

DEEP-SOUTH RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Deep-South Resources Inc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Deep-South Resources Inc. which comprise the consolidated statements of financial position as at August 31, 2017 and 2016, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Deep-South Resources Inc. as at August 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

December 19, 2017

"Morgan & Company LLP"

Chartered Professional Accountants

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

		As at	
	Notes	August 31, 2017	August 31, 2016
		\$	\$
ASSETS			
Current			
Cash		6,624	183,694
GST receivable and other		13,896	10,468
Prepaid expense		-	6,000
Total Current Assets		20,520	200,162
Investment in associate	4	-	948,519
Exploration and evaluation assets	5	4,615,405	130,355
Total Assets		4,635,925	1,279,035
LIABILITIES AND DEFICIENCY			
Current			
Accounts payable and accrued liabilities	11	81,098	119,158
Consideration payable	4	200,000	-
Loan payable	6	50,000	-
Current portion of convertible debenture	7	175,000	-
Total Current Liabilities		506,098	119,158
Consideration payable	4	200,000	-
Convertible debenture	7	87,122	229,282
Total Liabilities		793,220	348,440
Equity			
Share capital	8	4,842,879	1,673,778
Share subscriptions received in advance	8	-	21,642
Share subscription receivable	8	-	(14,100)
Reserves	8	145,000	-
Equity portion of convertible debt	7	159,835	159,835
Deficit		(1,305,009)	(910,560)
Total Equity		3,842,705	930,595
Total Liabilities and Equity		4,635,925	1,279,035

NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Approved on behalf of the Board of Directors:

/s/ Pierre Leveille
Director

/s/ Ryan Cheung
Director

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	For the years ended	
	August 31,	
	2017	2016
	\$	\$
EXPENSES		
Accretion interest	32,840	-
Consulting fees	135,061	5,408
Foreign exchange	(264)	5,127
Interest on convertible debt	11,674	-
Investor relations	120,515	-
Legal, audit and accounting	96,254	16,197
Listing expense	-	1,783,306
Office and miscellaneous	25,952	-
Regulatory and transfer agent fees	48,970	-
Share-based compensation	144,000	-
Loss before other (income) expenses	(615,002)	(1,810,038)
Other Income (expenses)		
Gain on settlement of debt	10,212	-
Revaluation gain	360,752	-
Equity loss on investment in associate	(20,056)	-
Write-off of exploration and evaluation assets	(130,355)	-
Loss and comprehensive loss for the year	(394,449)	(1,810,038)
Loss per common share		
-Basic and diluted	\$ (0.01)	\$ (0.28)
Weighted average number of common shares outstanding		
Basic and diluted	41,904,418	6,403,248

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED AUGUST 31, 2017 AND 2016
(Expressed in Canadian Dollars)

	Number of shares	Amount \$	Reserves \$	Subscriptions Advanced \$	Equity Portion of Convertible debt \$	Deficit \$	Total Equity (Deficiency) \$
Balance, August 31, 2015	3,047,404	9,108,590	1,156,077	79,250	-	(10,495,796)	(151,879)
Shares issued for mineral property	1,000,000	80,000	-	-	-	-	80,000
Shares issued for debt settlement	4,166,667	500,000	-	-	-	-	500,000
Shares issued for private placement	5,316,786	633,452	-	(79,250)	-	-	554,202
Share issuance costs	-	(4,000)	-	-	-	-	(4,000)
Subscriptions received in advance	-	-	-	21,642	-	-	21,642
Share Subscriptions receivable	-	-	-	(14,100)	-	-	(14,100)
Issuance of convertible note	-	-	-	-	159,835	-	159,835
Loss and comprehensive loss to acquisition date – Jet Gold Corp	-	-	-	-	-	(203,613)	(203,613)
Balance outstanding in Jet Gold Corp (legal parent) on August 30, 2016 prior to reverse takeover	13,530,857	10,318,042	1,156,077	7,542	159,835	(10,699,409)	942,087
Recapitalization on acquisition	-	(10,318,042)	(1,156,077)	-	-	11,474,119	-
Issue of shares on acquisition	22,500,000	1,623,698	-	-	-	159,608	1,783,306
Equity of the Company	4,001	50,080	-	-	-	(34,840)	15,240
Shares exchanged on acquisition	(4,001)	-	-	-	-	-	-
Loss and comprehensive loss	-	-	-	-	-	(1,810,038)	(1,810,038)
Balance, August 31, 2016	36,030,857	1,673,778	-	7,542	159,835	(910,560)	930,595
Shares issued in private placement	1,989,500	353,490	-	(7,542)	-	-	345,948
Share issuance costs - cash	-	(2,889)	-	-	-	-	(2,889)
Share issuance costs – non cash	-	(1,000)	1,000	-	-	-	-
Proceeds from warrant exercise	50,000	7,500	-	-	-	-	7,500
Share-based compensation	-	-	144,000	-	-	-	144,000
Haib acquisition shares granted	14,060,000	2,812,000	-	-	-	-	2,812,000
Loss and comprehensive loss	-	-	-	-	-	(394,449)	(394,449)
Balance, August 31, 2017	52,130,357	4,842,879	145,000	-	159,835	(1,305,009)	3,842,705

