EMGOLD MINING CORPORATION

(AN EXPLORATION STAGE COMPANY)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED 31 DECEMBER 2018 AND 2017

Stated in US Dollars

Table of Contents

MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Emgold Mining Corporation:

Management is responsible for the preparation and presentation of the accompanying audited consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the audited consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the external auditors. The Audit Committee has the responsibility of meeting with management, and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external auditors.

We draw attention to Note 1 in the audited consolidated financial statements which indicates the existence of a material uncertainty that may cast substantial doubt on the Company's ability to continue as a going concern.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with the Board of Directors, Audit Committee, and management to discuss their audit findings.

April 29, 2019

The consolidated financial statements were approved by the Board of Directors on April 29, 2019 and were signed on its behalf by:

"David Watkinson"

David Watkinson, President & CEO

"Robert Rosner"

Robert Rosner, CFO

Independent Auditor's Report

To the Shareholders of Emgold Mining Corporation:

Opinion

We have audited the consolidated financial statements of Emgold Mining Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated 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 1 in the consolidated financial statements, which indicates the Company has an accumulated loss of $51,219,772 as at December 31, 2018. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, 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 Management's Discussion and Analysis.

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

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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.

In preparing the consolidated 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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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 Jenny Lee.

MNP LLP

Vancouver, British Columbia
April 29, 2019

Chartered Professional Accountants

MNP LLP

EMGOLD MINING CORPORATION

Statement 1

US Dollars

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December 2018	As at 31 December 2017
ASSETS			
Current Assets			
Cash		$ 203,042	$ 18,572
Amounts receivable		34,784	3,721
Marketable securities	(6)	2,061,648	–
Share subscription receivable	(10)	16,310	–
Prepaid expenses		9,261	8,993
Assets held for sale	(7)	154,452	154,452
		2,479,497	185,738
Non-current Assets			
Reclamation bonds		16,910	9,963
Deposit		4,500	110,813
Exploration and evaluation assets	(8)	1,131,983	544,113
		1,153,393	664,889
		$ 3,632,890	$ 850,627
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		$ 478,438	$ 236,524
Flow-through share premium liability	(11)	21,631	–
Warrant liability	(10)	371,646	–
Due to related parties	(9)	441,134	263,608
		1,312,849	500,132
EQUITY (Statement 3)			
Share capital	(10)	45,622,784	44,095,360
Warrants – contributed surplus	(10)	701,802	686,349
Options – contributed surplus	(10)	7,215,227	7,062,781
Deficit		(51,219,772)	(51,493,995)
		2,320,041	350,495
		$ 3,632,890	$ 850,627

(1) Nature of operations and going concern
(2) Basis of preparation – Statement of Compliance
(12) Capital disclosures
(13) Segmented disclosures
(16) Subsequent events

The audited consolidated financial statements were approved by the Board of Directors on April 29, 2019 and were signed on its behalf by:

"David Watkinson"
David Watkinson, Director

"Andrew MacRitchie"
Andrew MacRitchie, Director

--The accompanying notes form an integral part of the consolidated financial statements--

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	**Year Ended 31 December 2018**	Year Ended 31 December 2017
CONTINUING OPERATIONS			
EXPENSE			
Exploration and Evaluation			
Resource property expense	(8)	$ 555,687	$ 38,555
General and Administrative			
Management and consulting	(9)	683,334	127,972
Share-based compensation	(10)	152,446	–
Professional fees		106,478	28,186
Listing and filing fees		59,209	21,713
Rent		38,869	–
Office and administration		38,008	36,868
Travel		20,555	–
Insurance		10,988	7,159
Shareholder communication		5,476	5,571
Banking costs		991	1,692
Advertising and promotion		400	–
		1,116,754	229,161
Net (Loss) and Comprehensive (Loss) Before Other Items		(1,672,441)	(267,716)
Other income (loss)			
Sublease income		10,800	–
Loss on write off of accounts receivable and payable		–	(833)
Unrealized gain on warrant liability	(10)	409,273	–
Financing charges		(16,451)	–
Foreign exchange gain (loss)		(4,325)	(4,613)
Gain on sale of property	(8)	1,162,526	–
Gain on write off of related party debt		–	587,500
Unrealized gain on marketable securities	(6)	384,841	–
		1,946,664	582,054
Net Income and Comprehensive Income		$ 274,223	$ 314,338
Basic and Diluted Earnings per Common Share		$ 0.02	$ 0.04
Weighted Average Number of Shares Outstanding		15,730,024	7,966,354

--The accompanying notes form an integral part of the consolidated financial statements--

EMGOLD MINING CORPORATION **Statement 3**

US Dollars

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares	Amount	Warrants	Amount	Options	Amount	Deficit	Shareholders' Equity
BALANCE AT 31 DECEMBER 2016	**7,900,373**	**$44,035,360**	**-**	**$686,349**	**500,000**	**$ 7,062,781**	**$(51,808,333)**	**$ (23,843)**
Shares issued for properties	**70,833**	**60,000**	**-**	**-**	**-**	**-**	**-**	**60,000**
Options expired	**-**	**-**	**-**	**-**	**(200,000)**	**-**	**-**	**-**
Options forfeited	**-**	**-**	**-**	**-**	**(35,000)**	**-**	**-**	**-**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**314,338**	**314,338**
BALANCE AT 31 DECEMBER 2017	**7,971,206**	**$44,095,360**	**-**	**$686,349**	**265,000**	**$ 7,062,781**	**$ (51,493,995)**	**$ 350,495**
Shares issued for properties	**11,428,572**	**959,789**	**-**	**-**	**-**	**-**	**-**	**959,789**
Private Placement - Flow-through (net of issuance costs)	**9,398,143**	**550,534**	**4,912,932**	**10,680**	**-**	**-**	**-**	**561,214**
Private Placement – Non flow-through (net of issuance costs)	**6,595,499**	**17,101**	**6,595,499**	**4,773**	**-**	**-**	**-**	**21,874**
Options granted	**-**	**-**	**-**	**-**	**3,000,000**	**152,446**	**-**	**152,446**
Options expired	**-**	**-**	**-**	**-**	**(265,000)**	**-**	**-**	**-**
Comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**274,223**	**274,223**
BALANCE AT 31 DECEMBER 2018	**35,393,420**	**$45,622,784**	**11,508,431**	**$701,802**	**3,000,000**	**$ 7,215,227**	**$ (51,219,772)**	**$ 2,320,041**

-- The accompanying notes form an integral part of the consolidated financial statements --

