

APEX RESOURCES INC.
(an exploration stage company)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Apex Resources Inc.

Opinion

We have audited the financial statements of Apex Resources Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss of \$385,100 during the year ended December 31, 2018 and, as of that date, the Company had an accumulated deficit of \$23,896,224. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management's discussion and analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is David Stratton.

Vancouver, Canada

April 24, 2019

"Morgan & Company LLP"

Chartered Professional Accountants

APEX RESOURCES INC.

(an exploration stage company)
Statements of Financial Position
(Expressed in Canadian dollars)

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 137,346 | \$ 254,183 |
| Receivables | 12,374 | 10,558 |
| Prepaid expenses | 2,608 | 3,859 |
| Short-term investments (Note 6) | 297,792 | 346,167 |
| Total current assets | 450,120 | 614,767 |
| Exploration and evaluation assets (Note 5) | 2,701,315 | 2,869,157 |
| Credit card deposit (Note 7) | 17,250 | 17,250 |
| Reclamation deposits | 15,120 | 15,120 |
| Total assets | \$ 3,183,805 | \$ 3,516,294 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (Note 9) | \$ 60,935 | \$ 56,338 |
| Accounts payable to related parties (Note 10) | 30,819 | 2,805 |
| Total liabilities | 91,754 | 59,143 |
| Equity | | |
| Share capital (Note 8) | 22,938,534 | 22,918,534 |
| Warrants reserve (Note 8) | 429,049 | 429,049 |
| Share-based payments reserve (Note 8) | 3,620,692 | 3,620,692 |
| Deficit | (23,896,224) | (23,511,124) |
| Total equity | 3,092,051 | 3,457,151 |
| Total liabilities and equity | \$ 3,183,805 | \$ 3,516,294 |

Going concern (Note 2b)
Subsequent events (Note 14)

Approved on Behalf of the Board of Directors:

/s/ "Arthur G. Troup"
Arthur G. Troup, Director

/s/ "Robin Merrifield"
Robin Merrifield, Director

APEX RESOURCES INC.

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Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

| | Year ended December 31, | |
|---|----------------------------|--------------------|
| | 2018 | 2017 |
| Expenses | | |
| Advertising and promotion | \$ 5,503 | \$ 1,158 |
| Exploration costs | 3,288 | – |
| Insurance | 3,800 | 3,400 |
| Interest | 1,306 | 578 |
| Legal, accounting and audit | 47,828 | 51,987 |
| Office and administration | 41,698 | 36,291 |
| Salaries and benefits (Note 10) | 181,201 | 181,171 |
| Share-based compensation | – | 115,000 |
| Shareholder communications (Note 10) | 161,798 | 142,651 |
| Travel and conferences | 751 | 180 |
| Total expenses | 447,173 | 532,416 |
| Loss before other items | (447,173) | (532,416) |
| Mineral property option income (Note 5a) | 310,000 | 358,750 |
| Interest income | 3,448 | 1,190 |
| Unrealized (loss) gain on short-term investments (Note 6) | (251,375) | 101,082 |
| Net loss and comprehensive loss for the year | \$ (385,100) | \$ (71,394) |
| Loss per share, basic and diluted | \$ (0.03) | \$ (0.01) |
| Weighted average number of common shares outstanding – basic and diluted | 14,142,146 | 13,924,200 |

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Statements of Changes in Equity

Years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

| | Common Shares Without Par Value | | Warrants Reserve | Share-based Payments Reserve | Deficit | Total Equity |
|--|------------------------------------|----------------------|---------------------|------------------------------------|------------------------|---------------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2016 | 13,827,214 | \$ 22,902,034 | \$ 429,049 | \$ 3,505,692 | \$ (23,439,730) | \$ 3,397,045 |
| Share issued for mineral properties | 150,000 | 16,500 | – | – | – | 16,500 |
| Share-based compensation | – | – | – | 115,000 | – | 115,000 |
| Net loss for the year | – | – | – | – | (71,394) | (71,394) |
| Balance, December 31, 2017 | 13,977,214 | 22,918,534 | 429,049 | 3,620,692 | (23,511,124) | 3,457,151 |
| Share issued for mineral properties (Note 5) | 200,000 | 20,000 | – | – | – | 20,000 |
| Net loss for the year | – | – | – | – | (385,100) | (385,100) |
| Balance, December 31, 2018 | 14,177,214 | \$ 22,938,534 | \$ 429,049 | \$ 3,620,692 | \$ (23,896,224) | \$ 3,092,051 |

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

APEX RESOURCES INC.

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Statements of Cash Flows

(Expressed in Canadian dollars)

| | Year ended December 31, | |
|--|----------------------------|-------------|
| | 2018 | 2017 |
| Operating activities | | |
| Net loss for the year | \$ (385,100) | \$ (71,394) |
| Items not involving cash: | | |
| Share-based compensation | – | 115,000 |
| Mineral property option income | (310,000) | (358,750) |
| Unrealized loss (gain) on short-term investments | 251,375 | (101,082) |
| Changes in non-cash operating working capital | | |
| Receivables | (1,816) | (1,208) |
| Prepaid expenses | 1,251 | 704 |
| Accounts payable and accrued liabilities | 4,597 | (1,105) |
| Accounts payable to related parties | 28,014 | 1,660 |
| Cash used in operating activities | (411,679) | (416,175) |
| Investing Activities | | |
| Mineral property exploration and evaluation costs | (262,158) | (248,668) |
| Mineral property option payments received | 700,000 | 745,000 |
| Short-term investments (purchased, net of redemption) redeemed | (143,000) | 140,000 |
| Reclamation bonds redeemed | – | 15,000 |
| Cash provided by investing activities | 294,842 | 651,332 |
| Change in cash during the year | (116,837) | 235,157 |
| Cash, beginning of year | 254,183 | 19,026 |
| Cash, end of year | \$ 137,346 | \$ 254,183 |
| Supplemental information | | |
| Interest paid | \$ – | \$ – |
| Interest received | \$ 1,295 | \$ 1,190 |
| Income tax paid | \$ – | \$ – |
| Non-cash transactions | | |
| Shares issued under mineral property option agreements | \$ 20,000 | \$ 16,500 |
| Shares received under mineral property option agreements | \$ 60,000 | \$ 108,750 |