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

DEEP-SOUTH RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	For the years ended August 31,	
	2017	2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(394,449)	(1,810,038)
Items not affecting cash:		
Accretion interest	32,840	-
Listing expense	-	1,783,306
Gain on settlement of debt	(10,212)	-
Interest accrued on convertible debenture	11,671	-
Write-off of mineral properties	130,355	-
Equity loss on investment in associate	20,056	-
Fair value revaluation gain on step acquisition	(360,752)	-
Share based compensation	144,000	-
Changes in non-cash working capital items:		
Prepaid expense	6,000	-
GST/VAT receivable	(3,428)	2,576
Accounts payable and accrued liabilities	3,112	13,599
Net cash used in operating activities	(420,807)	(10,557)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration & evaluation assets	(19,467)	-
Investment in associate	(87,354)	-
Net cash used in investing activities	(106,821)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash acquired in reverse takeover	-	183,693
Proceeds from private placement	345,947	-
Share issuance costs	(2,889)	-
Exercise of warrants	7,500	-
Net cash provided by financing activities	350,558	183,693
Change in cash during the year	(177,070)	173,136
Cash, beginning of year	183,694	10,558
Cash, end of year	6,624	183,694
Supplemental schedule of non-cash investing and financing activities:		
Shares issued for acquisition of Haib minerals	\$ 2,812,000	\$ --

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

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Deep-South Resources Inc. (the “Company”) is a development stage company incorporated on April 24, 1987 under the laws of British Columbia. The Company’s head office is located at #162 - 2912 West Broadway, Vancouver, BC, V6K 0E9 and is listed on the TSX Venture Exchange (“TSX-V”) under the symbol “DSM”. The Company is in the business of exploring and evaluating mineral properties located in British Columbia and Africa.

On August 30, 2016, the Company completed a share exchange with the shareholders of 1054137 BC Ltd., a Company incorporated under the British Columbia Corporations Act. For accounting purposes this transaction has been treated as a reverse takeover. These financial statements are presented as a continuation of 1054137 BC Ltd., in which its assets and liabilities and operations are included in the consolidated financial statements at their historical carrying value. Additional information relating to this transaction is in Note 4.

On November 2, 2016 the Company completed a share consolidation in which one post consolidation common share replaced two pre-consolidation common shares. As such, all current and comparative share capital amounts have been restated to account for the 2 to 1 common share consolidation unless otherwise noted.

The Company’s consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events may cast significant doubt on the validity of this assumption. The Company incurred net loss of \$394,449 for the year ended August 31, 2017 (2016: \$1,810,038) and had an accumulated deficit \$1,305,009 (2016: \$910,560).

These consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared and presented in Canadian dollars in accordance with the International Financial Reporting Standards “IFRS” as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (“IFRIC”).

The financial statements were authorized for issue by the Board of Directors on December 19, 2017.

(b) Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss (“FVTPL”), which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and the following entities:

- Haib Minerals (Pty) Ltd., a wholly-owned subsidiary of Deep-South Mining (PTY) Ltd.
- #1054137 BC Ltd., a wholly-owned subsidiary
- Deep South Mining (PTY) Ltd., wholly owned subsidiary of 1054137 BC Ltd.

All significant intercompany transactions and balances have been eliminated on consolidation.

(d) Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar, as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalent using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

(e) Cash and Cash Equivalents

Cash comprises cash on deposit and cash held in trust. Cash equivalents are short-term, highly liquid investments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing purposes. As of August 31, 2017 and 2016, there were no cash equivalents.