EMGOLD MINING CORPORATION

US Dollars

Statement 4

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended 31 December 2018	Year Ended 31 December 2017
OPERATING ACTIVITIES		
Income for the Year	$ 274,223	$ 314,338
Items not Affecting Cash		
Write off of related party debt	-	(587,500)
Unrealized foreign exchange (gain) loss	42,337	(654)
Unrealized gain on marketable securities	(384,841)	-
Unrealized gain on warrant liability	(409,273)	-
Share based compensation	152,446	-
Gain on sale of property	(1,162,526)	-
	(1,487,634)	(273,816)
Net Change in Non-Cash Working Capital		
Amounts receivable	(31,063)	125
Prepaid expenses and deposits	106,045	(3)
Accounts payable and accrued liabilities	280,886	77,042
Due to related parties	112,880	142,567
	468,748	219,731
	(1,018,886)	(54,085)
INVESTING ACTIVITIES		
Resource property payments	10,000	110,000
Proceeds from sale of mineral property	192,858	-
Acquisition of property	(381,511)	(110,813)
	(178,653)	(813)
Financing ACTIVITIES		
Proceeds from units issued for cash, net of share issuance costs	1,382,009	-
Net Increase (Decrease) in Cash	184,470	(54,898)
Cash – beginning of year	18,572	73,470
Cash – end of year	$ 203,042	$ 18,572
Schedule of Non-cash Investing and Financing Transactions		
Shares issued for mineral property acquisition	$ 959,789	$ 60,000

-- The accompanying notes form an integral part of the consolidated financial statements --

1) Nature of operations and going concern

Emgold Mining Corporation ("the Company" or "Emgold") is incorporated under the British Columbia Corporations Act and the principle place of business is located at 1015 - 789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol EMR, the OTC Market under the symbol EGMCF, and the Frankfurt Stock Exchange ("FRA") under the symbol EMLM.

These audited consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company's ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities in the normal course of operations.

There are several adverse conditions that cast significant doubt upon the soundness of this assumption. The Company has negative operating cash flow and incurred operating losses since inception. There is no source of significant revenue at this time. The Company is unable to self-finance operations, and has significant on-going cash needs to meet its overhead requirements and maintain its exploration and evaluation assets. Further, the business of mining and exploration involves a high degree of risk and there can be no assurance that current or future exploration programs will result in profitable mining operations. The recoverability of exploration and evaluation assets is dependent upon several factors, which include the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development of these properties, and future profitable production or proceeds from disposition of mineral properties. Although the Company has taken steps to verify the title to resource 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 title may be subject to unregistered prior agreements or transfers.

For the Company to continue to operate as a going concern it must obtain additional financing; there can be no assurance that this will continue in the future.

If the going concern assumption were not appropriate for these consolidated financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used, and such adjustments could be material.

Rounded ('000's)	**31 December 2018**	31 December 2017
Working capital (deficit)	**$ 1,167,000**	$ (469,000)
Accumulated deficit	**$ (51,220,000)**	$ (51,494,000)

2) Basis of preparation

a) Statement of Compliance

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

The consolidated financial statements were authorized for issue by the Board of Directors on April 29, 2019.

b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value.

3) Summary of significant accounting policies

a) Consolidation

These consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiaries:

- Idaho-Maryland Mining Corporation
- Emgold (US) Corp.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases. All significant intercompany transactions and balances have been eliminated.

b) Adoption of new accounting standards

Commencing January 1, 2018 the Company adopted IFRS 9. The adoption of this new accounting standard did not have material impact to the Company's consolidated financial statements.

IFRS 9 addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 Financial Instruments. The new standard contains three classifications for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). The new standard eliminates the previous IAS 39 categories of held to maturity, loan and receivables, and available for sale.

Recognition and Measurement for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. Requirements for financial liabilities are largely carried forward from the existing requirements in IAS 39 except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

Following is the new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets	Classification under IAS 39	Classification under IFRS 9
Cash	FVTPL	Amortized cost
Marketable securities	FVTPL	FVTPL
Accounts receivable	Notes and receivable	Amortized cost

Financial liabilities	Classification under IAS 39	Classification under IFRS 9
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost
Warrant liability	FVTPL	FVTPL

There were no adjustments to the carrying amounts of financial instruments as a result of the change in classification from IAS39 to IFRS 9.

(ii) Measurement

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the Consolidated Statements of Comprehensive Income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the Consolidated Statements of Comprehensive Income in the period in which they arise.

(iii) Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in the Consolidated Statements of Comprehensive Income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

c) Foreign currency

(i) Functional and presentation currency

The financial statements of each entity in the group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). These consolidated financial statements are presented in United States dollars (“$”), which is the Company and its subsidiaries’ functional and presentation currency. References to CDN$ represent Canadian dollars.

Transactions entered into by the Company’s subsidiaries in a currency other than the functional currency are recorded at the rates ruling when the transactions occur except depreciation and depletion which are translated at the rates of exchange applicable to the related assets, with any gains or losses recognized in the Consolidated Statements of Comprehensive Income.

Foreign currency monetary assets and liabilities are translated at current rates on the reporting date with the resulting gain or losses recognized in the Consolidated Statements of Comprehensive Income. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognized immediately in Consolidated Statements of Comprehensive Income. Non-monetary assets and liabilities are translated using historical exchange rates. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

d) Cash

Cash consists of cash on hand and deposits in banks.

e) Asset held for sale

Assets that are immediately available for sale and for which a sale is highly probable are classified as assets held for sale. The net assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Depreciation ceases when assets are classified as held for sale. At each financial reporting date, the value of the assets and liabilities held for sale is reviewed to determine whether any provision adjustments should be recorded due to a change in their fair value less costs to sell.

f) Exploration and evaluation

The Company is currently in the exploration stage with all of its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, costs incurred to explore and evaluate properties, and the fair value, upon acquisition, of mineral properties acquired in a business combination or an asset acquisition.

Exploration and evaluation expenditures are expensed in the period they are incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely to be recoverable by future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing.

g) Impairment of non-financial assets

The recoverability of exploration and evaluation assets is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability to option its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

The Company performs impairment tests on exploration and evaluation assets when events or circumstances occur which indicate the assets may not be recoverable. Impairment assessments are carried out on a project by project basis with each project representing a single cash generating unit. When impairment indicators are identified, an impairment loss is recognized for any amount by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and from its ultimate disposal. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

h) Flow-through shares

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for tax purposes by the investors who purchased the shares. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the following accounting policy:

At the time of closing a financing involving flow-through shares, the Company allocates the gross proceeds received (i.e. the "flow-through commitment") as follows:

- Share capital – if warrants are being issued, based on the valuation derived using the residual method after fair value of warrants. If warrants are not being issued, the fair market price at the date of the issuance will be applied;
- Flow-through share premium – recorded as a liability and equal to the estimated premium, if any, investors pay for the flow-through feature, i.e. the portion of share capital in excess of the market value of the shares without the flow-through features at the time of issue; and
- Warrants – if warrants are being issued, the fair value of warrants will be based on the Black-Scholes option-pricing model.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period under the regular method. Under the "Look-back" rule, the proceeds that were received in the year and not spent by December 31 of the same year were renounced under the "Look-back" rule and need to be spent by December 31 of the following year.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the "Look-back" Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

i) Share based payments

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The Board of Directors grants such options for periods of up to five years, with immediate vesting upon grant. The exercise prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized in the period that the options are earned. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest. Forfeitures of stock options are accounted for as incurred.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

j) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the Consolidated Statements of Comprehensive Income except to the extent it relates to items recognized in equity.