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Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

1. CORPORATE INFORMATION AND NATURE OF OPERATIONS

Apex Resources Inc. (the "Company" or "Apex"), incorporated in British Columbia, is a public company listed on the TSX Venture Exchange ("TSX-V") and trading under the symbol APX. The Company changed its name from Sultan Minerals Inc. to Apex Resources Inc. on July 15, 2016. The address of the Company's registered corporate office and its principal place of business is 1066 West Hastings Street, Suite 2000, Vancouver, British Columbia, Canada.

The Company is in the exploration stage and its principal business activity is the exploration and evaluation of mineral properties in Canada. The Company is in the process of exploring and evaluating its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The amounts shown as exploration and evaluation assets and related capitalized exploration costs represent costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral properties is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. BASIS OF PREPARATION

a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issuance by the Board of Directors on April 24, 2019.

b) Going Concern

These financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for the next fiscal year. The Company incurred a net loss of \$385,100 for the year ended December 31, 2018 and had an accumulated deficit of \$23,896,224 at December 31, 2018, which has been funded primarily by issuance of shares and receipt of mineral property option proceeds. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares but there is no assurance that it will be able to continue to do so in the future. These factors comprise a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

c) Measurement Basis

These financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3. All amounts are expressed in Canadian dollars unless otherwise stated.

d) Significant Judgments and Estimates

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and

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Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. BASIS OF PREPARATION (CONTINUED)

d) Significant Judgments and Estimates (Continued)

expenses for the years reported. Significant areas requiring the use of management estimates include the determination of impairment of exploration and evaluation assets, decommissioning liabilities, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based compensation calculations. Actual results could differ from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash

Cash includes cash and short-term money market investments that are readily convertible to cash with original maturities of 90 days or less from the original date of acquisition. Interest from cash is recorded on an accrual basis. The Company has designated cash as fair value through profit or loss. All gains and losses are recognized in income in the period in which they arise.

b) Short-term Investments

Short-term investments are classified as fair value through profit or loss and recorded at fair value with realized and unrealized gains and losses recognized in income. All guaranteed investment certificates ("GICs") have original maturity dates ranging from 91 days to 1 year from acquisition. Investments in securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

c) Mineral Exploration and Evaluation Expenditures

Mineral property acquisition costs and exploration and evaluation expenditures are recorded at cost. When shares are issued as part of mineral property exploration costs, they are valued at the closing share price on the date of issuance unless the fair value of goods or services received is determinable. Payments relating to a property acquired under an option or joint venture agreement, where payments are made at the sole discretion of the Company, are recorded in the accounts upon payment.

Option payments received are treated as a reduction of the carrying value of the related mineral property until the Company's option and/or royalty payments received are in excess of costs incurred and then are recognized in income.

All expenditures related to the cost of exploration and evaluation of mineral properties including acquisition costs for interests in mineral claims are classified and capitalized as intangible assets until the property to which they relate is placed into production, sold, allowed to lapse or abandoned. These costs will be amortized over the estimated useful life of the property following commencement of commercial production or will be written off if the property is sold, allowed to lapse, abandoned or determined to be impaired.

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps, in accordance with industry standards, to verify mineral properties in which it has an interest. Although the Company has made efforts to ensure that legal title to its properties is properly recorded in the name of the Company when all terms of agreements have been met, there can be no assurance that such title will ultimately be secured.

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits. Reclamation deposits are classified as loans and receivables.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Impairment of Non-financial Assets

Exploration and evaluation assets are regularly tested for recoverability or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Impairment of exploration and evaluation assets is generally considered to have occurred if one of the following factors are present: the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, or indications in an area with development likely to proceed that the carrying amount is unlikely to be recovered in full by development or by sale.

The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Value in use is determined using discounted estimated future cash flows of the relevant asset. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are cash-generating units ("CGUs").

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

e) Government Assistance and Tax Credits

Any federal or provincial tax credits received by the Company, with respect to exploration or evaluation work conducted on any of its properties, are credited as a reduction to the carrying costs of the property to which the credits related. Until such time that there is significant certainty with regard to collections and assessments, the Company will record any recovered tax credits at the time of receipt. No gain or loss is realized during the exploration stage until all carrying costs of the specific interest have been offset.

f) Income Taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

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Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. At each financial position reporting date presented the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

h) Share Capital

The Company records proceeds from share issuances net of issue costs. Shares issued for consideration other than cash are valued at the quoted price on the TSX-V on the date the shares are issued unless the fair value of goods or services received is determinable.

i) Earnings (Loss) per Common Share

Basic earnings (loss) per common share is calculated by dividing the income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. Dilutive earnings per share reflect the potential dilution of securities that could share in the earnings of an entity.

