pricing model and is included in warrant reserve until exercised, at which time the fair value is reclassified to share capital.

The weighted average remaining life of the outstanding warrants as at September 30, 2018 was 2.78 years (June 30, 2018: 3.03 years).

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

	September 30, 2018	June 30, 2018
Risk-free interest rate	-	1.31%-1.63%
Expected life of warrants	-	3.5 years
Dividend rate	-	Nil
Expected volatility	-	115%-116%
Fair value per warrant issued and/or amended	-	\$0.35-\$0.37

13 Revenue

Prior to the commencement of commercial production on September 1, 2018, gold and silver revenue was recorded as a reduction of costs capitalized within construction in progress. Revenue shown below represents revenue for the one month ended September 30, 2018, being the first month of commercial production.

Revenue by metal in the first month of commercial production, September 2018 is shown below:

	September 30, 2018	September 30, 2017
Gold sales	\$ 1,474,767	\$ -
Silver sales	82,144	-
	1,556,911	-
Transportation and refining charges	(13,880)	-
	\$ 1,543,031	\$ -

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

14 Production costs

Prior to the commencement of commercial production on September 1, 2018, production costs were capitalized within construction in progress. Production costs shown below represent production costs for the one month ended September 30, 2018, being the first month of commercial production.

	September 30, 2018	September 30, 2017
Materials and consumables	\$ 731,290	\$ -
Employee compensation and benefits expense	873,829	-
Contractors and outside services	1,544,429	-
Other expenses	237,460	-
Changes in inventories	(2,223,710)	-
	\$ 1,163,298	\$ -

15 Corporate administrative expenses

	Three Months Ended	
	September 30, 2018	September 30, 2017
Employee compensation and benefits expense	\$ 258,848	\$ 203,966
Direct general and administrative	651,829	443,062
Share-based compensation	38,042	65,167
Depreciation and depletion	2,907	3,486
	\$ 951,626	\$ 715,681

16 Finance costs (income)

	Three Months Ended	
	September 30, 2018	September 30, 2017
Interest on long term debt	\$ 584,208	\$ 191,058
Fair value loss on Gold Call Options	115,407	31,763
Interest income	(17,890)	(104,462)
	\$ 681,725	\$ 118,359

17 Supplemental disclosure of non-cash activities

The following non-cash investing and financing activities occurred:

	Three Months Ended	
	September 30, 2018	September 30, 2017
Changes in trade and other payables included in mineral properties	\$ 189,955	\$ (2,693)
Changes in trade and other payables included in plant and equipment	\$ (640,320)	\$ 4,841,259
Depreciation and accretion included in mineral properties, plant and equipment	\$ 73,240	\$ 94,767

NORTHERN VERTEX MINING CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

18 Related party transactions

Related party transactions were incurred in the normal course of business and measured at their fair value as determined by management. Amounts due to or from related parties are non-interest bearing, unsecured and due on demand.

Balances due (to) from related parties are as follows:

	September 30, 2018	June 30, 2018
Shared office expenses receivable	\$ 14,537	\$ 5,525
Consulting fees payable	\$ -	\$ (389)

Related party transactions are as follows:

		Three Months Ended	
	Note	September 30, 2018	September 30, 2017
Consulting fees	(i)	\$ 47,500	\$ 78,250
Shared office expense recovery	(ii)	\$ (21,153)	\$ (6,772)

- (i) Consulting fees charged by companies controlled by certain directors of the Company are included in professional fees, salaries and wages, and mineral properties, plant and equipment.
- (ii) Shared office expenses recovered from and charged to a company with directors in common are included in marketing and travel, and other general expenses.

Commitments with related parties

The Company has a corporate services agreement with a related company for clerical, accounting, regulatory filing and geological services. The minimum monthly fee under the agreement is \$10,000 and renews annually.

19 Key management personnel compensation

The remuneration of the Company's directors and other key management personnel for the three months ended September 30, 2018 and 2017 is as follows:

	Three Months Ended	
	September 30, 2018	September 30, 2017
Salaries and short-term benefits	\$ 243,412	\$ 238,577
Share-based payments	\$ 49,883	\$ 45,998

20 Commitments

The Company has entered into contracts for leased premises, which expire at various dates through to December 2022. Total future minimum lease payments (net of sub-lease arrangement) under these contracts are as follows:

Within 1 year	\$ 223,383
2 to 3 years	\$ 192,904
4 to 5 years	\$ 46,149

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

21 Fair value measurements and financial risk management

The carrying values of cash, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value in the fair value hierarchy.

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3 – Inputs that are not based on observable market data. The Company has no financial instruments classified in Level 3.

The following tables present the carrying amounts and fair values of the Company's financial assets and liabilities, including their levels within the fair value hierarchy. Fair value information for financial assets and financial liabilities not measured at fair value is not presented if the carrying amount is a reasonable approximation of fair value.