(f) Financial assets

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

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash is classified as loans and receivables.

Financial assets classified as loans and receivables and held-to-maturity assets are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income/loss, except for losses in value that are considered other than temporary, which are recognized in profit or loss. At November 30, 2016 and August 31, 2016, Company had no financial assets classified as available-for-sale.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial liabilities

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

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The Company's accounts payable and accrued liabilities and convertible debt are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

(h) Exploration and evaluation assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. When shares are issued as consideration for exploration and evaluation asset costs, they are valued at the closing share price on the date of issuance. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

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

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and the balance is reclassified as a development asset in property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. It is management's judgment that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Impairment of Long-Lived Assets

Management is required to assess impairment in respect of capitalized exploration and evaluation assets. Note 7 discloses the carrying value of these assets at each reporting period. The triggering events for the impairment of exploration and evaluation assets are defined in IFRS 6 Exploration for and evaluation of mineral resources and are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale; and
- Impairment of exploration and evaluation assets is assessed at the cash generating unit (“CGU”) level. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The Company has used each of its mineral properties to establish its CGUs.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods. All impairment losses are recognized in profit or loss.

(j) Investment in Associate

Associates are those entities where the Company has the ability to exercise significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity.

Investments in associates are accounted for using the equity method and are recognized initially at fair value. The consolidated financial statements include the Company’s share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to \$Nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation to make, or has made, payments on behalf of the investee.

At each statement of financial position date, each investment in associates is assessed for indicators of impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share capital

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares at the time the units are issued, with any excess value allocated to the warrants. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity.

(l) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercises would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(m) Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at November 30, 2016 and August 31, 2016.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Significant accounting judgments and estimates

The preparation of these financial statements require management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require significant judgments and estimates as the basis for determining the stated amounts include the recoverability exploration and evaluation assets, deferred tax assets, the inputs and assumptions used in the valuation or convertible debt, and accounting for the reverse takeover transaction.

(o) Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred taxes are recorded using the statement of financial position liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the statement of financial position reporting date. Deferred tax is not recognized for temporary differences, which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects either accounting or taxable profit or loss.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(p) Share-based payments

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

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in the statement of operations and comprehensive loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations and comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Share-based payments (continued)

Each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

All equity-settled share-based payments are reflected in share-based payments reserve until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share-based payments reserve is credited to share capital along with any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(q) Recent accounting pronouncements

The Company has not evaluated the financial statement impact of the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project of replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristic of the financial assets. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases

In January 2016, IASB 16 – Leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019.

3. REVERSE TAKEOVER TRANSACTION

On August 30, 2016, Jet Gold Corp acquired 100% of the issued and outstanding shares of 1054137 BC Ltd., a private company incorporated in British Columbia, in exchange for 22,500,000 common shares in the Company. As a result of this transaction, the shareholders of 1054137, for accounting purposes, have acquired control of the Company. Accordingly, the transaction has been accounted for as a reverse takeover that was not a business combination and effectively a capital transaction of the Company. As 1054137 is deemed to be the acquirer for accounting purposes, its assets and liabilities and operations for the year ended August 31, 2016, are included in these consolidation financial statements at their historical carrying values. For accounting purposes, these consolidated financial statements reflect a continuation of the financial position, operating results, and cash flows of the Company's legal subsidiary, 1054137 BC Ltd. After closing of the transaction, the name of the Company was changed to Deep-South Resources Inc.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

3. REVERSE TAKEOVER TRANSACTION (continued)

The fair value of the consideration for the Transaction is as follows:

22,500,000 Shares issued by Jet Gold Corp. to acquire 100% of 1054137 BC Ltd. fair value of share consideration paid	\$	1,623,698
----------------------------------------------------------------------------------------------------------------------------	----	-----------

The identifiable net assets acquired from the transactions are as follows:

Cash	\$	80,000
Cash held in trust		103,693
Taxes receivable		8,360
Prepaid expense		6,000
Exploration and evaluation assets		130,355
Accounts payable		(98,904)
Convertible debt		(389,112)
Net liabilities acquired		(159,608)
Consideration paid		1,623,698
Total, attributed to listing expense	\$	1,783,306