In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

j) Share-based Payments

The Company records all share-based payments at their fair value. Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the granted date. The grant date fair value is recognized in comprehensive loss/income 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 and services received in the statement of operations. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

Warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to the Company's reserve accounts. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based compensation.

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For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Flow-through Shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference (“premium”) between the amount recognized in common shares and the amount the investors pay for the shares is recognized as flow-through share related liabilities which are reversed into the statement of operations within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

l) Financial Instruments

All financial assets and financial liabilities are initially recognized by the Company when the Company becomes a party to the contractual provisions of the instrument. All financial asset and liabilities are initially recorded at fair value, net of attributable transaction costs, except for those classified as fair value through profit or loss (“FVTPL”). Subsequent measurement of financial assets and financial liabilities depends on the classifications of such assets and liabilities.

Classification – financial assets

The Company classifies financial assets as measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) or fair value through profit or loss (“FVTPL”).

Amortized cost

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortized cost using the effective interest rate method.

Fair value through other comprehensive income

Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and sell financial assets, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings. The Company currently has no financial assets designated as FVTOCI.

Fair value through profit or loss

By default, all other financial assets are measured subsequently at FVTPL. The Company’s cash, short-term investments, reclamation bonds and the credit card deposit are measured at FVTPL.

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(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I) Financial Instruments (Continued)

Classification – financial liabilities

Financial liabilities are subsequently measured at amortized cost using effective interest rate method, except for financial liabilities at FVTPL, financial guarantee contracts, loan commitments as below-market interest rate, and liabilities related to contingent consideration of an acquirer in a business combination.

Financial liabilities at amortized cost include accounts payable and accounts payable to related parties. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the statements of operations and comprehensive income (loss).

Impairment

The Company recognizes a loss allowance for expected credit losses on its financial assets when necessary. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments. The Company did not recognize impairment losses during the year ended December 31, 2018.

The Company has no hedging arrangements and does not apply hedge accounting.

The Company recognizes an allowance for expected credit losses on its financial assets when necessary. The amount of expected credit losses is updated at each reporting period to reflect changes in credit risk since initial recognition of the respective financial instruments. No allowance was recognized as at December 31, 2018.

4. RECENT ACCOUNTING PRONOUNCEMENTS

Application of new and revised accounting standards:

IFRS 2 Share-Based Payment: In June 2016 the Board issued the final amendments to IFRS 2 *Share-Based Payment* as follows:

- (A) Effects that vesting conditions have on the measurement of a cash-settled share-based payment;
- (B) Accounting for modification to the terms of a share-based payment that changes the classification of the transaction from cash-settled to equity settled;
- (C) Classification of share-based payment transactions with net settlement features.

IFRS 7 Financial Instruments – Disclosure: IFRS 7 was amended to require additional disclosures on transition from IAS 39 to IFRS 9. The standard is effective on adoption of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018. The adoption of this standard did not have a significant impact on the Company's financial statements.

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4. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED)

Application of new and revised accounting standards (Continued):

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments* (“IFRS 9”) to replace IAS 39 – *Financial Instruments: Recognition and Measurement* in its entirety. IFRS 9 provides a revised model for recognition and measurement of financial instruments and a single, forward-looking ‘expected-loss’ impairment model, as well as a substantially reformed approach to hedge accounting. The standard did not impact the Company’s classification and measurement of financial assets and liabilities, and there was no significant impact on the carrying amounts of the Company’s financial instruments at the transition date.

IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides guidance on how and when revenue from contracts with customers is to be recognized, along with new disclosure requirements in order to provide financial statement users with more informative and relevant information. The adoption of this standard did not have a significant impact on the Company’s financial statements.

Accounting Standards and Amendments Issued but Not yet Effective

The Company has not early adopted the following standards and amendments and anticipates that the application of these standards and amendments will not have a material impact on the financial position and financial performance of the Company:

- IFRS 16 *Leases*: IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements.

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5. EXPLORATION AND EVALUATION ASSETS

Expenditures on interests in mineral properties are considered exploration and evaluation assets.

| | KENA PROPERTY, BRITISH COLUMBIA | JERSEY AND EMERALD PROPERTIES, BRITISH COLUMBIA | GOLDEN TRIANGLE PROPERTY, BRITISH COLUMBIA | RED RIDGE PROPERTY, YUKON | MOUNT ANDERSON PROPERTY, YUKON | TOTAL |
|---|---------------------------------------|--|--|---------------------------------|-----------------------------------|---------------------|
| Acquisition costs | | | | | | |
| As at December 31, 2017 | \$ 8,051 | \$ – | \$ 78,914 | \$ 40,500 | \$ 33,200 | \$ 160,665 |
| Acquisition incurred during the year | – | 50,000 | – | – | 60,000 | 110,000 |
| As at December 31, 2018 | 8,051 | 50,000 | 78,914 | 40,500 | 93,200 | 270,665 |
| Exploration and evaluation costs | | | | | | |
| Incurring during the year | | | | | | |
| Site activities | – | 476 | – | – | – | 476 |
| Geological and geophysical | – | 105 | 1,884 | 10,164 | 159,529 | 171,682 |
| Option proceeds | – | (450,000) | – | – | – | (450,000) |
| | – | (449,419) | 1,884 | 10,164 | 159,529 | (277,842) |
| As at December 31, 2017 | – | 2,460,000 | 136,455 | 79,741 | 32,296 | 2,708,492 |
| As at December 31, 2018 | – | 2,010,581 | 138,339 | 89,905 | 191,825 | 2,430,650 |
| Balance, December 31, 2018 | \$ 8,051 | \$ 2,060,581 | \$ 217,253 | \$ 130,405 | \$ 285,025 | \$ 2,701,315 |