Current income tax

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred taxes are the taxes expected to be payable or recoverable on the difference between the carrying amounts of assets in the Consolidated Statement of Financial Position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

k) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings per share is computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised if in the money and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

l) Comprehensive income (loss)

Comprehensive income (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on FVTOCI, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income (loss) is presented in the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Equity.

m) Warrant liability

As the exercise price of certain of the Company's share purchase warrants is fixed in Canadian Dollar, and the functional currency of the Company is the US Dollar, these warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. Accordingly, these share purchase warrants are classified and accounted for as a derivative liability measured at FVTPL. The fair value of the warrants is remeasured at each reporting period end using the Black-Scholes option pricing model.

n) Provisions for restoration and rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The rehabilitation asset is depreciated on the same basis as mining assets.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The Company determined that it has no material restoration obligations at 31 December 2018 or 2017.

o) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Share purchase warrants for a price not fixed in the Company's functional currency are classified as a derivative liability and measured at fair value with changes recognized in the consolidated statements of comprehensive income as they arise. The proceeds from the issuance of units consist of both of these share purchase warrants and common shares are allocated first to the fair value of the derivative liability on date of issuance with the residual amount to the common shares.

p) Accounting standards and amendments issued but not yet applied

The IASB has replaced IAS 17, Leases in its entirety with IFRS 16, Leases, which will require lessees to recognize nearly all leases on the balance sheet to reflect their right to use an asset for a period of time and the associated lease liability. IFRS 16 is effective for annual periods commencing on or after January 1, 2019. The Company does not expect the adoption of this standard will have a material impact to the Company's consolidated financial statements.

4) Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies management is required to make judgments, estimates and assumptions about the carrying amount and classification of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revisions affect only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments and areas involving estimates, that management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amount recognized in the consolidated financial statements.

a) Critical judgments in applying accounting policies

<u>Going concern assumption</u>

These consolidated financial statements have been prepared on the basis of the accounting principles applicable to a going concern, which assumes the Company's ability to continue in operation for the foreseeable future and to realize its assets and discharge its liabilities in the normal course of operations. There are several adverse conditions that cast substantial doubt upon the soundness of this assumption. Refer to note 1 for more details.

<u>Determination of functional currency</u>

In accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company and its wholly owned subsidiaries is the US dollar.

<u>Exploration and evaluation assets</u>

The Company makes certain judgements and assumptions regarding indicators of impairment and the recoverability of the carrying values of exploration and evaluation assets. Management has assessed for impairment indicators for the Company's properties and has concluded that no indicators of impairment as at December 31, 2018.

b) Key sources of estimation uncertainty

Share based payments and fair value of warrants

Management assesses the fair value of stock options granted in accordance with the accounting policy stated in note 3. The fair value of stock options granted is measured using the Black-Scholes option pricing model, which was created for use in estimating the fair value of freely tradable, fully transferable options. The following assumptions are used in the model: dividend yield; expected volatility; risk-free interest rate and expected option life.

Changes to assumptions used to determine the grant date fair value of share-based compensation awards can affect the amounts recognized in the consolidated financial statements.

Fair value of warrants derivative

The Company has determined that its functional currency is the US dollar and has issued warrants with exercise price fixed in Canadian Dollar. The Company measures the cost of the warrants derivative by reference to the fair value on the grant date and revalues them at each reporting date. In determining the fair value of the warrants, the Company used the Black-Scholes option pricing model with the following assumptions: average volatility rate; market price at the reporting date; risk-free interest rate; the remaining expected life of the warrant and an exchange rate at the reporting date. The inputs used in the Black-Scholes model are taken from observable markets.

Changes to assumptions used can affect the amounts recognized in the consolidated financial statements.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

5) Financial instruments and risk management

a) Fair values

Financial instruments of the Company carried on the Consolidated Statements of Financial Position are carried at amortized cost with the exception of marketable securities and warrant liabilities, which are carried at fair value. There are no significant differences between the carrying value of these financial instruments carried at amortized cost and their estimated fair values as at 31 December 2018 and 2017 due to the short term nature of the instruments.

Financial instruments recorded at fair value on the Consolidated Statements of Financial Position are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The levels in the hierarchy are:

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's marketable securities were considered to be classified as Level 1 and warrant liabilities were classified as Level 3. There have been no changes between levels during the year.

b) Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company is not exposed to significant market risk.

c) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its bank accounts. The Company's bank accounts are held with major banks in Canada, accordingly the Company believes it is not exposed to significant credit risk.

d) Interest rate risk

Interest rate risk is the risk of losses that arise as a result of changes in contracted interest rates. The Company is nominally exposed to interest rate risk.

e) Foreign exchange risk

The functional currency of the Company and its subsidiaries is US dollar. Most of the foreign exchange risk is related to Canadian dollar denominated financial instruments held by the Company.

The Company does not hedge its exposure to currency fluctuations. To manage this risk, the Company maintains only the budget amount of foreign cash required to fund its near-term exploration expenditures.

The balances in Canadian dollars at December 31, 2018 and 2017 are as follows:

Rounded (000's)		31 December 2018		31 December 2017
Cash	$	**161,000**	$	6,000
Marketable securities		**2,062,000**		-
Accounts payable and accrued liabilities		**(272,000)**		(103,000)
Due to related parties		**(101,000)**		(9,000)
	$	**1,850,000**	$	(106,000)

Based on the net exposure at December 31, 2018 and 2017, a 5% depreciation or appreciation in Canadian dollar against US dollar would result in a gain or loss of $126,000.

f) Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. As the Company has no significant source of cash flows this is a significant risk.

Management closely monitors the liquidity position and expects to have adequate sources of funding to finance the Company's projects and operations. The Company is dependent on external financing and will be required to raise additional capital in the future to fund its operations.

6) Marketable securities

During the year ended December 31, 2018, the Company received 3,750,000 common shares of Troilus Gold Corporation (TSE:TLG) in accordance with the Purchase and Sales Agreement of Troilus North Property (note 8(e)).

As at December 31, 2018, the fair value of the 3,750,000 shares was $2,061,648 and the fair value adjustment resulted in a gain of $384,841 for the year ended December 31, 2018.

7) Assets held for sale

Emgold has a 7.13 acre parcel of land located in Nevada County that was part of the Company's former Idaho-Maryland Project that was listed for sale.

This property was subsequently sold at a tax auction on January 26, 2019 for $56,000. As at December 31, 2018, the accrued outstanding property taxes plus interest penalty was $160,075 which was recorded in accounts payable and accrued liabilities.

The disposition of this property resulted in $56,000 sale proceeds which were applied to settle $160,075 liability. As a result, no impairment was recorded in the year ended December 31, 2018.