4. ACQUISITION OF HAIB MINERALS (PTY) LTD.

The Company, through its wholly owned legal subsidiary, previously held 30% of Haib Minerals (Pty) Ltd., a holding company incorporated under Namibian law. The remaining 70% of Haib was held by Teck Namibia (Pty) Ltd., a fully owned subsidiary of Teck Resources. Haib Minerals holds an Exclusive Prospecting License 3140, which hosts the Haib copper project situated in the south of Namibia. The Company's ownership in Haib was previously in proportionate to its expenditures on the project, which were currently being incurred by Teck Namibia on the Company's behalf. Shares in Haib were issued on a pro-rata basis (30% to the legal subsidiary and 70% to Teck) as expenditures were incurred on the project. Management determined that the legal subsidiary's 30% interest in Haib was an investment in associate under IAS 28. Consequently, the investment in associate was accounted for using the equity method. During the year ended August 31, 2016, Teck incurred \$39,903 Canadian Dollars on the Company's behalf. As at August 30, 2016 the balance owing to Teck Namibia with respect to expenditures incurred in Haib Minerals was \$948,519. On this date, Jet Gold Corp assumed the debt on behalf of Deep-South Mining (PTY) Ltd through the issuance of a convertible note to Teck Resources (see Notes 7,8) and through the issuance of 4,166,667 common shares in the Company at a deemed price of \$0.12 per share, and through a cash payment of \$59,402.

On May 5, 2017, the Company entered into a Share Purchase Agreement to acquire the remaining 70% interest in Haib for total consideration of \$3.212 million. The consideration was comprised of 14,060,000 common shares of the Company (each share valued at \$0.20 on the date of issue) and \$400,000 as consideration payable in two transfers (\$200,000 due on the first anniversary and is included within current liabilities; and \$200,000 due on the second anniversary and is included as a long term liability). Teck will also retain a 1.5% net smelter royalty on the Property, one-third which can be purchased by the Company for a cash payment of \$2 million.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

4. ACQUISITION OF HAIB MINERALS (PTY) LTD. (continued)

As a result of this acquisition, the Company's original joint interest in the Property has been modified to offer full control of the operation. The Company's 30% has been revalued to the fair value on the date of acquisition. The Haib step acquisition was accounted for as a business combination in accordance with IFRS 3 with fair value of the assets and liabilities acquired at the date of acquisition summarized below:

Cash	\$	10,720
Taxes refundable		4,208
Mineral property license (Haib)		4,595,938
Accounts payable		(11,973)
Amounts due to Teck Namibia Ltd.		(10,322)
Net assets acquired	\$	4,588,571
<hr/>		
14,060,000 Deep-South common shares (\$0.20 per share)	\$	2,812,000
Cash payable – due on May 5, 2018		200,000
Cash payable – due on May 5, 2019		200,000
Consideration for 70% interest in Haib		3,212,000
Value of pre-existing ownership interest in Haib		1,015,819
Gain on revaluation of 30% interest of Haib to fair value		360,752
Total consideration paid	\$	4,588,571

For the period May 5, 2017 to August 31, 2017, the Company recognized losses of \$1,693 arising from Haib in the consolidated statement of operations and comprehensive loss.

5. EXPLORATION & EVALUATION ASSETS

	Lorn Property	Haib Property	Total
Balance, August 31, 2015	\$ -	\$ -	\$ -
Acquisition costs (Note 8)	80,000	-	80,000
Option payment	15,000	-	15,000
Geological	35,355	-	35,355
Balance, August 31, 2016	130,355	-	130,355
Geological	-	19,467	19,467
Acquisition (Note 5)	-	4,595,938	4,595,938
Write-down	(130,355)	-	(130,355)
Balance, August 31, 2017	\$ -	\$ 4,615,405	\$ 4,615,405

Lorn Property

On August 4, 2015, the Company entered into an earn-in agreement with Kin Resources ("Kin") pursuant to which the Company may acquire 100% of Kin's option to acquire 50% undivided interest in the Lorn mineral claims located in British Columbia. Kin acquired the option pursuant to an earn-in agreement between Kin and Royal Sapphire Corp. In consideration of the option, the Company issued 1,000,000 common shares to Kin (issued – See Note 7). The property is subject to a 3% Net Smelter Royalty.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