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Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

| | KENA PROPERTY, BRITISH COLUMBIA | JERSEY AND EMERALD PROPERTIES, BRITISH COLUMBIA | GOLDEN TRIANGLE PROPERTY, BRITISH COLUMBIA | RED RIDGE PROPERTY, YUKON | MOUNT ANDERSON PROPERTY, YUKON | TOTAL |
|---|---------------------------------------|--|--|---------------------------------|-----------------------------------|---------------------|
| Acquisition costs | | | | | | |
| As at December 31, 2016 | \$ 8,051 | \$ – | \$ 74,500 | \$ 16,000 | \$ – | \$ 98,551 |
| Acquisition incurred during the year | – | – | 4,414 | 24,500 | 33,200 | 62,114 |
| As at December 31, 2017 | 8,051 | – | 78,914 | 40,500 | 33,200 | 160,665 |
| Exploration and evaluation costs | | | | | | |
| Incurring during the year | | | | | | |
| Site activities | – | – | 3,490 | – | – | 3,490 |
| Geological and geophysical | – | – | 91,018 | 76,249 | 32,296 | 199,563 |
| Assays and analysis | – | – | – | – | – | – |
| Option proceeds | – | (495,000) | – | – | – | (495,000) |
| | – | (495,000) | 94,508 | 76,249 | 32,296 | (291,947) |
| As at December 31, 2016 | – | 2,955,000 | 41,947 | 3,492 | – | 3,000,439 |
| As at December 31, 2017 | – | 2,460,000 | 136,455 | 79,741 | 32,296 | 2,708,492 |
| Balance, December 31, 2017 | \$ 8,051 | \$ 2,460,000 | \$ 215,369 | \$ 120,241 | \$ 65,496 | \$ 2,869,157 |

APEX RESOURCES INC.

(an exploration stage company)

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For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) Kena Property, Ymir, British Columbia, Canada

The Kena Property is comprised of the original Kena claims and additional properties under option. The properties are contiguous. Kena property is located near the community of Ymir in southeastern British Columbia.

During September 2016, the Company entered into an agreement with 1994854 Alberta Ltd. to option out 80% interest in Kena Property owned by Apex. The Kena Option Out agreement (the "Option Out") was approved by the TSX-V on October 3, 2016 (the "Effective Date"). In April 2017, 1994854 Alberta Ltd. merged with Prize Mining Corporation ("Prize"), a publicly-traded company listed on the TSX-V and all references are now made to Prize as the optionee. A gain was recorded in financial statements for the year ended December 31, 2018 from Option Out proceeds as summarized below.

| | | |
|--|-----------|----------------|
| Kena accumulated acquisition, exploration and evaluation costs as of December 31, 2014 | \$ | 2,789,077 |
| Less: impairment recorded in fiscal 2015 | | (2,748,819) |
| Book value of Kena prior to Option Out | | 40,258 |
| Less: 80% book value Option Out | | (32,207) |
| Book value of Kena, December 31, 2016 | \$ | 8,051 |
| Cash proceeds received on Option Out | \$ | 250,000 |
| Value of shares received on Option Out | | 108,750 |
| Gain in fiscal 2017 on Kena Option Out | \$ | 358,750 |
| Cash proceeds received on Option Out | \$ | 250,000 |
| Value of shares received on Option Out | | 60,000 |
| Gain in fiscal 2018 on Kena Option Out | \$ | 310,000 |

Under the terms of the Option Out agreement, to exercise the option and earn its 80% interest in the project, Prize will:

- make the following cash payments to the Company:
 - (A) within 5 business days from the Effective Date, \$500,000 (received);
 - (B) within twelve months from the Effective Date, an additional \$250,000 (received);
 - (C) within twenty-four months from the Effective Date, an additional \$250,000 (received); and
 - (D) within thirty-six months from the Effective Date, an additional \$250,000;

for total cash option payments of \$1,250,000; and

APEX RESOURCES INC.

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Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

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5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) Kena Property, Ymir, British Columbia, Canada (Continued)

- issue common shares of Prize to the Company as follows:
 - (A) within 5 business days from the Effective Date, 375,000 shares (received, Note 6 b));
 - (B) within twelve months from the Effective Date, an additional 375,000 shares (received, Note 6 b));
 - (C) within twenty-four months from the Effective Date, an additional 375,000 shares (received, Note 6b)); and
 - (D) within thirty-six months from the Effective Date, an additional 375,000 shares;

for a total of 1,500,000 shares;

- incur exploration expense as follows:
 - (A) within twelve months from the Effective Date, \$100,000 (completed);
 - (B) within twenty-four months from the Effective Date, an additional \$400,000 (completed);
 - (C) within thirty-six months from the Effective Date, an additional \$1,000,000; and
 - (D) within forty-eight months from the Effective Date, an additional \$1,500,000;

for total exploration expenditures of \$3,000,000.

After Prize has earned its 80% interest in the project, Prize has a second option to earn and acquire up to an additional 20% undivided interest in the project by making a \$2 million cash payment to Apex and granting a 1% net smelter returns royalty to the Company.