8) Exploration and evaluation assets

Property Acquisition Costs	Buckskin Rawhide East	Buckskin Rawhide West	Koegel Property	BC Properties	Nevada Golden Arrow Property	Troilus North	Total
Balance as at January 1, 2017	**$ 434,052**	**$ 80,029**	**$ 80,030**	**$ 2**	**$ -**	**$ -**	**$ 594,113**
Acquisitions	-	30,000	30,000	-	-	-	60,000
Royalty payments received	(110,000)	-	-	-	-	-	(110,000)
Balance as at December 31, 2017	**324,052**	**110,029**	**110,030**	**2**	**-**	**-**	**544,113**
Balance as at January 1, 2018	**324,052**	**110,029**	**110,030**	**2**	**-**	**-**	**544,113**
Acquisitions	**-**	**30,000**	**30,000**	**-**	**537,870**	**742,996**	**1,340,866**
Disposition	**-**	**-**	**-**	**-**	**-**	**(742,996)**	**(742,996)**
Royalty payments received	**(10,000)**	-	-	-	-	-	**(10,000)**
Balance as at December 31, 2018	**$ 314,052**	**$ 140,029**	**$ 140,030**	**$ 2**	**$ 537,870**	**$ -**	**$ 1,131,983**

Exploration and Evaluation Expenditures	Buckskin Rawhide East	Buckskin Rawhide West	Koegel Property	Other Prospect	Nevada Golden Arrow Property	Troilus North	Total
Claims fees	$ 3,515	$ 6,024	$ -	$ -	$ -	$ -	$ 9,539
Carrying costs	-	-	-	16,961	-	-	16,961
General property search	-	-	-	12,055	-	-	12,055
Year ended December 31, 2017	3,515	6,024	-	29,016	-	-	38,555
Claims fees	**-**	**3,725**	**5,580**	**-**	**59,639**	**-**	**68,944**
Carrying costs	**-**	**-**	**-**	**12,364**	**88,628**	**-**	**100,992**
General property search	**-**	**-**	**-**	**70,151**	**-**	**315,600**	**385,751**
Year ended December 31, 2018	**$ -**	**$ 3,725**	**$ 5,580**	**$ 82,515**	**$ 148,267**	**$ 315,600**	**$ 555,687**

a) Golden Arrow Property, Nevada

Emgold has a 100% interest in the Golden Arrow Property, subject to title transfer from Nevada Sunrise Gold Corporation which is ongoing. The Property is located approximately 40 miles east of Tonopah in Nye County, Nevada. The property consists of 357 unpatented and 17 patented lode mineral claims covering an area of approximately 7,030 acres (2,845 hectares). It is an advanced-stage exploration property with a comprehensive exploration database including geochemical sampling, geophysics, and over 200,000 feet of reverse circulation and diamond core drilling.

On July 18, 2017 Emgold signed a non-binding Letter of Intent ("LOI") to acquire up to a 100% interest in the Golden Arrow Property, Nevada from Nevada Sunrise Gold Corporation. This LOI was amended as announced by press release on January 4, 2018 (the "First Amended LOI") and again as announced by press release on July 16, 2018 (the "Second Amended LOI"). The Second Amended LOI was then replaced by a binding Definitive Agreement announced by press release on October 2, 2018. The transaction was approved by the TSX Venture Exchange as announced by press release on October 5, 2018.

The Definitive Agreement allowed Emgold (or a wholly owned subsidiary of Emgold) to acquire a 51% interest in the Golden Arrow Property by (i) making cash payments to Nevada Sunrise in the aggregate amount of $100,000 (such amount has been paid as of the date hereof); and (ii) issuing to Nevada Sunrise 2.5 million common shares in the capital of Emgold. In addition, the Company has the option of acquiring the remaining 49% interest in Golden Arrow by issuing to Nevada Sunrise an additional 2.5 million common shares in the capital of Emgold within 24 months of the date of closing of the transaction.

On October 9, 2018, Emgold completed the acquisition of the 51% interest in the property and also exercised its option to earn 100% interest in the property.

b) Buckskin Rawhide East Property, Nevada

The Company has a 100% interest in the 52 unpatented mineral claims, totalling 835 acres, that make up Buckskin Rawhide East Property, located near Fallon, Nevada.

The Buckskin Rawhide Property is leased to Rawhide Mining LLC (RMC), owners of the Rawhide Mine under the following terms:

1. The Lease Term is 20 years (start date of 01 June 2013).
2. Advance royalty payments will be $10,000 per year, paid by RMC to Emgold, with the first payment due at signing and subsequent payments due on the anniversary of the Lease Agreement.
3. During the Lease Term, RMC will make all underlying claim fees to keep the claims in good standing.
4. RMC will conduct a minimum of US$250,000 in exploration activities by the end of Year 1.
5. RMC will conduct an additional minimum of US$250,000 in exploration activities by the end of Year 3, for a total of US$500,000 in exploration activities by the end of Year 3.
6. RMC will have the option of earning a 100% interest in the property by bringing it into commercial production.
7. Upon bringing the property into commercial production, RMC will make "Bonus Payments" to Emgold. Bonus Payments will be US$15 per ounce of gold when the price of gold ranges between US$1,200 per ounce and US$1,799 per ounce. If the price of gold exceeds US$1,800 per ounce, the Bonus Payment will increase to US$20 per ounce.
8. After meeting its exploration requirements, should RMC subsequently elect to drop the property of decide not to advance it, the property will be returned to Emgold. Should Emgold subsequently advance the property into production, RMC shall then be entitled to the same type of Bonus Payments as contemplated in 7 above.

Under the terms of the lease agreement, RMC was to complete $500,000 in exploration related expenditures on the property by the third anniversary or June 1, 2016. However, as at June 1, 2016, RMC had completed only US$325,000 in exploration activities on the property.

On June 1, 2016, RMC and Emgold mutually agreed to amend the original Lease Agreement whereby RMC would pay Emgold US$175,000, in seven quarterly payments of US$25,000, starting June 1, 2016, to keep the Lease Agreement in good standing. These payments were in lieu of completing the additional US$175,000 in exploration work required in the original Lease Agreement. During the year ended December 31, 2018, Emgold received $Nil (2017 - $100,000) of the payments.

Emgold received the $10,000 annual advance royalty payment for the Buckskin Rawhide Property from RMC during the year ended December 31, 2018 (2017 - $10,000).

c) Buckskin Rawhide West Property, Nevada

During the year ended December 31, 2018, the Company completed the 100% interest acquisition in the PC and RH claims, called Buckskin Rawhide West, comprising 21 unpatented lode mining claims totalling 420 acres.

On February 2013, the Company entered a Lease and Option to Purchase Agreement with Jeremy C. Wire to acquire the PC and RH mineral claims, located 0.3 miles west of Emgold's existing Buckskin Rawhide Property, in Mineral County, Nevada. Pursuant to the lease agreement, advance royalty payments were paid to Jeremy C. Wire in the amount of $10,000 each year during 2012, 2013, and 2014, $20,000 in year 2015, and $30,000 each year in 2016, 2017, and 2018 (total $140,000). All payments were made in shares. The property is subject to a 2% Net Smelter royalty, which can be purchased at any time for $1.0 million.

d) Koegel Rawhide, Nevada

During the year ended December 31, 2018, the Company completed the acquisition of the RHT and GEL claims, comprising 19 unpatented lode mining claims totalling 380 acres acquired from Jeremy C. Wire. In addition, Emgold staked 17 additional unpatented lode claims totalling 340 acres. Together, the claims, totalling 720 acres, make up the Koegel Rawhide Property.