5. EXPLORATION & EVALUATION ASSETS (continued)

Lorn Property (continued)

The Company may exercise the Option by: (i) completing an exploration program on the Property of up to \$30,000 on or before December 31, 2015; (ii) preparing an updated NI 43-101 report on the Property on or before March 31, 2016 (amended from December 31, 2015 on December 15, 2015); (iii) completing additional exploration expenditures of \$1,180,000, paying an aggregate of \$65,000 (\$15,000 paid) and issuing a total of 23,500 common shares to the Optioners, in stages until December 31, 2017, (iv) paying 50% of all advance royalty payments, maintenance fees and taxes payable under the Underlying Agreement; (v) issuing 30,000 shares to the Optioners upon completion of a feasibility study; and (vi) maintaining the Underlying Agreement in good standing. On September 25, 2015, the earn-in agreement was accepted by the TSX Venture Exchange.

During the year ended August 31, 2017, the Company wrote-off the balance of the Lorn Property as the Company that held the option, lost the option on the property. The Company has recorded a write-off of \$130,355 with respect to this property.

Haib Property

On May 5, 2017, the Company acquired the remaining 70% interest in Haib Minerals (See note 4). A value of \$4,595,938 was assigned to the Exclusive Prospecting License, being the difference between the acquisition cost and net assets acquired.

6. LOANS PAYABLE

On January 30, 2017, the Company entered into a bridge loan agreement for working capital purposes and received \$50,000. The loan is unsecured, bears interest at 10% per annum, and is due on January 31, 2018.

7. CONVERTIBLE DEBTENTURE

The Company classified the convertible debenture into debt and equity components based on the residual method. The liability component was calculated as the present value of the principal and interest, discounted at a rate approximating the interest rate that was estimated would have been applicable to non-convertible debenture at the time the debenture was issued. This portion of the convertible debenture is accreted over its term to the full face value using the effective interest rate method. The equity element of the convertible debenture comprises the value of the conversion option, being the difference between the face value of the convertible debt and the liability component. Upon maturity, the equity component is reclassified to reserves.

On August 30, 2016, as part of the remaining debt settlement of the loan agreement between Deep South Minerals (PTY) Ltd. and Teck Namibia, the Company issued a convertible debenture (“debenture”) to Teck Resources. The debenture bears interest on the outstanding principal amount at a rate of LIBOR plus 2% per annum with the principal due at maturity (48 months from the date of issuance.). The debenture is payable in cash or at the option of the Company, the principal and accrued interest is convertible into shares in the Company at a price of \$0.14 per share. The debenture holder may also redeem the principal and any accrued but unpaid interest up to the maturity date.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

7. CONVERTIBLE DEBTENTURE (continued)

In the event that the Company receives “Net Cash Proceeds,” defined as either an asset sale, issuance of equity securities, or incurrence of debt, a mandatory redemption will occur resulting in the debenture being converted into common shares in the Company as follows:

- for the portion of Net Cash Proceeds of up to but not including \$100,000, the Company shall redeem a principal amount of this debenture equal to 30% of such net proceeds;
- for the portion of Net Cash Proceeds between \$100,000 up to but not including \$200,000, the Company shall redeem a principal amount of this debenture equal to 40% of such net proceeds;
- for the portion of Net Cash Proceeds between \$200,000 up to but not including \$300,000, the Company shall redeem a principal amount of this debenture equal to 50% of such net proceeds; and
- for the portion of Net Cash Proceeds over \$300,000, the Company shall redeem a principal amount of this debenture equal to 50% of such net proceeds.

	2017	2016
Beginning balance	\$ 229,282	\$ -
Issuance of convertible debenture	-	229,282
Accretion	32,840	-
Ending balance	\$ 262,122	\$ 229,282
Less: Current portion	(175,000)	-
Long-term portion	\$ 87,122	\$ -

8. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

Year Ended August 31, 2017

On September 28, 2016 the Company closed a private placement of 1,052,500 units at a price of \$0.14 per unit for gross proceeds of \$147,350. Each unit is comprised of one common share and one half common share purchase warrant which can be exercised for a period of 2 years at an exercise price of \$0.34 per common share. The Company paid finder’s fees of \$1,344 and issued 9,600 compensation warrants as part of this private placement. \$1,545 was also paid in direct legal costs to this private placement.

