# BLACKHEATH RESOURCES INC.

## FINANCIAL STATEMENTS

## 31 DECEMBER 2017 and 2016

April 25, 2018

## Independent Auditor's Report

**To the Shareholders of Blackheath Resources Inc.**

We have audited the accompanying financial statements of Blackheath Resources Inc., which comprise the balance sheets as at December 31, 2017 and December 31, 2016 and the statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

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

**Auditor's responsibility**

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

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

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

*PricewaterhouseCoopers LLP*
*PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7*
*T: +1 604 806 7000, F: +1 604 806 7806*

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

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

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants**

**BLACKHEATH RESOURCES INC.**

**BALANCE SHEETS**

**AS AT 31 DECEMBER**

*Canadian Dollars*

| **ASSETS** | 2017 | 2016 |
| --- | --- | --- |
| **Current** | | |
| Cash | $ 50,912 | $ 119,010 |
| Receivables | 59,404 | 36,879 |
| Prepaid expenses | 9,709 | 9,709 |
| | 120,025 | 165,598 |
| **Performance deposits** *(Notes 6 and 12)* | 142,994 | 170,028 |
| **Equipment** | 3,769 | 5,326 |
| | $ 266,788 | $ 340,952 |

| **LIABILITIES** | | |
| --- | --- | --- |
| **Current** | | |
| Accounts payable and accrued liabilities *(Note 8)* | $ 142,890 | $ 135,180 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share capital** *(Note 4)* | 7,963,780 | 7,619,137 |
| **Contributed surplus** *(Note 4)* | 667,166 | 665,478 |
| **Deficit** | (8,507,048) | (8,078,843) |
| | 123,898 | 205,772 |
| | $ 266,788 | $ 340,952 |

**Nature of operations and going concern** *(Note 1)*
**Commitments** *(Note 7)*
**Subsequent event** *(Note 12)*

ON BEHALF OF THE BOARD:

___*"James Robertson"*_____________, Director

___*"Kerry Spong"*_________________, Director

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

**BLACKHEATH RESOURCES INC.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

**FOR THE YEARS ENDED 31 DECEMBER**

*Canadian Dollars*

| | Number of Shares | | Share Capital *(Note 4)* | | Contributed Surplus *(Notes 4,5)* | | Deficit | | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance – 31 December 2015** | 35,167,475 | $ | 6,986,749 | $ | 588,135 | $ | (7,310,944) | $ | 263,940 |
| Private placement - units | 7,000,000 | | 700,000 | | - | | - | | 700,000 |
| Finders' shares issued | 28,700 | | 3,731 | | - | | - | | 3,731 |
| Finders' warrants issued | - | | (12,038) | | 12,038 | | - | | - |
| Share issuance costs | - | | (59,305) | | - | | - | | (59,305) |
| Share-based compensation | - | | - | | 65,305 | | - | | 65,305 |
| Loss and comprehensive loss for the year | - | | - | | - | | (767,899) | | (767,899) |
| **Balance – 31 December 2016** | 42,196,175 | | 7,619,137 | | 665,478 | | (8,078,843) | | 205,772 |
| Private placement - units | 7,240,000 | | 362,000 | | - | | - | | 362,000 |
| Finders' warrants issued | - | | (1,688) | | 1,688 | | - | | - |
| Share issuance costs | - | | (15,669) | | - | | - | | (15,669) |
| Loss and comprehensive loss for the year | - | | - | | - | | (428,205) | | (428,205) |
| **Balance – 31 December 2017** | 49,436,175 | $ | 7,963,780 | $ | 667,166 | $ | (8,507,048) | $ | 123,898 |