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada

The Company holds a 100% interest in the Jersey Claim Group located near Salmo, British Columbia. The property is comprised of the original 28 crown granted mineral claims, four 2-post claims and 80 mineral units acquired by option in 1993 and several additional properties acquired by staking or by option. Additional claims forming part of the properties include the Tungsten King Prospect consisting of 14 crown-granted mineral claims, the Truman Hill and Leroy North properties consisting of 17 mineral units, the Summit Gold Property consisting of 4 mineral units and 1 reverted crown grant, the Jumbo 2 and Boncher crown grants, the Invincible Tungsten Mine Tenure Number 2345, the Victory Tungsten Property consisting of 6 reverted crown grants, the Aspen Silver Mine comprised of 7 mineral claims, and approximately 10,000 hectares of adjacent staked mineral tenures.

The property is subject to various NSR's associated with the various claims. In particular, the Jersey property is subject to a 3.0% NSR that can be reduced to 1.5% by making payments of \$500,000 and issuing 50,000 common shares. Annual advance royalty payments of \$50,000 were to commence in October 2000. The agreement was amended in October 2000, 2004, 2009, and May 2009 extending the commencement of these royalty payments to October 20, 2013. The first annual royalty payment was paid by the Company. Subsequent royalty payments became the responsibility of Margaux Resources Ltd. ("Margaux") upon Margaux entering the option agreement as described below.

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(an exploration stage company)

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

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5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Jersey and Emerald Properties, Salmo, British Columbia, Canada (Continued)

In 2013, the Company entered into an option agreement with Margaux to option its 100% interest in the Jersey and Emerald Properties (excluding the Garnet, HB, and HB2 Lead-Zinc Property) for total proceeds of \$4,010,000. The payment terms under the agreement were later amended in 2015 and 2016, and on February 13, 2018. Under the terms of the amended agreement, to exercise the Option and earn its 100% interest in the project, Margaux will:

- make the following cash payments to the Company:
 - (A) deposit of \$50,000 (received);
 - (B) on or before January 24, 2014, \$150,000 (received);
 - (C) on or before January 24, 2014, \$300,000 (received);
 - (D) on or before November 8, 2014, \$400,000 (received);
 - (E) on or before February 22, 2016, \$10,000 (received);
 - (F) \$15,000 per month commencing April 1, 2016 for a period of 12 months (\$180,000 received);
 - (G) \$50,000 per month commencing April 1, 2017 for a period of 21 months (\$900,000 received); and
 - (H) \$100,000 per month commencing January 1, 2019 until a total of \$4,020,000 has been paid.

- incur aggregate exploration expenditures on or before November 8, 2016 of \$2,000,000.

Apex will retain a 1.5% net smelter returns royalty ("NSR") on the property. For a period of 60 days following the earlier of (a) the commencement of commercial production on the Property or (b) the completion of a feasibility study on the Property, Margaux may purchase 50% of the NSR (being a 0.75% net smelter returns royalty) from Apex for a payment to Apex of \$5.0 million.

Pursuant to the Option Agreement, Margaux will assume all existing royalties on the Property.

The Company received notice from Margaux that Margaux elected to terminate the option effective October 1, 2018.

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(an exploration stage company)

Notes to Financial Statements

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5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Ore Hill Properties, Salmo, British Columbia

The Ore Hill Properties were acquired by Margaux on February 27, 2017 but reverted to the Company as part of an Area of Interest Inclusion when Margaux terminated the option agreement on the Jersey and Emerald Properties in October 2018. In order to complete the acquisition of the Ore Hill Properties, the Company must complete remaining outstanding option payments to the original property vendors comprised of \$55,000 and 100,000 shares over three years (Note 14). The property is subject to a 2% NSR royalty. The Company may at any time purchase the NSR for \$250,000.

d) Golden Triangle Property, British Columbia

On August 23, 2016, the Company entered into an agreement to option a 100% interest in Golden Triangle Property. Under the terms of the agreement, to exercise the Option and earn its 100% interest in the Project, the Company will:

- make the following cash payments:
 - (A) \$5,000 non-refundable deposit on August 23, 2016 (paid);
 - (B) \$35,000 on TSX Venture Exchange approval (paid)
- issue common shares:
 - (A) 300,000 shares of the Company on TSX Venture Exchange approval (issued)
- make the following net smelter return (NSR) royalty payment:
 - (A) during the royalty period, the Company shall pay 2.0% NSR royalty.

Apex may within 240 days of commercial production redeem and purchase the interest and rights to receive the NSR royalty for a one-time payment of \$1 million for 1%, leaving 1% of the NSR royalty.

During the year ended December 31, 2017, the Company acquired additional claims in Golden Triangle Area for a cash payment of \$1,000.

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(an exploration stage company)

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5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

e) Red Ridge Property, Whitehorse Mining District, Yukon

On September 9, 2016, the Company entered into an option agreement, which gives Apex the right to earn a 100% undivided interest in the Red Ridge Property, Whitehorse Mining District, Yukon. Regulatory approval was received on September 14, 2016. On September 13, 2018, the agreement was amended to extend the terms of the cash and share payments and annual work commitments. Under the terms of the amended agreement, to exercise the option and earn its 100% interest, the Company will make a payment of \$150,000 and issue 500,000 shares over five years as set out below:

- make the following cash payments:
 - (A) \$5,000 on signing (paid)
 - (B) \$5,000 on regulatory approval (paid)
 - (C) \$20,000 before the end of one year following regulatory approval (paid)
 - (D) \$30,000 before the end of three years following regulatory approval
 - (E) \$40,000 before the end of four years following regulatory approval
 - (F) \$50,000 before the end of five years following regulatory approval
- issue common shares:
 - (A) 50,000 shares upon regulatory approval (issued)
 - (B) 50,000 shares before the end of one year following regulatory approval (issued)
 - (C) 100,000 shares before the end of three years following regulatory approval
 - (D) 100,000 shares before the end of four years following regulatory approval
 - (E) 200,000 shares before the end of five years following regulatory approval
- complete annual work commitment:
 - (A) \$30,000 within 12 months following regulatory approval (completed)
 - (B) additional \$75,000 within 36 months following regulatory approval
 - (C) additional \$125,000 within 48 months following regulatory approval
 - (D) additional \$200,000 within 60 months following regulatory approval
- make the following net smelter return (NSR) royalty payment:
 - (A) the Company shall pay 2.0% NSR royalty from the production of gold, silver and other metals provided that the Company shall have the right to purchase 50% of the net smelter return of \$1,000,000 exercisable within 90 days after commencement of commercial production.