As at September 30, 2018	Carrying value			Fair value		
	Fair value through profit or loss	Amortized cost	Fair value through OCI	Level 1	Level 2	Level 3
Financial assets						
Cash	-	2,140,105	-	2,140,105	-	-
Trade and other receivables	-	32,730	-	32,730	-	-
Restricted cash	-	1,540,184	-	1,540,184	-	-
	\$ -	\$ 3,713,018	\$ -	\$ 3,713,018	\$ -	\$ -
Financial liabilities						
Trade and other payables	-	(10,856,221)	-	(10,856,221)	-	-
Current and long term debt	-	(36,394,710)	-	(36,394,710)	-	-
Lease obligation	-	(8,005,431)	-	(8,005,431)	-	-
Gold call options	(768,675)	-	-	-	(768,675)	-
	\$ (768,675)	\$ (55,256,362)	\$ -	\$ (55,256,362)	\$ (768,675)	\$ -

As at June 30, 2018	Carrying value			Fair value		
	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets						
Cash	-	7,531,761	-	7,531,761	-	-
Trade and other receivables	-	33,805	-	33,805	-	-
Restricted cash	-	2,324,864	-	2,324,864	-	-
	\$ -	\$ 9,890,430	\$ -	\$ 9,890,430	\$ -	\$ -
Financial liabilities						
Trade and other payables	-	-	(9,515,040)	(9,515,040)	-	-
Current and long term debt	-	-	(36,809,916)	(36,809,916)	-	-
Lease obligation	-	-	(8,683,561)	(8,683,561)	-	-
Gold call options	(665,350)	-	-	-	(665,350)	-
	\$ (665,350)	\$ -	\$ (55,008,517)	\$ (55,008,517)	\$ (665,350)	\$ -

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

21 Fair value measurements and financial risk management (continued)

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout the consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a client or counterparty to a financial instrument fails to meet its contractual obligations. The Company has credit risk in respect of its cash, trade and other receivables, and reclamation deposits. The Company considers the risk of loss relating to cash and reclamation deposits to be low because these instruments are held only with a Canadian Schedule I financial institution, a US-chartered commercial bank and a US government agency. Accounts receivable at September 30, 2018 related primarily to value-added taxes which is expected to be collectible in full due to the nature of the counterparties and previous history of collectability.

(b) Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company manages its liquidity risk through the preparation of budgets and forecasts, which are regularly monitored and updated as management considers necessary and through the Company's capital management activities.

(c) Market risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns.

(i) Currency risk

Foreign currency exchange rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate as a result of changes in foreign exchange rates. The Company is considered to be in development stage and has not yet developed commercial mineral interests; the underlying market prices realized by the Company for mineral sales are impacted by changes in the exchange rate between the Canadian and the US dollar. The Company has not entered into any formal arrangements to hedge currency risk but does maintain cash balances within each currency. Canadian dollars are exchanged when needed to meet foreign denominated liabilities.

At September 30, 2018, \$1,082,357 (US\$836,120) of the Company's cash and \$31,386,286 (US\$24,245,876) of the Company's debt were denominated in US dollars. A 10% variation in the US dollar exchange rate would result in an impact of approximately \$756,656 on the consolidated statements of loss.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

21 Fair value measurements and financial risk management (continued)

(ii) Commodity price risk

Commodity price risk is the risk that the current and future cash flows from the Company's financial instruments will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and US dollar, as outlined above. Management closely monitors trends in commodity prices of gold and other precious and base metals as part of its routine activities, as these trends could significantly impact future cash flows. Fluctuations in gold prices affect the fair market value of the Gold Call Options as the fair value is based on the market price of gold at the end of each period. A 10% fluctuation in the price of gold would result in an impact of approximately \$524,407 (US\$405,104) on the consolidated statements of loss.

(iii) Interest rate risk

Interest rate risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate as a result of changes in market interest rates. Interest rate risk arises from the interest rate impact on cash, which are held at variable market rates, and is exposed to interest rate risk on its outstanding borrowings. The Company also pays interest monthly for its senior secured credit facility, at an annual interest rate of 8% plus the greater of twelve month USD LIBOR or 1.25%. With other variables unchanged, a 1% increase on the Company's floating rate debt would increase annual interest expense by \$324,197 (US\$250,442). The Company closely monitors its exposure to interest rate risk and has not entered into any derivative contracts to manage this risk.

22 Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern (Note 1) while maximizing the return to stakeholders through the optimization of the debt and equity. The Company manages capital through its operating and financial budgeting and forecasting processes on a regular basis. The Company reviews its working capital and future cash flow forecasts which are reviewed and approved by the Board of Directors. The Company continually makes strategic and financial adjustments according to market conditions to meet its objectives.