**BLACKHEATH RESOURCES INC.**

**STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

**FOR THE YEARS ENDED 31 DECEMBER**

*Canadian Dollars*

| | 2017 | 2016 |
|---|---|---|
| **Expenses** | | |
| Accounting and audit | $ 20,176 | $ 21,076 |
| Consulting | - | 19,674 |
| Depreciation | 1,557 | 1,913 |
| Exploration and evaluation *(Note 6)* | 340,249 | 308,509 |
| Foreign exchange (gain) loss | (7,281) | 12,198 |
| Legal fees | 7,727 | 4,417 |
| Management and director fees *(Note 8)* | - | 252,000 |
| Office and general | 20,843 | 23,244 |
| Promotion and investor relations | 1,988 | 10,196 |
| Rent and office services | 21,416 | 24,891 |
| Share-based compensation *(Note 5)* | - | 65,305 |
| Shareholder communications | 2,068 | 3,667 |
| Stock exchange and filing | 8,480 | 9,402 |
| Transfer agent | 6,652 | 8,168 |
| Travel and accommodation | 4,330 | 11,239 |
| **Loss before other item** | 428,205 | 775,899 |
| Gain on forgiveness of debt *(Note 8)* | - | (8,000) |
| **Loss and comprehensive loss for the year** | $ 428,205 | $ 767,899 |
| **Loss per share – basic and diluted** | $ 0.01 | $ 0.02 |
| **Weighted-average number of shares outstanding – basic and diluted** | 45,469,052 | 38,962,395 |

**BLACKHEATH RESOURCES INC.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED 31 DECEMBER**

*Canadian Dollars*

| **CASH RESOURCES PROVIDED BY (USED IN)** | | 2017 | | 2016 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss for the year | $ | (428,205) | $ | (767,899) |
| Items not involving cash: | | | | |
| Share-based compensation | | - | | 65,305 |
| Unrealized foreign exchange (gain) loss | | (9,125) | | 10,320 |
| Write-off of performance deposit | | 22,131 | | - |
| Gain on forgiveness of debt | | - | | (8,000) |
| Depreciation | | 1,557 | | 1,913 |
| Changes in non-cash working capital | | | | |
| Receivables | | (22,525) | | 826 |
| Prepaid expenses | | - | | 18,482 |
| Accounts payable and accrued liabilities | | 7,710 | | (31,942) |
| | | (428,457) | | (710,995) |
| **Investing activities** | | | | |
| Equipment | | - | | (1,575) |
| Performance deposits | | 14,028 | | - |
| | | 14,028 | | (1,575) |
| **Financing activities** | | | | |
| Shares/units issued for cash | | 362,000 | | 700,000 |
| Share issuance costs | | (15,669) | | (55,574) |
| | | 346,331 | | 644,426 |
| **Change in cash position for the year** | | (68,098) | | (68,144) |
| Cash position - beginning of year | | 119,010 | | 187,154 |
| **Cash position - end of year** | $ | 50,912 | $ | 119,010 |

| **Supplemental schedule of non-cash financing transactions** | | | | |
|---|---|---|---|---|
| Shares issued as finders' fees | $ | - | $ | 3,731 |
| Warrants issued as finders' fees | $ | 1,688 | $ | 12,038 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Blackheath Resources Inc. (the "Company") is a mineral exploration company and is considered to be in the exploration stage with respect to its mineral property interests in Portugal. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The Company's continuing operation is dependent upon the determination of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production. The Company is incorporated under the British Columbia Business Corporations Act and its registered office is located at 10th Floor – 595 Howe Street, Vancouver, British Columbia, Canada.

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Several adverse conditions and material uncertainties cast significant doubt upon the validity of this assumption. The Company has no source of operating revenue, is unable to self-finance operations, and has significant cash requirements to maintain its mineral interests *(Note 6)* and overhead requirements.

The Company has incurred operating losses since inception. As at 31 December 2017, the Company had an accumulated deficit of $8,507,048 (2016 - $8,078,843) and a working capital deficiency of $22,865 (2016 – working capital of $30,418). The Company's working capital resources are insufficient to meet its overhead requirements and exploration programmes for the ensuing twelve months.

While the Company has been successful in the past at raising funds, there can be no assurance that it will be able to do so in the future or that such funding will be completed on favourable terms. If for any reason the Company is unable to secure the additional sources of financing and continue as a going concern, then this could result in adjustments to the amounts and classifications of assets and liabilities in the Company's financial statements; such adjustments could be material.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Statement of compliance

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

The Company's board of directors approved these financial statements for issue on 25 April 2018.

### Basis of measurement

These financial statements have been prepared under the historical cost convention.

### Cash

Cash comprises cash balances held in current operating bank accounts that are subject to an insignificant risk of change in value, having original terms to maturity of 90 days or less when acquired.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

### Financial instruments

All financial instruments are designated to one of five categories: fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. Financial instruments designated as fair-value-through-profit-or-loss and derivatives are measured at fair value. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income.