On December 14, 2016, 50,000 warrants were exercised for 50,000 common shares in the Company at a price of \$0.15 per share.

On May 8, 2017, the Company closed a non-brokered private placement of \$206,140. The non-brokered private placement comprised 937,000 units (the “Units”) of the Company, at a subscription price of \$0.22 per Unit. Each Unit comprise of one (1) common share and one (1) common share purchase warrant (“Warrant”) of the Company. Each full Warrant entitles the holder thereof to purchase one (1) common share at an exercise price of \$0.30 during a period of thirty-six (36) months from the date of closing of the placement. Each security issued pursuant to the placement has a mandatory four (4) months holding period from the date of closing of the placement.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

(b) Issued and outstanding (continued)

Year ended August 31, 2016

On September 25, 2015, the Company issued 1,000,000 shares relating to the entered into an earn-in agreement with Kin Resources (“Kin”). The shares were issued at a deemed price of \$0.08 per share (Note 6).

On October 2, 2015, October 20, 2015 and November 23, 2015, the Company respectively closed a three-tranche private placement by issuing 2,637,500 units at a price of \$0.10 per Unit. Each unit is comprised of one common share and one half share purchase warrant entitling the holder to purchase one additional share for \$0.15 per share for three years from the date of closing.

On August 30, 2016, the Company closed a private placement by issuing 2,679,286 Units at a price of \$0.14 per Unit. Each Unit is comprised of one common share and one half share purchase warrant entitling the holder to purchase one additional share for \$0.34 per share for two years from the date of closing. The Company paid finders fees of \$4,000 and issued 61,772 compensation warrants as finders fees. These warrants entitle the holder to purchase one share for \$0.34 for a period a two years from the date of closing. As of August 31, 2016 the Company had a subscription receivable of \$14,100 relating to this private placement.

On August 30, 2016, the Company issued 22,500,000 shares to acquire 100% issued and outstanding shares of 1054137 BC Ltd. (Note 4).

On August 30, 2016, the Company issued 4,166,667 common shares to Teck Resources Ltd (Notes 4, 6).

(c) Stock options

The Company has a rolling stock option plan whereby a maximum of 10% of the issued common shares will be reserved for issuance under the plan. The following table summarizes the Company’s stock option activity for the following periods:

	Number of Options	Weighted Average Exercise Price
	\$	\$
Options outstanding and exercisable, August 31, 2015	25,834	4.26
Expired	(10,834)	-
Options outstanding and exercisable, August 31, 2016	15,000	6.00
Expired	-	-
Granted	1,050,000	0.25
Options outstanding and exercisable, August 31, 2017	1,065,000	0.25

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

(c) **Stock options** (continued)

As at August 31, 2017, the Company had options outstanding as follows:

Expiry Date	Exercise Price	Outstanding	Weighted Average Remaining Contractual Life (Years)
September 19, 2017*	\$6.00	15,000	0.01
January 18, 2019	\$0.25	350,000	0.44
January 25, 2020	\$0.25	700,000	1.58

*15,000 option expired unexercised on September 19, 2017.

On January 18, 2017 the company issued 350,000 stock options as part of a consulting agreement with an unrelated corporation. The options are exercisable at price of \$0.25, expire after 3 years, and vest immediately. These options had a fair value of \$106,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.25; ii) share price: \$0.21; iii) term: 3 years; iv) volatility: 130%; v) discount rate: 0.97%. The value of these options was included in share-based compensation and reserves for the year ended August 31, 2017.

On January 25, 2017 the company issued 700,000 stock options to directors and management of the company. The options are exercisable at price of \$0.25, expire after 2 years, and vest quarterly over 12 months. These options had a fair value of \$41,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.25; ii) share price: \$0.21; iii) term: 2 years; iv) volatility: 118%; v) discount rate: 0.62%. \$38,000 of the value of these options was included in share-based compensation and reserves using the graded vesting method for the year ended August 31, 2017.