In February 2012, the Company entered a Lease and Option to Purchase Agreement with Jeremy C. Wire to acquire the RHT and GEL claims, located four miles south of the Rawhide Mine in Mineral County, Nevada. Pursuant to the lease agreement, advance royalty payments were paid to Jeremy C. Wire in the amount of $10,000 each year during 2012, 2013, and 2014, $20,000 in year 2015 and $30,000 each year in 2016, 2017, and 2018 (total $140,000). All payments were made in shares. The property is subject to a 2% Net Smelter royalty, which can be purchased at any time for $1.0 million.

e) Troilus North, Quebec

The Troilus North Property consists of 209 contiguous claims totaling 11,309 ha located 160 km north of the town of Chibougamau in the province of Quebec.

<u>Acquisition of Troilus North from Chimata Gold Corp.</u>

On June 27, 2018, the Company and Chimata Gold Corp. ("Chimata") entered into a definitive option, earn-in, and joint venture agreement (the "Definitive Agreement") giving the Company the right to acquire up to a 100% interest in the Troilus North Property.

The terms of the Definitive Agreement provide that the Company will have the exclusive right and first option (the "First Option") to acquire an 80% interest in the Troilus North Property over a two-year period by issuance of 4.0 million shares of the capital of Emgold and by completion of C$750,000 in exploration expenditures to be incurred within two years of closing.

The share issuance schedule for First Option comprises payment of (i) 2,000,000 shares of the Company issued to Chimata on closing (June 27, 2018 - completed), (ii) 1,000,000 shares of the Company to be issued to Chimata at the first anniversary date, and (iii) 1,000,000 shares of the Company to be issued to Chimata at the second anniversary date.

Upon completing the First Option, the Company will have a further option (the "Second Option") to acquire an additional 20% interest (total 100% interest) in the Troilus North Property by issuing Chimata a further 1.0 million shares. Chimata would retain a 1% Net Smelter Royalty for Troilus North, half of which (i.e. 0.5%) could be purchased by the Company at any time for C$500,000.

The Company will be assigned Chimata's rights and obligation under the mining property acquisition agreement entered into by Chimata with Greg Exploration Inc. and other vendors (collectively referred to as the "Vendors") on September 18, 2017 along with the amending agreement to such acquisition agreement entered on March 19, 2018 (collectively referred to as the "Acquisition Agreement"), which shall include but not be limited to remaining payments which are left outstanding to the Vendors but also the right by the Company to purchase the NSR that is granted to the Vendors under the Acquisition Agreement in lieu and place of Chimata. The following are the remaining payments outstanding pursuant to the Acquisition Agreement between Chimata and Greg:

1) Fifty thousand dollars ($50,000) to be paid on or prior September 30, 2018; (Paid)
2) Fifty thousand dollars ($50,000) to be paid on or prior to March 31, 2019;
3) Fifty thousand dollars ($50,000) to be paid on or prior to September 30, 2019; and
4) Fifty thousand dollars ($50,000) to be paid on or prior to March 31, 2020.

Exploration Expenditures shall include, but not be limited to, claim fees, property taxes, advance claim or advance royalty payments or other holding costs including property payments to underlying claim owners, exploration expenditures, permitting expenditures, reclamation expenditures, and reasonable administrative costs. Excess expenditures, made in any given year, will be credited to future years of exploration of the Troilus North Property. Note that the payments outlined above to be paid to the Vendors as part of the Acquisition Agreement are therefore part of the C$750,000 in exploration expenditures required to complete the First Option.

The Company would be deemed to be the operator of the Troilus North Property during the First Option Period and retain full discretion as to the nature, extent, timing, and scope of all work and exploration expenditures to be undertaken on the Troilus North Property. Two years after the date of closing of the Troilus North Transaction or upon completion of the First Option requirements, whichever occurs first, and should the Company decide not to exercise the Second Option; Chimata and the Company would establish an industry standard Joint Venture Operating Agreement to operate a joint venture entity between them (the "Joint Venture Entity"). The Company will be the initial operator of the Joint Venture Operating Agreement and shall retain full discretion as to the nature, extent, timing, and scope of all work on the Troilus North Property. After the Joint Venture Operating Agreement takes effect, Chimata and the Company will be required to contribute to the Joint Venture Entity based on their respective ownership percentages of the Joint Venture Entity, or be diluted. After forming the Joint Venture Operating Agreement, if Chimata does not to contribute to the Joint Venture Entity and its interest in the Joint Venture Entity falls below ten percent (10%) ownership at any given time, Chimata's interest in the Property would be converted into a Net Smelter Interest of one percent (1.0%). The Company shall retain the option to purchase 50% of this NSR for C$500,000.

On August 13, 2018, Emgold and Chimata amended the Definitive Agreement. In exchange for C$200,000 in cash and the issuance of 1.0 million additional shares, Chimata agreed to reduce the exploration requirements from C$750,000 to C$300,000.

On August 11, 2018, Emgold completed an Assignment Agreement for the Troilus North Property with Chimata and Greg Exploration et al (the "Vendors"). Emgold made a C$200,000 payment to the Vendors to acquire the underlying rights to the Property from the Vendors and the ownership of the 209 claims were transferred into Emgold's name.

On November 15, 2018, Emgold announced it has received TSX Venture Exchange approval for the amendment to the Troilus North Definitive Agreement previously announced on August 13, 2018. Since optioning the Troilus North Property, Emgold had completed the C$300,000 requirement in exploration expenditures on the Property and had elected to move forward with acquisition of 100% ownership of the Property by accelerating the exercise of the First Option and Second Options together. As such, Emgold closed the 100% acquisition of the Property by completing the remaining requirements of the Definitive Agreement and Amendment, which required Emgold to issue 4.0 million additional common shares, make a cash payment of C$200,000 and grant a 1.0% NSR on the Property to Chimata. Following share issuances by Emgold made subsequent to the Transaction, Chimata owns an approximate 16.95% interest in Emgold. The transaction described between the Company and Chimata was not a non-arm's length transaction as Chimata's Chief Financial Officer, who is also acting as director of Emgold.

<u>Sale of Troilus North Property to Troilus Gold Corporation</u>

On November 28, 2018, the Company signed a Purchase and Sales Agreement to sell its Troilus North Property, to Troilus Gold Corporation (TSX: TLG) ("Troilus Gold") for 3,750,000 Troilus Gold common shares (the "TLG Shares") (note 6) and C$250,000 in cash (the "Transaction"). The gain on sale of property of $1,162,526 has been recorded for the year ended December 31, 2018 (2017-$Nil).