The Company's financial assets and liabilities are classified in accordance with a fair value hierarchy, which establishes three levels to classify the inputs to valuation techniques used to measure fair value as follows: Level 1 – valuation based on unadjusted quoted prices in active markets for identical assets or liabilities; Level 2 – valuation based on inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and Level 3 – valuation based on inputs that are not based on observable market data.

Financial assets are reviewed for impairment at the end of each reporting period for objective evidence indicating that changes in the market, economic, or legal environment has had a negative effect on the estimated future cash flows of the asset or group of assets.

### Equipment

Equipment includes computers, furniture and equipment used at the Company's corporate offices. These assets are recorded at cost and depreciated over their estimated useful life using the declining balance method at rates ranging from 20% to 45% per annum. Equipment is reviewed for impairment if there is an indication that the carrying amount may not be recoverable.

### Exploration and evaluation

The Company is currently in the exploration stage with its mineral interests. Exploration and evaluation costs include the costs of acquiring licenses, option payments, and costs incurred to explore and evaluate properties.

Exploration and evaluation expenditures are expensed in the period they are incurred. 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 that such costs will be recoverable through 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 under option agreements are not recorded; such 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.

### Foreign currency translation

The Company considers its functional currency to be the Canadian dollar. Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the reporting date. Translation gains and losses are reflected in profit or loss for the period.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

### Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is estimated using a discounted cash flow measurement model using a risk-free discount rate and is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at 31 December 2017.

### Income taxes

Current tax expense is calculated using income tax rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is accounted for using the liability method, which recognizes differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences. Deferred tax assets are recognized only to the extent that sufficient taxable profits will be available against which the asset can be applied.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability will be settled or the asset realized, based on income tax rates and income tax laws that have been enacted or substantively enacted by the balance sheet date. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in the period that the substantive enactment occurs. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### Share-based compensation

The Company uses the fair value method whereby it recognizes share-based compensation costs over the vesting periods for the granting of all stock options and direct awards of stock. Any consideration paid by the option holders to purchase shares is credited to share capital. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of its share-based compensation. The fair value of each grant is measured at the grant date and where vesting is immediate, share-based compensation is recognized at the grant date. Where future vesting provisions exist, each tranche is recognized on a graded-vesting basis over the vesting period. At each reporting period-end, the amount recognized as an expense is adjusted to reflect the actual number of options that are expected to vest.

### Share capital

The proceeds from the exercise of stock options or warrants together with amounts previously recorded on the grant date or issue date are recorded as share capital. Share capital issued for non-monetary consideration is recorded at the fair value of the non-monetary consideration received, or at the fair value of the shares issued if the fair value of the non-monetary consideration cannot be measured reliably, on the date of issue. The Company uses the residual value approach in respect of unit offerings, whereby the amount assigned to the warrant is the excess of the unit price over the trading price of the Company's shares at the date of issuance, if any, to a maximum of the fair value of the warrant determined using the Black-Scholes Option-Pricing Model.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

### Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect is calculated on the use of the proceeds that would be obtained upon exercise of in-the-money options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic loss per share is calculated using the weighted-average number of shares outstanding during the period. Unexercised stock options have not been included in the computation of diluted loss per share as their effect would be anti-dilutive.

### Significant accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses during the period. Actual amounts could differ from these estimates.

The Company's most significant accounting judgements relate to the probability of recognition of the benefit of deferred tax assets and the determination of assumptions used to estimate share-based compensation. The Company has not recognized its deferred tax assets as management does not currently consider it probable that these assets will be recovered. The Company uses the Black-Scholes Option-Pricing Model to estimate the fair value of stock options, which requires the input of subjective assumptions including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these assumptions can materially affect the fair value estimate. Share-based compensation is a non-cash expense item that affects profit or loss and shareholders' equity, and has no effect upon the Company's assets or liabilities.

### New accounting pronouncements

IFRS 9 – *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 – *Financial Instruments,* bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's initiative to replace IAS 39 Financial Instruments – *Recognition and Measurement*. The effective date of IFRS 9 is for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company has completed an analysis of IFRS 9 and does not expect any significant effect on its consolidated financial statements as a result of adopting this standard.