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5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

f) Mount Anderson Property, Whitehorse Mining District, Yukon

In February 2017, the Company entered into an Option Agreement to earn 100% undivided interest in the Mount Anderson Property, Whitehorse Mining District, Yukon. Pursuant to the current option agreement, the Company can exercise the option by paying an aggregate of \$300,000 to the Optionors, issuing an aggregate of 1,000,000 common shares in the capital of the Company, and incurring an aggregate of \$385,000 of exploration expenditures as follows:

| | CASH PAYMENTS | SHARES | WORK COMMITMENT |
|--|------------------|------------------|--------------------|
| Upon Signing (paid) | \$10,000 | - | - |
| Upon Regulatory Approval (paid and issued) | \$10,000 | 100,000 | - |
| At end of 12 months (paid and issued) | \$20,000 | 200,000 | \$35,000 |
| At end of 18 months (paid) | \$20,000 | - | - |
| At end of 24 months (Note 14) | \$40,000 | 300,000 | \$100,000 |
| At end of 30 months | \$40,000 | - | - |
| At end of 36 months | \$80,000 | 400,000 | \$250,000 |
| At end of 42 months | \$80,000 | - | - |
| Total | \$300,000 | 1,000,000 | \$385,000 |

The Optionors are entitled to receive a 2% NSR, half of which can be purchased within 90 days after Commencement of Commercial Production by the Company for \$1,000,000. The Optionors also retain a 5% gross over-riding royalty on any high-grade bulk samples processed prior to Commercial Production.

6. SHORT-TERM INVESTMENTS

Short-term investments are summarized as follows:

| December 31, 2018 | | Number of Shares | Cost | Unrealized Gain (Loss) | Fair Value |
|-------------------------------------|----|---------------------|-------------------|---------------------------|-------------------|
| Term deposits - GICs | | | \$ 246,000 | \$ - | \$ 246,000 |
| Marketable Securities | | | | | |
| Altair Resources Inc. | a) | 33,333 | 257,500 | (9,500) | 1,167 |
| Prize Mining Corporation | b) | 1,125,000 | 168,751 | (241,875) | 50,625 |
| Total Short-term Investments | | | \$ 672,251 | \$ (251,375) | \$ 297,792 |
| December 31, 2017 | | Number of Shares | Cost | Unrealized Gain (Loss) | Fair Value |
| Term deposits - GICs | | | \$ 103,000 | \$ - | \$ 103,000 |
| Marketable Securities | | | | | |
| Altair Resources Inc. | a) | 133,333 | 257,500 | (22,667) | 10,667 |
| Prize Mining Corporation | b) | 750,000 | 108,751 | 123,749 | 232,500 |
| Total Short-term Investments | | | \$ 469,251 | \$ 101,082 | \$ 346,167 |

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(an exploration stage company)

Notes to Financial Statements

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6. SHORT-TERM INVESTMENTS (CONTINUED)

These investments are classified as fair value through profit or loss and measured at fair value with fair value gains and losses recognized in income.

- a) The Company holds 33,333 common shares of Altair instead of 133,333 common shares previously held as a result of a 4:1 share consolidation on September 28, 2018. During the year ended December 31, 2018, the Company recorded a loss of \$9,500 (2017 - \$22,667) with respect to these shares.

- b) During September 2016, the Company entered into an agreement with 1994854 Alberta Ltd. to option out 80% interest in Kena Property owned by the Company (Note 5 a)). The agreement was approved by the TSX-V on October 3, 2016. Under the terms of the agreement, 1994854 Alberta Ltd. issued 375,000 common shares to the Company on October 2016. In April 2017, 1994854 Alberta Ltd. completed a share-for-share exchange with Prize Mining Corporation ("Prize"), whereby the Company received 375,000 shares of Prize, a publicly-traded company. During the year ended December 31, 2017 the Company received 375,000 shares of Prize Mining as agreed upon in the Kena Property Option Agreement (Note 5 a)). The fair value of the shares on October 4, 2017 was \$108,750. On September 20, 2018, the Company received an additional 375,000 shares of Prize in accordance with the term of the Kena Property Option Agreement (Note 5 a)) with the fair value of \$60,000. During the year ended December 31, 2018, the Company recognized an unrealized loss of \$241,875 in connection with these shares (2017 – an unrealized gain of \$123,749).

7. CREDIT CARD DEPOSIT

The amount of \$17,250 at December 31, 2018 (2017 - \$17,250) represents a three-year guaranteed investment certificate with interest at prime minus 2.05% (2017 – prime minus 2.05%), held by the bank as security for the Company's credit card usage and is classified as restricted cash.

8. SHARE CAPITAL

- (a) Authorized:

Unlimited number of common shares without par value

- (b) Issued and Outstanding:

See Statements of Changes in Equity.