On December 5, 2018 (the "Effective Date"), Emgold held approximately 7.1% of Troilus Gold's issued and outstanding share capital. The Transaction is arm's length and there is no finder's fee is payable in connection with the Transaction. The TLG Shares shall be subject to a four-month statutory hold period from the date of closing. For a period of two-years from the date of closing, Troilus Gold will have a Right of First Refusal ("ROFR)" pursuant to which Troilus Gold shall have the opportunity to find a buyer at equal or superior terms in the event Emgold wishes to dispose of the shares (the "ROFR Period"). During the ROFR Period, provided Emgold holds no less than 5% of Troilus' issued and outstanding shares, Emgold shall have a participation right whereby Emgold shall have the right to maintain its proportional interest in Troilus, subject to certain conditions.

f) Stewart Property, British Columbia

The Company holds a 100% interest in the Stewart mineral claims, near Ymir British Columbia, totalling 5,789 hectares. The property is subject to a 3% underlying Net Smelter Royalty. Emgold retains the right to purchase 2% of the underlying Royalty by making a C$1.0 million payment to the underlying royalty holder. The property is held through completed assessment work to January 2023 without additional assessment work being required. The property has been impaired to $1 during the year ended December 31, 2015.

g) Rozan Property, British Columbia

The Company holds the rights to the Rozan mineral claims, near Ymir British Columbia, totalling 1,950 hectares. The property is subject to a 3% underlying Net Smelter Royalty. Emgold retains the right to purchase 2% of the underlying Royalty by making a C$1.0 million payment to the underlying royalty holder. The property is held through completed assessment work to March 2023 without additional assessment work being required. The property has been impaired to $1 during the year ended December 31, 2015.

9) Related party transactions

Related party transactions and balances not disclosed elsewhere in the consolidated financial statements are as follows:

RELATED PARTY DISCLOSURE

Name and Principal Position	Period[i]		Remuneration or fees[ii]
CEO and President - salary	**2018** 2017	**$** $	**121,250** 94,279
CEO and President – benefits and allowance	**2018** 2017	**$** $	**24,000** -
CEO and President – fair value of share-based compensation	**2018** 2017	**$** $	**38,112** -
CFO and director – management fees	**2018** 2017	**$** $	**60,000** -
CFO and Director – fair value of share-based compensation	**2018** 2017	**$** $	**15,245** -
Clearline CPA Corp., a company of which the ex-CFO is a director – management fees	**2018** 2017	**$** $	**28,941** 27,760
Clearline CPA Corp., a company of which the ex-CFO is a director – bookkeeping	**2018** 2017	**$** $	**8,981** 6,360
Corporate Secretary – service fee	**2018** 2017	**$** $	**13,894** -
Corporate Secretary – fair value of share-based compensation	**2018** 2017	**$** $	**5,082** -
Independent Director – fair value of share-based compensation	**2018** 2017	**$** $	**15,245** -
Director and audit committee member – director fees	**2018** 2017	**$** $	**32,266** -
Director and audit committee member – fair value of share-based compensation	**2018** 2017	**$** $	**15,245** -
Former Director – bonus	2018 2017	**$** $	**30,871** -

(i) For the years ended 31 December 2018 and 2017.
(ii) Amounts disclosed were paid or accrued to the related party.

As at December 31, 2018, one director and another ex-director loaned the Company C$5,000 each. These loans bear interest at 1% per month and are repayable on demand. C$5,000 has been repaid to the director in the final quarter of fiscal 2018.

During the year ended December 31, 2018, the CEO of the Company loaned the Company $45,000 (2017 $25,000). These loans bear interest at 1% per month and are repayable on demand. The full amounts, with interest, totalling $73,650 have been repaid in the final quarter of fiscal 2018.

During the year ended December 31, 2018, two directors of the Company participated in the non-flow through private placement with each subscribing 250,000 units at C$0.12/unit or C$30,000 subscription proceeds.

During the year ended December 31, 2018, the CEO of the Company made a subscription for 900,000 units at C$0.12/unit of non-flow through private placement in the amount of C$96,000.

The following table reports amounts included in due to related parties.

	31 December 2018	31 December 2017
David Watkinson, the CEO	**$ 330,262**	$ 222,786
Robert Rosner, the CFO	**20,000**	-
Clearline CPA, ex-CFO	**76,123**	31,414
Andrew MacRitchie, Director	**-**	4,704
Bill Witte, ex-Director	**4,911**	4,704
Sequoia Corporate Service, Corporate Secretary	**9,838**	-
	$ 441,134	$ 263,608

All related party balances are measured at their exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured, non-interest bearing and due on demand.

10) Share capital

a) Authorized

Unlimited - Number of common shares without par value.

Unlimited - Number of preference shares without par value.

b) Common shares, issued and fully paid

<u>During the year ended 31 December 2018:</u>

On June 27, 2018, the Company issued 2,000,000 common shares as earn-in option payment for Troilus North Property pursuant to the term of the First Option Agreement for Troilus North (Note 8(e)).

On June 27, 2018, the Company completed the first tranche of a flow-through private placement with an issuance of 1,128,333 units at C$0.15/unit. Each unit consists of one common share and one half of the share purchase warrants. In addition, 48,917 common shares and 48,917 warrants were issued to the finder of this financing.

On July 10, 2018, the Company completed the second tranche of a flow-through private placement with an issuance of 2,886,931 units at C$0.15/unit. Each unit consists of one common share and one half of the share purchase warrants. In addition, 61,847 common shares and 61,847 share purchase warrants were issued to the finder of this financing.

On August 10, 2018, the Company completed the first tranche of a non-flow-through private placement with an issuance of 2,584,999 units at C$0.12/unit. Each unit consists of one common share and one share purchase warrants. In addition, 10,500 common shares and 10,500 warrants were issued to the finder of this financing.

On August 15, 2018, the Company completed the third tranche of a flow-through private placement with an issuance of 553,500 units at C$0.15/unit. Each unit consists of one common share and one half of the share purchase warrants. In addition, 10,000 common shares and 38,280 share purchase warrants were issued to two finders of this financing.

On August 28, 2018, the Company completed the second tranche of a non-flow-through private placement with an issuance of 3,100,000 units at C$0.12/unit. Each unit consists of one common share and one share purchase warrants.

On August 31, 2018, the Company completed the fourth tranche of a flow-through private placement with an issuance of 280,000 units at C$0.15/unit. Each unit consists of one common share and one half of the share purchase warrants. In addition, 4,000 common shares and 4,000 share purchase warrants were issued to the finder of this financing.

On October 4, 2018, the Company completed the first tranche of a non-flow-through private placement with an issuance of 900,000 units at C$0.12/unit. Each unit consists of one common share and one share purchase warrants.

On October 9, 2018, the Company issued 5,000,000 common shares related to the acquisition of 100% of the mineral claims of Gold Arrow property (Note 8(a)).

On November 14, 2018, the Company issued 4,000,000 common shares as the remaining consideration for acquiring 100% of the Troilus North Property (Note 8(e)).

On December 20, 2018, the Company completed the first tranche of a flow-through private placement with an issuance of 4,424,615 units at C$0.13/unit. Each unit consists of one common share and one half of the share purchase warrants. In addition, 123,200 share purchase warrants were issued to the finder of this financing.