IFRS 16 – *Leases*

In January 2016, the IASB issued IFRS 16 – *Leases*, according to which all leases will be presented on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense will be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after 1 January 2019. The Company has not yet assessed the impact on its financial statements of adopting this standard.

## 3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

| | | 2017 | | 2016 |
|---|---|---|---|---|
| **Cash** | | | | |
| Cash on deposit | $ | 50,912 | $ | 119,010 |
| **Receivables** | | | | |
| Value-added taxes | $ | 59,404 | $ | 36,879 |
| **Performance deposits** | $ | 142,994 | $ | 170,028 |
| **Accounts payable and accrued liabilities** | | | | |
| Accounts payable | $ | 15,688 | $ | 23,382 |
| Accrued audit, legal, exploration, and other | | 127,202 | | 111,798 |
| | $ | 142,890 | $ | 135,180 |

The Company has designated its financial instruments as follows:

| Financial Asset or Liability | Designation |
|---|---|
| Cash | Loans and receivables |
| Receivables | Loans and receivables |
| Performance deposits | Loans and receivables |
| Accounts payable | Other financial liabilities |

The carrying values of cash and receivables approximate their fair values due to the short-term nature of these instruments. The carrying value of accounts payable exceeds its fair value considering the current credit rating of the Company. Performance deposits are non-interest bearing and refundable primarily upon the Company meeting its annual property expenditure requirements, which vary depending on the required expenditure levels and exploration progress on each of the Company's projects. Management considers the carrying value of performance deposits to approximate their fair value due to their relatively short-term nature. The Company has no speculative financial instruments, derivatives, forward contracts, or hedges. Except as described below, it is management's opinion that the Company is not exposed to significant credit, market, or liquidity risks in respect of these financial instruments.

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's Canadian cash is held through a major Canadian financial institution with a high investment grade rating. The Company also maintains cash denominated in euros that is held through a major bank in Portugal, which also has a high investment grade rating. The Company is carrying value-added taxes receivable of $58,934, which is refundable by the government of Portugal. To date, the Company has not experienced any delays in receiving such refunds. The carrying value of the Company's cash, receivables, and performance deposits totalling $253,310 represents the Company's maximum exposure to credit risk as at 31 December 2017.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. The significant market risk to which the Company is exposed is currency risk. As at 31 December 2017, the Company held the equivalent of $2,273 in cash, $58,934 in receivables, $142,994 in performance deposits, and $74,399 in accounts payable, all of which are denominated in euros and therefore subject to currency risk due to fluctuations in the exchange rate with the Canadian dollar.

## 3. FINANCIAL INSTRUMENTS - *continued*

Due to the size and nature of these balances and the volatility of the exchange rate between the dollar and the euro, such currency risk could result in future gains or losses to the Company. During 2017, the euro strengthened against the Canadian dollar by approximately 6.2%. Based on the Company's euro denominated monetary assets and liabilities as at 31 December 2017, each 5% fluctuation in the exchange rate would result in a gain or loss of approximately $6,490. Except for the performance deposits, these balances turn over regularly and therefore prolonged exposure to currency risk is considered to be minimal. The Company maintains only the minimum amount of such balances required to maintain its ongoing exploration projects in Portugal and does not employ any forward contracts or hedges to manage its currency risk. Due to the size of these balances, the offsetting nature of the accounts payable balance, and the short-term nature of these items, the Company does not consider its currency risk in respect of these financial instruments to be significant.

The Company is subject to liquidity risk such that it may not be able to meets its obligations under its financial instruments as they fall due *(Note 1).* The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business.

## 4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

| | Number of Shares | Share Capital | Contributed Surplus |
|---|---|---|---|
| Authorized | | | |
| Unlimited common voting shares, without par value | | | |
| Issued and outstanding | | | |
| Balance – 31 December 2015 | 35,167,475 | $ 6,986,749 | $ 588,135 |
| Private placement - units | 7,000,000 | 700,000 | - |
| Finders' shares issued | 28,700 | 3,731 | - |
| Finders' warrants issued | - | (12,038) | 12,038 |
| Share issuance costs | - | (59,305) | - |
| Share-based compensation | - | - | 65,305 |
| Balance – 31 December 2016 | 42,196,175 | 7,619,137 | 665,478 |
| Private placement - units | 7,240,000 | 362,000 | - |
| Finders' warrants issued | - | (1,688) | 1,688 |
| Share issuance costs | - | (15,669) | - |
| Balance – 31 December 2017 | 49,436,175 | $ 7,963,780 | $ 667,166 |