The capital structure of the Company consists of non-current debt, equity comprised of share capital, share option reserve, warrant reserve, equity component of convertible debentures, accumulated other comprehensive loss and deficit.

The Company is in compliance or has received waivers for externally imposed debt covenants relating to its debt facilities and lease obligations as at September 30, 2018.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

23 Segmented information

The Company has one reportable operating segment, being the acquisition, exploration and future development of mineral properties. Reporting by geographical area follows the same accounting policies as those used to prepare the consolidated financial statements. Non-current assets (other than financial instruments) by geographic location are as follows:

	September 30, 2018		
	Canada	USA	Total
Mineral properties	\$ 1,771,750	\$ 36,271,846	\$ 38,043,596
Plant and equipment	20,490	62,516,689	62,537,179
Restricted cash	-	1,540,184	1,540,184
	\$ 1,792,240	\$ 100,328,719	\$ 102,120,959

	June 30, 2018		
	Canada	USA	Total
Mineral properties	\$ -	\$ 30,156,454	\$ 30,156,454
Plant and equipment	21,667	71,441,095	71,462,762
Restricted cash	-	2,324,864	2,324,864
	\$ 21,667	\$ 103,922,413	\$ 103,944,080

24 Subsequent events

Subsequent to September 30, 2018:

- the Company amended the repayment terms of its MLA (Note 9). An existing security deposit was used to pay US\$575,750, inclusive of a restructuring fee, due on October 1, 2018. The security deposit will be repaid in two instalments of US\$287,875 due no later than January 1, 2020 and April 1, 2020.
- the Company extended the maturity date of its senior secured facility (Note 8) from November 2019 to December 2020. As part of the amendment monthly principal payments of US\$1,111,111 were waived from July 2018 to October 2018 and recommenced in November 2018 in monthly instalments of US\$500,000. As part of the amendment the Company issued 1,250,000 common shares to the lender and the exercise price of Gold Call Options were reduced from US\$1,275 to US\$1,200.
- the Company announced a non-brokered private placement of up to approximately 21,666,667 Units ("each Unit") at a purchase price of \$0.30 per Unit for aggregate gross proceeds of up to \$6,500,000. Each Unit issued in connection with the private placement will consist of one common share of the Company and one-half of one transferable common share purchase warrant. Each whole warrant will entitle the holder to acquire one common share at an exercise price of \$0.45 for a period of 24 months from the closing date of the private placement. Finders' fees within TSX Venture Exchange (the "Exchange") policy guidelines may be paid in cash or common shares in connection with the private placement.

NORTHERN VERTEX MINING CORP.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended September 30, 2018 and 2017

(All dollar amounts expressed in Canadian dollars, unless otherwise noted)
(Unaudited)

24 Subsequent events (continued)

- the Company entered into a non-binding indicative term sheet with a third party whereby the parties intend to enter a definitive precious metal purchase agreement (the "PMPA"). Under the terms of PMPA the Company will receive a US\$8,500,000 upfront payment in exchange for agreeing to sell 45% of silver production from the Moss Mine at an ongoing purchase price equal to 30% of the lesser of the average silver price for the calendar quarter and the spot price of silver at the time of delivery. After the purchase of 1,500,000 ounces of silver from the Company the amount of silver purchasable under the PMPA will be reduced to 22.5% of all silver production from the Moss Mine for the remaining life of mine. Under the PMPA the Company also has the option to increase the upfront payment by US\$5,000,000 in exchange for the purchaser having the right to purchase 75% of silver production until the delivery of 2,500,000 ounces of silver. After the delivery of 2,500,000 ounces of silver the purchaser's rights return to 37.5% of silver production for the remaining life of the Moss Mine. The PMPA remains subject to the fulfilment of a number of conditions precedent including the negotiation and execution of definitive documentation, the completion of due diligence and receipt of all necessary regulatory approvals, including the approval of the Exchange.
- the Company entered into a definitive agreement in respect of an unsecured non-revolving loan facility for up to US\$10,000,000, bearing interest at 12% per annum, payable quarterly in arrears in cash, and available to be drawn in up to five tranches. The first two tranches totalling US\$5,000,000 were drawn and are repayable on October 3, 2019 with the first tranche of US\$2,500,000 convertible into common shares of the Company at \$0.30 per common share. Cash fees of 3% are payable on each tranche with the exception of the first tranche. The non-revolving loan facility is mandatorily payable upon completion of the Company of the PMPA or an alternative financing in the event that the PMPA does not close.
- the Company extended the option to purchase a royalty for one year for US\$100,000 (Note 6).
- the Company issued 2,866,759 common shares to satisfy an anniversary fee related to the senior secured credit facility agreement (Note 8).