APEX RESOURCES INC.

(an exploration stage company)

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8. SHARE CAPITAL (CONTINUED)

(c) Stock Options

The Company has a stock option plan which allows for the grant of options to purchase up to 2,039,017 common shares. The following table summarizes information about the stock options outstanding at December 31, 2018:

| Expiry Date | Exercise Price | Number Outstanding at December 31, 2018 |
|---------------|----------------|---|
| March 8, 2022 | \$ 0.15 | 860,000 |

As at December 31, 2018, the weighted average remaining contractual life of stock options outstanding was 3.19 years (2017 – 4.19 years) at a weighted average exercise price of \$0.15 (2017 - \$0.15).

A summary of the changes in stock options for the years ended December 31, 2018 and 2017 is presented below:

| | Number of Options | Weighted Average Exercise Price |
|-----------------------------------|-------------------|---------------------------------|
| Balance, December 31, 2016 | 642,500 | \$ 1.00 |
| Granted | 1,010,000 | \$ 0.15 |
| Expired | (642,500) | \$ 1.00 |
| Balance, December 31, 2017 | 1,010,000 | \$ 0.15 |
| Expired | (150,000) | \$ 0.15 |
| Balance, December 31, 2018 | 860,000 | \$ 0.15 |
| Balance vested, December 31, 2018 | 860,000 | \$ 0.15 |

(d) Share Purchase Warrants

There are no share purchase warrants outstanding as at December 31, 2018 and 2017.

(e) Shareholder Rights Plan

The Company's board of directors adopted a Shareholder Rights Plan on September 23, 2013.

The Shareholder Rights Plan has been designed to protect shareholders from unfair, abusive or coercive take-over strategies including the acquisition of control of the Company by a bidder in a transaction or series of transactions that may not treat all shareholders fairly nor afford all shareholders an equal opportunity to share in the premium paid upon an acquisition of control. The Shareholder Rights Plan was adopted to provide the Board with sufficient time, in the event of a public take-over bid or tender offer for the common shares, to pursue alternatives which could enhance shareholder value.

This Shareholder Rights Plan has not been adopted in response to any proposal to acquire control of the Company.

The Rights will not, however, be triggered by a "Permitted Bid", which is defined as a bid which is outstanding for a minimum of 60 days made to all of the shareholders of the Company for all of their common shares and, subject to other specified conditions, is accepted by a majority of independent shareholders (as detailed in the Rights Plan).

APEX RESOURCES INC.

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9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payable and accrued liabilities are comprised of:

| | December 31, 2018 | December 31, 2017 |
|---------------------|----------------------|----------------------|
| Accounts payable | \$ 12,510 | \$ 5,108 |
| Accrued liabilities | 48,425 | 51,230 |
| | \$ 60,935 | \$ 56,338 |

10. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties and on terms and conditions similar to non-related parties as follows:

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Key management compensation: | | |
| Directors' fees (included in office and administration) | \$ 18,000 | \$ 16,500 |
| Geological expenses | – | 8,945 |
| Shareholder communications | 120,000 | 104,000 |
| Share-based compensation | – | 115,000 |
| Salaries | 180,000 | 180,000 |
| Total | \$ 318,000 | \$ 424,445 |

Balances payable to related parties are included in accounts payable and accrued liabilities on the statement of financial position. These amounts are non-interest bearing and are due on demand.

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Balances payable for: | | |
| Directors' fees | \$ 4,500 | \$ 1,500 |
| General office and administration expense | 1,319 | 1,305 |
| Shareholder communications | 10,000 | – |
| Salaries | 15,000 | – |
| | \$ 30,819 | \$ 2,805 |

APEX RESOURCES INC.

(an exploration stage company)

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11. INCOME TAXES

The following table reconciles the amount of income tax recovery on application of the combined statutory Canadian federal and provincial income tax rates:

| | December 31, 2018 | December 31, 2017 |
|--|------------------------------|----------------------|
| Combined statutory tax rate | 27% | 26% |
| Income tax recovery at combined statutory rate | \$ (103,000) | \$ (19,000) |
| Non-deductible expenses | 34,000 | (76,000) |
| Change in estimates and other | 167,000 | (46,000) |
| Change in enacted tax rate | - | (205,000) |
| Change in deferred tax assets not recognized | (98,000) | 346,000 |
| Deferred income tax recovery | \$ - | \$ - |

APEX RESOURCES INC.

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11. INCOME TAXES (CONTINUED)

The Company's unrecognized deductible temporary differences and unused tax losses are attributable to the following items:

| | December 31, 2018 | December 31, 2017 |
|--|----------------------|----------------------|
| Non-capital losses | \$ 1,990,000 | \$ 2,034,000 |
| Capital losses | 4,000 | 4,000 |
| Exploration and evaluation assets | 3,407,000 | 3,492,000 |
| Short-term investments | 51,000 | 17,000 |
| Other deductible temporary differences | 221,000 | 224,000 |
| Unrecognized deferred tax assets | (5,673,000) | (5,771,000) |
| | \$ - | \$ - |

The realization of income tax benefits related to these future potential tax deductions is uncertain and cannot be viewed as more likely than not. Accordingly, no deferred income tax assets have been recognized for accounting purposes.