**Private placements**

In June 2016, the Company completed a non-brokered private placement of 7,000,000 units at a price of $0.10 per unit for gross proceeds of $700,000. Each unit comprised one common share of the Company and one non-transferable share purchase warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $0.18 per share for a period of 24 months after closing. The Company also issued 28,700 shares to finders with a fair value of $3,731. In addition, the Company issued 358,750 warrants to finders (the "Finders' Warrants") with each Finder's Warrant entitling the holder to purchase one common share of the Company at a price of $0.18 for a period of 24 months.

## 4. SHARE CAPITAL AND CONTRIBUTED SURPLUS - *continued*

### Private placements

The fair value of the Finders' Warrants was estimated at $12,038 using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions: risk-free interest rate of 0.53%, expected dividend yield of 0.00%, estimated stock price volatility of 66.72%, and expected option life of two years. Qualifying persons acting as finders in connection with the placement received a cash commission of up to 7% totalling $33,005. The Company also paid legal and filing fees totalling $22,569 in respect of the placement.

In July 2017, the Company completed a non-brokered private placement of 7,240,000 units at a price of $0.05 per unit for gross proceeds of $362,000. Each unit comprised one common share of the Company and one non-transferable share purchase warrant entitling the holder to purchase one additional common share of the Company at an exercise price of $0.10 per share for a period of 36 months after closing. The Company also issued 114,000 Finders' Warrants entitling the holder to purchase one common share of the Company at a price of $0.10 for a period of 36 months. The fair value of the Finders' Warrants was estimated at $1,688 using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions: risk-free interest rate of 1.31%, expected dividend yield of 0.00%, estimated stock price volatility of 64.40%, and expected option life of three years. Qualifying persons acting as finders in connection with the placement received a cash commission of 6% totalling $5,700. The Company also paid legal and filing fees totalling $9,969 in respect of the placement.

## 5. STOCK OPTIONS AND WARRANTS

The Company has an incentive stock option plan that complies with the rules set forth by the TSX Venture Exchange. Stock option and warrant activity is summarized as follows:

| | Warrants | | | Options | | |
|---|---|---|---|---|---|---|
| | Number | | Weighted Average Exercise Price | Number | | Weighted Average Exercise Price |
| Outstanding – 31 December 2015 | 15,932,533 | $ | 0.36 | 3,590,000 | $ | 0.20 |
| Options granted | | | | 1,080,000 | $ | 0.13 |
| Warrants issued | 7,358,750 | $ | 0.18 | | | |
| Expired | (9,522,710) | $ | 0.43 | (1,040,000) | $ | 0.35 |
| Outstanding – 31 December 2016 | 13,768,573 | $ | 0.21 | 3,630,000 | $ | 0.14 |
| Warrants issued | 7,354,000 | $ | 0.10 | | | |
| Expired | (6,409,823) | $ | 0.25 | (160,000) | $ | 0.35 |
| Outstanding – 31 December 2017 | 14,712,750 | $ | 0.14 | 3,470,000 | $ | 0.13 |
| Exercisable – 31 December 2017 | 14,712,750 | $ | 0.146 | 3,470,000 | $ | 0.13 |

## 5. STOCK OPTIONS AND WARRANTS *- continued*

At 31 December 2017, the Company had outstanding stock options and warrants as follows:

| | Number of Shares | Exercise Price | Expiry Date |
|---|---|---|---|
| **Options** | 2,390,000 | $ 0.13 | 30 December 2020 |
| | 360,000 | $ 0.13 | 5 July 2021 |
| | 720,000 | $ 0.13 | 26 July 2021 |
| | 3,470,000 | | |
| **Warrants** | 4,148,750 | $ 0.18 | 7 June 2018 |
| | 3,210,000 | $ 0.18 | 29 June 2018 |
| | 7,354,000 | $ 0.10 | 19 July 2020 |
| | 14,712,750 | | |

The outstanding options have a weighted average remaining life of 3.17 years; the outstanding warrants have a remaining life of 1.50 years.