(d) **Warrants**

The following table summarizes the Company's warrant activity:

	Number of Warrants	Weighted Average Exercise Price
	\$	\$
Balance, August 31, 2015	1,303,339	0.94
Expired	(1,303,339)	-
Granted	2,696,728	0.24
Balance, August 31, 2016	2,696,728	0.24
Granted	1,472,850	0.33
Exercised	(50,000)	-
Balance, August 31, 2017	4,119,578	0.27

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

(d) Warrants (continued)

As at August 31, 2017, the Company has warrants outstanding as follows:

Expiry Date	Exercise Price	Outstanding
	\$	
October 2, 2018	0.15	871,875
October 20, 2018	0.15	371,875
November 23, 2018	0.15	25,000
August 30, 2018	0.34	1,339,643
August 30, 2018	0.34	38,336
September 30, 2018	0.34	526,250
September 30, 2018	0.34	9,600
May 8, 2021	0.30	937,000
		4,119,579

(e) Compensation Warrants

In the August 30, 2016 private placement, the Company issued 61,772 compensation warrants as finder's fees. These warrants entitle the holder to purchase one share for \$0.34 for a period of two years from the date of closing. These warrants issued had a fair value of \$3,100 using the Black Scholes model with the following inputs: i) exercise price: \$0.17; ii) share price: \$0.06; iii) term: 2 years; iv) volatility: 125%; v) discount rate: 0.57%. The value of these compensation warrants is included in reserves and share capital.

In the September 28, 2016 private placement, the Company issued 9,600 compensation warrants as finder's fees. These warrants entitle the holder to purchase one share for \$0.34 for a period of two years from the date of closing. These warrants issued had a fair value of \$1,000 using the Black Scholes model with the following inputs: i) exercise price: \$0.17; ii) share price: \$0.06; iii) term: 2 years; iv) volatility: 125%; v) discount rate: 0.57%. The value of these compensation warrants is included in reserves and share capital.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair values of amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

Financial risk factors

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

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk for the Company is primarily associated with its cash. The Company is not exposed to significant credit risk as its cash is placed with a major Canadian financial institution.

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial risk factors (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. As of August 31, 2017, the Company had a cash balance of \$6,624 (2016 - \$183,694) to settle current liabilities of \$531,098 (2016 - \$119,158).

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates and other price risk. The Company is not exposed to significant market risk.

Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's profit or loss due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in value may be significant.

10. CAPITAL MANAGEMENT

The Company defines capital that it manages as cash and equity, comprising issued common shares and reserves.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage. As such, the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions. There was no change to the Company's capital management approach during the year-ended August 31, 2017.

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS

The key management personnel of the Company are the directors and officers of the Company. Compensation and expenses paid to key management for the periods ended August were as follows:

	<u>2017</u>	<u>2016</u>
Consulting fees	\$ 106,121	\$ 3,535
Share-based compensation	\$ 87,701	\$ -

Included in accounts payable and accrued liabilities is \$15,081 (2016 - \$3,456) owed to companies controlled by directors or officers as at February 28, 2017. The Company paid \$5,300 (2016 - \$Nil) in rent to a Company controlled by a director of the Company.

Included in the deficit of the Company., acquired by 1054137 BC Ltd through reverse acquisition in fiscal 2016, are \$20,113 in filing fees and \$81,295 in consulting fees paid to related parties.

12. SEGMENTED INFORMATION

a) Operating Segments

The Company's operations are primarily dedicated towards the acquisition, exploration, and development of its properties in British Columbia and Namibia

b) Geographic Segments

The Company's geographic information:

	<u>Year ended August 31</u>		
	<u>2017</u>		<u>2016</u>
Net loss (profit) from operations:			
Canada	\$ 397,552	\$	1,783,306
Namibia	(3,103)		26,732
	<u>\$ 394,449</u>	<u>\$</u>	<u>1,810,038</u>
Identifiable assets			
Canada	\$ 48,860	\$	328,414
Namibia	4,587,065		950,622
	<u>\$ 4,635,925</u>	<u>\$</u>	<u>1,279,036</u>
Liabilities			
Canada	\$ 774,665	\$	328,185
Namibia	18,555		20,255
	<u>\$ 793,220</u>	<u>\$</u>	<u>348,440</u>

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

13. DEFERRED INCOME TAX

Income tax differs from the amount that would be computed by applying the Canadian statutory income tax rate to loss before income taxes. The reasons for the differences are as follows:

	2017	2016
Statutory tax rate	26%	26%
Expected income tax recovery	\$ (103,000)	\$ (480,000)
Non deductible items	(39,000)	-
Change in estimate	(478,000)	-
Effect of rate change	(31,000)	-
Unused tax losses and tax offsets not recognized in tax assets	651,000	480,000
Deferred income tax recovery	\$ -	\$ -

The following are the deductible temporary differences for which no deferred tax assets are recognized in the financial statements. The amounts have been tax affected at the rate expected to apply on utilization.