As at December 31, 2018, $16,310 or C$22,250 subscription receivable was outstanding related to the two closed tranches during the quarter ended September 30, 2018.

<u>During the year ended 31 December 2017:</u>

On 26 January 2017, the Company issued 70,833 common shares as advance royalty payment for its mineral property options.

c) Stock options

The Company has a rolling stock option plan for its directors and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 10% of the issued and outstanding common shares.

Stock option activities during the years ended December 31, 2018 and 2017 are summarized as follows:

STOCK OPTION ACTIVITY	**31 December 2018**		**Weighted average exercise Price (CDN$)**	31 December 2017		Weighted average exercise Price (CDN$)
Options Outstanding and Exercisable						
Balance – beginning of year	**265,000**	**$**	**1.00**	500,000	**$**	**1.20**
Granted	**3,000,000**		**0.15**	-		-
Expired/Forfeited	**(265,000)**		**(1.00)**	(235,000)		**(1.50)**
Balance – end of year	**3,000,000**	**$**	**0.15**	265,000	$	1.00

Details of stock options outstanding as at 31 December 2018 are as follows:

Expiry Date	Exercise Price (CDN$)		**31 December 2018**
19 November 2023	$	0.15	**3,000,000**

265,000 stock options have expired (2017 – 200,000 options expired) during the year ended 31 December 2018, and no option were forfeited (2017 – 35,000 options forfeited).

Share-based compensation relating to options granted and vested during the year ended December 31, 2018 using the Black-Scholes option pricing model was $152,446 (2017 - $Nil), which was recorded as reserves on the consolidated statements of financial position and as share-based compensation expense on the consolidated statement of comprehensive loss. The associated share-based compensation expense for the options granted during the year was calculated based on the following weighted average assumptions: Risk free-interest rate – 2.28%; Dividend yield – 0.00%; Expected volatility – 192.4%; Expected life – 5.00 years.

d) Warrants

Share purchase warrant activity during the years ended December 31, 2018 and 2017 is summarized as follows:

SHARE PURCHASE WARRANT ACTIVITY	**31 December 2018**		**Weighted average exercise Price (CDN$)**	31 December 2017		Weighted average exercise Price (CDN$)
Balance – beginning of year	**-**	**$**	**-**	-	**$**	**-**
Granted	**11,508,431**		**0.20**	-		-
Balance – end of year	**11,508,431**	**$**	**0.20**	-	$	-

Details of share purchase warrants outstanding as at 31 December 2018 are as follows:

Expiry Date		Exercise Price (CDN$)	**31 December 2018**	31 December 2017
31 December 2020	$	0.25	**123,200**	-
20 December 2020	$	0.25	**2,212,308**	
04 October 2020	$	0.17	**900,000**	-
31 August 2020	$	0.25	**144,000**	-
28 August 2020	$	0.17	**3,100,000**	-
15 August 2020	$	0.25	**315,030**	-
10 August 2020	$	0.17	**2,595,499**	-
10 August 2020	$	0.25	**61,847**	-
10 July 2020	$	0.25	**1,443,464**	-
27 June 2020	$	0.25	**613,083**	-
			11,508,431	-

Movement related to the warrant liability, for warrants priced in Canadian dollars, is as follows:

	31 December 2018		**31 December 2017**	
WARRANT LIABILITY (WARRANTS PRICED IN CANADIAN DOLLAR)	**Number of Warrants**	**Fair Value**	Number of Warrants	Fair Value
Balance – beginning of year	**-**	**$ -**	-	$ -
Issued	**11,221,687**	**780,919**	-	-
Fair market value adjustment gain	**-**	**(409,273)**	-	-
Balance – end of year	**11,221,687**	**$ 371,646**	-	$ -

During the year ended 31 December 2018, the Company recorded a warrant liability in the amount of $780,919 (2017 - $Nil). The warrants were valued on the date of grant using the Black-Scholes option pricing model, with the following assumptions: weighted average risk free rate of 1.77% - 2.30%, volatility factors of 123% - 139% and an expected life of 24 months.

The warrants were subsequently re-valued on the Company's reporting dates using the Black-Scholes option pricing model, with the following assumptions: weighted average risk free rate of 1.92%, volatility factors of 123% - 131% and an expected life of 17 months – 24 months. An unrealized gain on warrant liability of $409,273 has been recorded for the years ended 31 December 2018 (2017 - $Nil). As at 31 December 2018, the Company recorded a warrant liability in the amount of $371,646 (2017 - $Nil).

11) Flow-through share premium liability

A summary of the changes in the Company's flow-through share premium liability was as follows:

Balance, December 31, 2017	**$**	**–**
Flow-through share premium liability on issuance		21,631
Settlement of flow-through share premium liability pursuant to incurring qualified expenditures		–
Balance, December 31, 2018	**$**	**21,631**

Expenditures totaling CDN$1,302,515 were renounced effective December 31, 2018. CDN$422,778 eligible expenditures were spent during the year ended December 31, 2018 and CDN$879,737 were unspent as at December 31, 2018. The remaining unspent expenditures will be incurred prior to December 31, 2019.

12) Capital disclosures

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

Management reviews its capital management approach on an on-going basis and believes that this approach is reasonable and appropriate relative to the size of the Company.

The Company is in the business of mineral exploration and has no source of operating revenue. Operations are financed through the issuance of capital stock or liability instruments, or through the sale of property, plant, and equipment. Capital raised is held in cash in an interest-bearing bank account until such time as it is required to pay operating expenses or resource property costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities. The Company's objectives have not changed during the years ended 31 December 2018 and 2017.

13) Segmented disclosure

The Company operates in one operating segment, which is acquisition, and exploration of mineral properties. The following provides segmented disclosure on the non-current assets:

SEGMENTED DISCLOSURE (ROUNDED TO 000'S)	Canada	United States	Total
31 December 2018			
Long-term Assets			
Reclamation bonds	**10,000**	**7,000**	**17,000**
Exploration and evaluation assets	**488,000**	**644,000**	**1,132,000**
Deposit	**5,000**	**-**	**5,000**
31 December 2017			
Long-term Assets			
Exploration and evaluation assets	-	544,000	544,000
Property deposit	-	111,000	111,000
Reclamation bonds	10,000	-	10,000

14) Commitment

Employment contract with the President and CEO

On September 12, 2018, the Company entered into an employment contract with the President and CEO of the Company to carry on the duties and exercise powers of the President and CEO of the Company under the direction and control of the Board of Directors. The base remuneration is $12,500 monthly or $150,000 annually. Additional monthly allowance is $2,500. Bonus up to maximum one-month salary is available. The term of employment is for indefinite period subject to standard termination clause.

Consulting agreement with the CFO

On July 16, 2018, the Company entered into a consulting agreement with the CFO of the Company to carry out the CFO duties, provide assistance in completion of financings by the Company and introduce investment opportunities of potential interest to the Company. The remuneration is $10,000 monthly with a 24-months term renewal for a further 12 months.