### Share-based compensation

The following table presents information relating to incentive stock options granted to directors, officers, and consultants of the Company during the years ended 31 December:

| | 2017 | 2016 |
|---|---|---|
| Total options granted | - | 1,080,000 |
| Average exercise price | $ - | $ 0.13 |
| Estimated fair value of options granted | $ - | $ 65,305 |
| Estimated fair value per option | $ - | $ 0.06 |

The fair value of the share-based compensation to be recognized in the accounts has been estimated using the Black-Scholes Option-Pricing Model with the following weighted-average assumptions:

| | 2017 | 2016 |
|---|---|---|
| Risk-free interest rate | - | 0.63% |
| Expected dividend yield | - | 0.00% |
| Expected stock price volatility | - | 65% |
| Expected forfeiture rate | - | 0.00% |
| Expected option life in years | - | 5.00 |

The Company has recorded share-based compensation for the years as follows:

| | 2017 | 2016 |
|---|---|---|
| Number of options vested in year | - | 1,080,000 |
| Compensation recognized in year | $ - | $ 65,305 |

## 6. EXPLORATION AND EVALUATION

### Covas, Portugal

In May 2011, the Company entered into an option agreement to earn up to an 85% interest in the Covas tungsten project located in northern Portugal. In May 2014, the Company and the optionor amended the agreement to provide the Company with the option to earn additional staged interests from 70% to 85%. The terms of the agreement are as follows:

| | | Percentage Interest | | Expenditures | | Cumulative Expenditures |
|---|---|---|---|---|---|---|
| On or before 20 March 2013 | (incurred) | 51% | € | 300,000 | € | 300,000 |
| On or before 20 March 2014 | (incurred) | 70% | | 700,000 | | 1,000,000 |
| On or before 20 March 2015 | (incurred) | 75% | | 320,000 | | 1,320,000 |
| On or before 20 March 2016 | (i) | 80% | | 498,000 | | 1,818,000 |
| On or before 20 March 2017 | (i) | 85% | | 833,000 | | 2,651,000 |
| | | | € | 2,651,000 | € | 2,651,000 |

(i) As at 31 December 2017, the Company had incurred sufficient expenditures under the agreement to provide it the right to earn a 75% interest in the project and elect to form a joint venture with the optionor to further the development of the project. The Company has not provided such an election to the optionor and subsequent to 31 December 2017, the Company advised the optionor that it would abandon the project *(Note 12)*.

### Bejanca, Portugal

In December 2012, the Company entered into an option agreement to acquire up to a 100% interest in the Bejanca tungsten/tin project located in northern Portugal. The Company paid the optionor €25,000 upon signing and must pay an additional €100,000 upon the grant of a preliminary exploitation license and €1,000,000 upon the grant of a final exploitation license.

During the term of the option, the Company must keep the property license in good standing by incurring annual exploration expenditures. The Company has incurred sufficient expenditures to maintain the property in good standing to 31 July 2017. The Company and the optionor are currently in discussions with the government of Portugal to determine the level of expenditures required to maintain the property in good standing to 31 July 2018 and beyond.

Upon grant of a final exploitation license and commencement of production, the Company must make payments totalling €250,000 to the government of Portugal; subsequent production from the property is subject to a 10% net profits interest or a progressive production royalty beginning at 4%, at the option of the government.

## 6. EXPLORATION AND EVALUATION *- continued*

### Borralha, Portugal

In December 2012, the Company entered into an option agreement to acquire up to a 100% interest in the Borralha tungsten project located in northern Portugal. The Company paid the optionor €25,000 upon signing and must pay an additional €100,000 upon the grant of a preliminary exploitation license and €1,000,000 upon the grant of a final exploitation license.

During the term of the option, the Company must keep the property license in good standing by incurring annual exploration expenditures. The Company has incurred sufficient expenditures to maintain the property in good standing to 31 July 2017. The Company and the optionor are currently in discussions with the government of Portugal to determine the level of expenditures required to maintain the property in good standing to 31 July 2018 and beyond.

Upon grant of a final exploitation license and commencement of production, the Company must make payments totalling €500,000 to the government of Portugal; subsequent production from the property is subject to a 10% net profits royalty or a progressive production royalty beginning at 4%, at the option of the government.