	2017	2016
Tax basis in excess of carrying value of equipment	\$ -	\$ 4,000
Tax basis in excess of carrying value of exploration and evaluation assets	698,000	638,000
Tax basis of non-refundable tax credit	31,000	30,000
Share issuance costs	-	7,000
Net-capital loss carry-forwards	-	44,000
Non-capital loss carry-forwards	1,540,000	1,358,000
	2,269,000	2,080,000
Deferred tax assets not recognized	(2,269,000)	(2,080,000)
Net deferred tax assets	\$ -	\$ -

The Company has non-capital losses carried forward for income tax purposes of approximately \$5,231,655 (2016 - \$5,182,291) which can be applied against future years' taxable income. These losses will expire between 2026 and 2037. Deferred tax benefits which may arise as a result of the utilization of non-capital losses and cumulative exploration and development expenses have been offset by deferred tax assets not recognized in these financial statements.

14. PENDING ACQUISITION

On August 15, 2017, the Company signed an agreement with Suricate Sarl ("Suricate") to acquire a 75% indirect beneficial interest in a joint venture project located in Mauritania (the "INAL project"). Suricate holds two (2) prospecting licenses in the Aoueuat Greenstone Belt of Northwest Mauritania that will be transferred to the joint venture. The Company will acquire its 75% interest indirectly through the receipt of shares of a holding company that will hold the joint venture interest, and the prospecting licenses. The closing date of the transaction will occur at one of the following two dates, at the election of the Company:

- The date of receipt of the official grant of the prospecting Licenses by the Ministere du Petrole de L'Energie et des Mines
- Once the Company has completed its due diligence process

DEEP-SOUTH RESOURCES INC.
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED AUGUST 31, 2017 and 2016
(Expressed in Canadian Dollars)

14. PENDING ACQUISITION (continued)

Upon closing of the agreement, an initial payment will be issued to Suricate in the form of USD \$20,000 cash and 500,000 shares of the Company. In addition, the Company must incur cash payments of \$300,000 USD (\$100,000 each year on the anniversary of closing for three years) and issue 750,000 shares (250,000 each year on anniversary of closing for three years).

Suricate will be entitled to a USD \$1 million production bonus on the commencement of commercial production. The Company will finance all of the exploration expenditures up to a production decision, at which time Suricate will contribute its share of the eventual mine development.

15. SUBSEQUENT EVENTS

- a) On November 2, 2017, the Company closed a private placement for gross proceeds of \$195,140. The private placement consisted of 887,000 units at a price of \$0.22 per share. Each unit consists of one common share and one half of one common share purchase warrant of the Company. Each full Warrant entitle the holder to purchase one common share at an exercise price of \$0.30 for a period of thirty-six months from the date of closing of the placement.
- b) On December 8, 2017, the Company closed a private placement for gross proceeds of \$227,700. The private placement consisted of 1,035,000 units at a price of \$0.22 per share. Each unit consists of one common share and one half of one common share purchase warrant of the Company. Each full Warrant entitles the holder to purchase one common share at an exercise price of \$0.30 for a period of thirty-six months from the date of closing of the placement.
- c) On December 14, 2017, the Company signed a letter of agreement to acquire from Sparrowhawk Gold Ltd., 90% of the St. John project, neighbouring the Koyoka gold mine in the northeast of Liberia. Upon completion of satisfactory due diligence, the Company shall acquire 90% of the common shares of Jarjlokpo Resources Ltd., which holds the Reconnaissance Licence forming the St. John project, in consideration for a cash payment of USD \$20,000 and the issuance of 250,000 common shares of Deep-South Resources Inc.

Furthermore, the Company must incur payments of USD \$20,000 cash and 250,000 shares, USD \$35,000 cash and 250,000 shares, and USD \$50,000 cash and 250,000 shares on the first, second and third anniversaries of the closing date of the agreement, respectively.

Sparrowhawk shall be entitled to a production bonus of USD \$1 million to be paid 60 days after the day of commercial production commencement, and receive a 1.5% net smelter royalty calculated on 100% of production from the property. Sparrowhawk shall not contribute to the exploration and development expenditures.