15) Income taxes

The following table reconciles the expected income taxes (recovery) at the Canadian statutory income tax rates to the amounts recognized in the statements of financial position as at 31 December 2018 and 2017. The presentation of the prior year income tax note has been updated to conform with the current year presentation.

	31 December 2018	31 December 2017
Net Income and comprehensive Income for the year	$ 274,223	$ 314,338
Statutory income tax rate	27.00%	26.00%
Deferred tax	74,040	81,728
Differences resulting from:		
Non-deductible (non-taxable) items	(58,867)	5,531
Change in estimates	(23,630)	(22,138)
Change in deferred tax asset not recognized and others	(79,642)	(65,121)
Tax effect of flow-through share renunciation	88,099	-
Provision for income taxes	$ -	$ -

The statutory tax rate increased from 26% to 27% due to an increase in the BC corporate tax rate on January 1, 2018.

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their corresponding values for tax purposes.

Deferred tax asset (liabilities) at December 31, 2018 and 2017 are comprised of the following:

	31 December 2018	31 December 2017
Non-capital loss carryforwards	$ 51,954	$ -
Marketable securities	(51,954)	-
Deferred tax asset (liability)	$ -	$ -

The unrecognized deductible temporary differences are as follows:

	31 December 2018	31 December 2017
Canada		
Non-capital loss carryforwards	$ 7,051,661	$ 7,032,919
Exploration and evaluation assets	8,635,180	10,485,844
Net capital losses	14,467	15,731
Property and equipment	10,627	11,556
Investment tax credit	53,763	58,463
Financing cost	156,812	321
Unrecognized deductible temporary differences	$ 15,922,510	17,604,834
USA		
Net operating loss carryforwards	$ 25,725,841	$ 25,290,182
Property and equipment	81,315	84,433
Mineral property	835,691	1,269,948
Unrecognized deductible temporary differences	$ 26,642,847	$ 26,644,563

The Company has non-capital loss carryforwards of $7,051,661 (2017 – $ 7,032,919) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Year of Expiry	Taxable Loss
2026	759,868
2027	1,350,961
2028	853,451
2029	822,975
2030	531,011
2031	584,538
2032	782,815
2033	162,697
2035	106,451
2036	60,813
2037	67,197
2038	968,884
Total	$ 7,051,661

In addition, the Company has capital losses of approximately $39,471, which may be carried forward indefinitely to reduce future capital gains.

The Company has net operating loss carryforwards of $25,725,841 (2017- $25,290,182) which may be carried forward to apply against future year income tax for US tax purposes, as follows:

Year of Expiry	Taxable Loss
2019	363,828
2020	266,513
2021	153,625
2022	313,643
2023	254,921
2024	1,633,085
2025	1,056,097
2026	1,063,847
2027	1,441,550
2028	1,999,239
2029	1,334,762
2030	1,700,442
2031	1,721,728
2032	1,336,369
2033	1,317,217
2034	1,271,214
2035	1,017,605
2036	6,572,916
2037	167,646
No expiry	739,594
Total	$ 25,725,841

16) Subsequent events

a) Sale of last remaining California property associated with the Idaho-Maryland Project

Emgold's last remaining property in Grass Valley was sold in a tax auction by Nevada County. Refer to note 9 for details.

b) Acquisition of Casa-South Property, Quebec

On March 20, 2019, the Company completed the acquisition of an option to acquire up to a 91% interest in the Casa South Property, QC (the "Property") (the "Transaction"). The Transaction is an arms-length transaction. As of the date hereof, the Company has completed the first option payment of $75,000 to Vendors as required by the Option Agreement entered into between the Company and Vendors, and initiating the four-year Option Period. Concurrently, the Company has issued this day to the Assignor an amount of 807,692 common shares from its share capital representing C$52,500, at a share price of C$0.065.

c) Completion of non-flow-through private placements

On March 8, 2019, the Company completed a first tranche of a non-brokered private placement (the “Financing”) by the issuance of 5,447,900 units (each a “Unit”) issued as a price of C$0.12 per Unit for gross proceeds of C$653,748. Each Unit consists of one (1) common share (a “Share”) of the Company and one (1) non-transferable share purchase warrant (a “Warrant”). Each Warrant will entitle the holder to purchase, for a period of 24 months from the date of issuance, one (1) additional Share of the Company at a price of C$0.17 per Share (each a “Warrant Share”). The Shares to be issued in connection with the Financing, including the Shares to be issued upon exercise of the Warrants, will be subject to a minimum statutory hold period of four months. The Financing is subject to TSX Venture Exchange (the “Exchange”) approval. No Finder’s Fees were paid in connection with this tranche of Financing.

On March 28, 2019, the Company completed a second tranche of the Financing by the issuance of 650,000 Units issued as a price of C$0.12 per Unit for gross proceeds of C$78,000. Together with the first tranche of the Financing, closed on March 8, 2019, the Company has raised aggregate gross proceeds of CDN$731,748.

On April 26, 2019, the Company completed a third and final tranche of the Financing by the issuance of 1,808,817 Unit issued as a price of CDN$0.12 per Unit for gross proceeds of CDN$217,058.04. Together with the first and second tranche of the Financing, closed on March 8 and March 28, 2019 respectively, the Company has raised aggregate gross proceeds of CDN$948,806. Finders’ fees (the “Finders’ Fees”) of $10,728.00 were paid and 98,800 warrants (the “Finders’ Warrants”) were issued in conjunction with this tranche of the Financing. As a correction to Emgold’s press release dated March 28, 2019, Finder’s Fees of $6,240 were paid and 52,000 Finders’ Warrants were issued in conjunction with the second tranche of the Financing. These combined Finders’ Warrants will entitle the holder to purchase, for a period of 24 months from the date of issuance, 150,800 shares of the Company at a price of $0.17 per Share. Finder’s Warrants will be subject to a minimum statutory hold period of four months.

Proceeds of the Financing will be used for general working capital purposes, property acquisition, and for exploration of Emgold’s properties in Quebec and Nevada.

d) Completion of flow-through private placements

On April 5, 2018, Emgold completed the first tranche of the FT private placement with the issuance of 1,275,000 units (“FT Units”) issued at a price of CDN$0.20 per FT Unit for total gross proceeds of CDN$255,000. Each FT Unit Each FT Unit will consist of one common share issued as a flow-through share (a “FT Share”) of the Company and one half non-transferable share purchase warrant (a "FT Warrant"). Each full FT Warrant will entitle the holder to purchase, for a period of 12 months from the date of issuance, one additional common share of the Company at a price of CDN$0.25 per share (the “FT Financing”). All FT Shares issued in conjunction with the FT Financing and common shares to be issued upon exercise of the FT Warrants will be subject to a statutory four month hold from the date of issuance. Finders’ Fees of $16,000 were paid and 80,000 warrants (the “Finders’ Warrants”) were issued in conjunction with this tranche of the FT Financing. The Finders’ Warrants will entitle the holder to purchase, for a period of 24 months from the date of issuance, 80,000 additional common shares of the Company at a price of $0.20 per common share.