### Vale das Gatas, Portugal

In November 2013, the Company entered into an option agreement to acquire up to a 100% interest in the Vale das Gatas tungsten project located in northern Portugal. The Company paid the optionor €12,500 upon signing and must pay an additional €100,000 upon the grant of a preliminary exploitation license and €1,000,000 upon the grant of a final exploitation license.

During the term of the option, the Company incurred approximately €277,000 at Vale das Gatas. In October 2017, the Company abandoned this project and returned it to the optionor.

### Performance deposits

As at 31 December 2017, the Company had funded $142,994 (€95,000) (2016 - $170,028 (€120,000)) in performance deposits that are held by the government of Portugal. These deposits are refundable upon the completion of technical, expenditure, and reporting requirements in accordance with the Covas, Bejanca, and Borralha concession contracts.

In January 2017, the Company received a refund of the performance deposit ($14,028 (€10,000)) on the Adoria project, which was abandoned in 2015. In October 2017, the Company abandoned the Vale das Gatas project and forfeited the performance deposit of $22,131 (€15,000).

Should the Company fail to negotiate an acceptable level of expenditure requirements on the Bejanca or Borralha projects and abandon either of these properties, it would forfeit the related performance deposit.

Subsequent to 31 December 2017, the Company abandoned the Covas project and wrote off the related performance deposit of $75,260 (€50,000) *(Note 12)*.

## 6. EXPLORATION AND EVALUATION - *continued*

### Expenditures

The Company expenses exploration and evaluation expenditures in the period incurred. Expenditures for the years ended 31 December and cumulative expenditures as at 31 December 2017 are as follows:

| Portugal | Expenditures 2017 | Expenditures 2016 | Cumulative 2017 |
|---|---|---|---|
| **Covas** | | | |
| Administration | $ 3,387 | $ 3,370 | $ 35,465 |
| Camp and general | 12,505 | 7,276 | 107,837 |
| Consulting | - | 31,491 | 41,912 |
| Drilling | 50,021 | - | 860,741 |
| Field materials | - | - | 22,688 |
| Geochemical, assays | 954 | 661 | 90,537 |
| Geological | 22,605 | 18,247 | 848,629 |
| Geophysical | - | - | 104,981 |
| Legal, license, and taxes | - | 2,885 | 168,424 |
| Local labour | - | - | 62,980 |
| Mapping and reports | - | - | 389 |
| Roadwork | 5,262 | - | 26,489 |
| Travel and accommodation | 530 | 5,716 | 74,455 |
| Expenditure recoveries | - | (20,970) | (20,970) |
| | 95,264 | 48,676 | 2,424,557 |
| **Bejanca** | | | |
| Administration | 10,478 | 10,053 | 48,444 |
| Camp and general | 1,643 | 11,055 | 32,887 |
| Field materials | - | 205 | 6,011 |
| Geochemical, assays | - | 7,685 | 19,787 |
| Geological | 35,207 | 78,034 | 279,606 |
| Legal, license, and taxes | 7,239 | 7,358 | 37,975 |
| Local labour | - | 1,280 | 9,231 |
| Mapping and reports | - | - | 4,984 |
| Option payments | - | - | 32,117 |
| Travel and accommodation | 302 | 7,493 | 45,611 |
| | 54,869 | 123,163 | 516,653 |
| **Borrahla** | | | |
| Administration | 11,303 | 9,887 | 49,011 |
| Camp and general | 5,863 | 6,881 | 45,722 |
| Consulting | - | 55,599 | 55,599 |
| Drilling | 57,581 | - | 380,212 |
| Field materials | 1,251 | 281 | 18,038 |
| Geochemical, assays | 10,565 | 12,929 | 85,757 |
| Geological | 23,794 | 10,621 | 215,980 |
| Legal, license, and taxes | 14,392 | 14,630 | 72,765 |
| Local labour | 9,444 | - | 35,330 |
| Mapping and reports | - | - | 6,550 |
| Option payments | - | - | 32,118 |
| Travel and accommodation | 2,185 | 1,914 | 63,721 |
| Expenditure recoveries | - | (20,915) | (20,915) |
| | 136,378 | 91,827 | 1,039,888 |
| **Balance carried forward** | $ 286,511 | $ 263,666 | $ 3,981,098 |