The Company has Canadian non-capital losses carried forward of approximately \$7,372,000 (2017 - \$7,534,000) that may be available for tax purposes. The losses expire as follows:

| Year | \$ |
|------|------------------|
| 2026 | 626,000 |
| 2027 | 659,000 |
| 2028 | 853,000 |
| 2029 | 988,000 |
| 2030 | 856,000 |
| 2031 | 714,000 |
| 2032 | 557,000 |
| 2033 | 527,000 |
| 2034 | 458,000 |
| 2035 | 452,000 |
| 2036 | 428,000 |
| 2037 | 91,000 |
| 2038 | 163,000 |
| | <u>7,372,000</u> |

The Company has resource pools of approximately \$15,320,000 (2017 - \$15,802,000) available to offset future taxable income. The tax benefit of these amounts is available to be carried forward indefinitely. The Company also has investment tax credits totalling approximately \$267,000 (2017 - \$267,000).

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12. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at December 31, 2018, the classification of the financial instruments, as well as their carrying values and fair values, with comparative figures for December 31, 2017, are shown in the table below:

| | December 31, 2018 | | December 31, 2017 | |
|--|-------------------|----------------|-------------------|----------------|
| | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Financial assets | | | | |
| Cash | \$ 137,346 | \$ 137,346 | \$ 254,183 | \$ 254,183 |
| Short-term investments | 297,792 | 297,792 | 346,167 | 346,167 |
| Credit card deposit | 17,250 | 17,250 | 17,250 | 17,250 |
| Reclamation deposits | 15,120 | 15,120 | 15,120 | 15,120 |
| Financial liabilities | | | | |
| Accounts payable and accrued liabilities | 60,935 | 60,935 | 56,338 | 56,338 |
| Accounts payable to related parties | 30,819 | 30,819 | 2,805 | 2,805 |

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- i) Level 1 - Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 - Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly, such as quoted prices for similar assets or liabilities in active markets, or indirectly, such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 - Applies to assets or liabilities for which there are unobservable market data.

The fair values of the Company's financial instruments measured at December 31, 2018, constitute Level 1 measurements for its cash, short-term investments, credit card deposit and reclamation deposits within the fair value hierarchy.

The Company recognized interest income during the year ended December 31, 2018, totaling \$3,448 (2017 - \$1,190). This is primarily interest income from the Company's short-term investments. The balance represents interest income from all sources.

Credit Risk

Substantially all of the Company's cash is held with major financial institutions in Canada, and management believe the exposure to credit risk with such institutions is not significant. Those financial assets that potentially subject the Company to credit risk are primarily its investment in marketable securities of publicly-traded companies and any receivables. The Company has increased its focus on credit risk given the impact of the current economic climate. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where cash and term deposits are held. The Company's maximum exposure to credit risk as at December 31, 2018, is the carrying value of its financial assets.

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12. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its mineral property interests. The Company coordinates this planning and budgeting process with its financing activities through the capital management process described in Note 13, in normal circumstances. The Company's financial liabilities are comprised of its accounts payable and accounts payable to related parties, the contractual maturities of which at December 31, 2018 and 2017, are summarized as follows:

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| Accounts payable with contractual maturities – | | |
| Within 90 days or less | \$ 12,510 | \$ 5,108 |
| Accounts payable to related parties with contractual maturities – | | |
| Within 90 days or less | 30,819 | 2,805 |

Market Risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The sale of financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments, and unfavourable markets conditions could result in dispositions of investments at less than favourable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in markets prices, such that changes in market prices results in a proportionate change in the carrying value of the Company's investments.

The Company's ability to raise capital to fund exploration or evaluation activities is subject to risk associated with fluctuations in the market prices of gold, copper, zinc, lead, molybdenum and tungsten, and the outlook for these metals. The Company's ability to raise capital is affected by the prices of commodities that the Company is exploring for on its mineral property interests. The Company does not have any hedging or other derivative contracts respecting its operations.

Market prices for these metals have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk.

Interest Rate Risk

At December 31, 2018 and 2017, the Company has no significant exposure to interest rate risk through its financial instruments.

Currency Risk

Fluctuations in United States dollars would not significantly impact the operations and the values of its assets and shareholders' equity at this time. If the Company were to go into production, the Company would be subject to more foreign currency risk from fluctuations in the Canadian dollar relative to the United States dollar, due to metals prices and their denomination in United States dollars.

APEX RESOURCES INC.

(an exploration stage company)

Notes to Financial Statements

For the Years Ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

13. MANAGEMENT OF CAPITAL

The Company's objective in managing capital is to maintain adequate levels of funding to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral property interests in British Columbia and to maintain a flexible capital structure which will optimize the costs of capital.

The Company endeavours to manage its capital structure in a manner that provides sufficient funding for operational activities through funds primarily secured through equity capital obtained in private placements. There can be no assurances that the Company will be able to continue raising capital in this manner.

Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will be able to continue this form of financing due to the current difficult conditions. The Company makes adjustments to its management of capital in the light of changes in economic conditions and the risk characteristics of its assets, seeking to limit shareholder dilution and optimize its costs of capital while maintaining an acceptable level of risk. The Company currently has a working capital of \$358,366 (2017 - \$555,624) and must rely on equity financings, or forms of joint venture or other types of financing to fund operations and to continue exploration and evaluation work and to meet its administrative overhead costs in future years (see Note 2b).

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities allowing the Company to withdraw funds at intervals needed for the expected timing of expenditures in its operations.

14. SUBSEQUENT EVENTS

- a) In March 2019, the Company paid \$15,000 and issued 50,000 common shares in option payments for the Ore Hill Properties.
- b) In March 2019, the Company paid \$40,000 and issued 300,000 common shares pursuant to the Option Agreement to earn 100% undivided interest in the Mount Anderson Property.