## 6. EXPLORATION AND EVALUATION *- continued*

### Expenditures *- continued*

| **Portugal** | Expenditures 2017 | Expenditures 2016 | Cumulative 2017 |
|---|---|---|---|
| **Balance brought forward** | $ 286,511 | $ 263,666 | $ 3,981,098 |
| **Vale das Gatas** | | | |
| Administration | 7,104 | 9,838 | 34,413 |
| Camp and general | 2,416 | 6,342 | 34,848 |
| Field materials | - | 71 | 3,265 |
| Geochemical, assays | 820 | 1,205 | 12,240 |
| Geological | 5,041 | 11,741 | 170,356 |
| Legal, license, and taxes | 36,523 | 14,630 | 80,096 |
| Local labour | 1,416 | - | 8,388 |
| Option payments | - | - | 17,769 |
| Travel and accommodation | 418 | 1,016 | 38,920 |
| | 53,738 | 44,843 | 400,295 |
| | $ 340,249 | $ 308,509 | $ 4,381,393 |

### Title

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, title is in good standing and in accordance with the related option agreements.

## 7. COMMITMENTS

The Company has management and administration contracts with two of its directors and one of its officers. The agreements call for aggregate payments of $26,000 per month and provide for severance payments should the contracts be terminated without cause. During 2016, these directors and officer agreed to fee reductions such that payments under these agreements were reduced to a total of $17,000 per month. Effective 1 January 2017, these officers agreed to waive payment or accrual of any monthly fees until further notice.

## 8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Company had related party transactions with associated persons or corporations, which were undertaken in the normal course of operations and were measured at the amounts agreed to between the parties.

Key management includes executive and non-executive directors and executive officers. The compensation paid or payable to key management, and parties related to key management, is as follows:

| | 2017 | 2016 |
|---|---|---|
| Management and director fees | $ - | $ 252,000 |
| Share-based compensation *(i)* | - | 65,305 |
| | $ - | $ 317,305 |

*(i)* Calculated using the Black-Scholes Option-Pricing Model using the assumptions detailed in Note 5.

Accounts payable includes $51,000 (2016 - $51,000) in accrued management fees due to related parties. In April 2016, a director and chair of the audit committee agreed to waive payment of $8,000 of accrued fees resulting in a gain on forgiveness of debt.

## 9. SEGMENTED INFORMATION

The Company currently operates in only one operating segment, that being the mineral exploration industry. The Company's corporate offices are located in Canada and its mineral exploration activities are currently conducted in Portugal. Except for its mineral interests, all of the Company's physical assets are held in Canada.

## 10. CAPITAL DISCLOSURES

In the management of capital, the Company considers its capital resources to be shareholders' equity. The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation 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 *(Note 1)*. The Company's objectives have not changed during the year.

## 11. INCOME TAXES

The Company has non-capital tax losses and mineral exploration expenditures that are available for carry forward to reduce taxable income of future years. Details of income tax expense for the years ended 31 December are as follows:

| | 2017 | 2016 |
|---|---|---|
| Loss before income taxes for accounting purposes | $ (428,205) | $ (767,899) |
| Statutory rate | 26.00% | 26.00% |
| Expected tax recovery for the year | (111,333) | (199,654) |
| Non-deductible (non-taxable) items | (1,630) | 15,931 |
| Unrecognized benefit of losses and expenditures | 112,963 | 183,723 |
| Tax recovery for the year | $ - | $ - |

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred income tax assets have not been recognized in respect of these items because it is not currently considered probable that future taxable profits will be available against which the Company can utilize the benefits of these assets. The significant components of the Company's unrecognized deferred income tax assets are as follows:

| | 2017 | 2016 |
|---|---|---|
| Non-capital losses – expire 2031 to 2037 | $ 1,099,924 | $ 1,010,553 |
| Share issuance costs – deductible 2018 to 2021 | 30,478 | 49,814 |
| Mineral property expenditures – no expiry | 1,250,096 | 1,115,331 |
| Equipment – no expiry | 2,650 | 2,147 |
| Unrecognized deferred income tax assets | $ 2,383,148 | $ 2,177,845 |

## 12. SUBSEQUENT EVENT

Subsequent to 31 December 2017, the Company provided notice to the optionor of the Covas property *(Note 6)* that it would abandon the project and return the property to the optionor. Concurrently with abandoning the project, the Company forfeited its related performance deposit in the amount of €50,000.