# LATIN AMERICAN MINERALS INC.

**CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2018**

Expressed in Canadian Dollars

# MANAGEMENT'S RESPONSIBILITY

To the Shareholders of Latin American Minerals Inc.:

Management is responsible for the preparation and presentation of the accompanying 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 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 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 Audit Committee is also responsible for recommending the appointment of the Company's external auditors.

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

We also draw your attention to Note 7, sale of subsidiaries, Note 8, Impairment of Property, Plant and Equipment and Note 9, Impairment of Mineral Property assets.

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

***"Mathew Wilson"***
Mathew Wilson, CEO

***"Dennis Logan"***
Dennis Logan, CFO

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Latin American Minerals Inc.

**Opinion**

We have audited the consolidated financial statements of Latin American Minerals Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

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

**Basis for Opinion**

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

**Material Uncertainty Related to Going Concern**

We draw attention to Note 1 to the financial statements, which describes events and conditions, along with other matters that indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

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

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

**Auditor's Responsibilities for the Audit of the Financial Statements**

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

We also:

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

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

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

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

DMCL

**DALE MATHESON CARR-HILTON LABONTE LLP**
**CHARTERED PROFESSIONAL ACCOUNTANTS**
Vancouver, BC

April 30, 2019

## LATIN AMERICAN MINERALS INC.

***Expressed in Canadian Dollars***

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | $ | $ |
| **Current Assets** | | |
| Cash | 767,145 | 1,794,778 |
| Short-term investment | - | 15,000 |
| Taxes receivable | 6,779 | 26,535 |
| Prepaid expenses | 5,743 | 12,326 |
| | **779,667** | **1,848,639** |
| Property, plant and equipment (Note 8) | - | 1,282,945 |
| Evaluation and exploration assets (Note 9) | 150,000 | 19,114,839 |
| **Total Assets** | **929,667** | **22,246,423** |
| | | |
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Bank loan (Note 11) | - | 150,540 |
| Accounts payable and accrued liabilities (Note 10) | 1,011,386 | 1,732,225 |
| | **1,011,386** | **1,882,765** |
| Bank loan - non-current (Note 11) | - | 225,715 |
| Provision for mineral property reclamation (Note 9) | - | 392,635 |
| Payroll withholdings liability | - | 233,948 |
| **Total Liabilities** | **1,011,386** | **2,735,063** |
| | | |
| **Shareholders' Equity** | | |
| Share capital (Note 12) | 26,825,203 | 26,347,520 |
| Warrants (Note 12) | 7,082,798 | 6,754,087 |
| Contributed surplus (Note 12) | 13,765,607 | 13,090,097 |
| Accumulated other comprehensive loss | - | (374,795) |
| Deficit | (47,755,327) | (26,305,549) |
| **Total Shareholders' Equity** | **(81,719)** | **19,511,360** |
| **Total Liabilities and Shareholders' Equity** | **929,667** | **22,246,423** |

**Nature of operations and going concern (Note 1)**
**Sale of subsidiaries (Note 7)**
**Commitments (Note 9)**

The consolidated financial statements were approved by the Board of Directors on April 30, 2019 and were signed on its behalf by:

***"Stephen Keith"*** ***"Richard Patricio"***

Stephen Keith, Director Richard Patricio, Director



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

*Expressed in Canadian Dollars*

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| | $ | $ |
| **General and Administrative Expenses** | | |
| Amortization | 56,012 | 15,347 |
| General and administrative | 126,835 | 565,468 |
| Investor relations | 1,500 | 53,964 |
| Management and director fees (Note 14) | 437,940 | 363,853 |
| Professional fees | 428,800 | 123,478 |
| Salaries and benefits | - | 29,698 |
| Share-based payments (Note 12) | 675,510 | 348,851 |
| **Net operating loss for the period** | **1,726,597** | **1,500,659** |
| | | |
| Interest expense | 22,492 | - |
| Impairment of property, plant and equipment (Note 8) | 1,315,037 | - |
| Impairment of exploration and evaluation assets (Note 9) | 21,516,557 | 876,791 |
| Gain on sale of subsidiaries (Note 7) | (3,067,274) | - |
| Foreign exchange (gain) loss | (63,631) | 61,171 |
| **Net loss** | **21,449,778** | **2,438,621** |
| | | |
| **Other Comprehensive loss** | | |
| *Items that may be reclassified subsequently to profit/loss* | | |
| Foreign currency translation adjustment income (loss) | 374,795 | (1,720,181) |
| **Comprehensive loss for the year** | **(21,074,983)** | **(4,158,802)** |
| | | |
| **Net loss per share** | | |
| Basic and fully diluted loss per share | **$ (0.18)** | **$ (0.03)** |
| | | |
| Weighted Average Number of Shares Outstanding – basic and diluted | 121,134,171 | 79,790,394 |



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

*Expressed in Canadian Dollars*

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

| | Number of shares outstanding | Share Capital | Obligation to issue shares | Warrants | Contributed Surplus | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income (Loss) | Total Equity |
|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ |
| **Balance at January 1, 2017** | **70,439,533** | **24,940,111** | **25,000** | **4,596,549** | **12,619,910** | **(23,866,928)** | **1,345,386** | **19,660,028** |
| Expiry of warrants | - | - | - | (121,336) | 121,336 | - | - | - |
| Shares and warrants issued on private placement | 43,953,500 | 2,012,264 | (25,000) | 1,937,156 | - | - | - | 3,924,420 |
| Share issuance costs | 664,667 | (604,855) | - | 341,718 | - | - | - | (263,137) |
| Issuance of share options | - | - | - | - | 348,851 | - | - | 348,851 |
| Other comprehensive loss | - | - | - | - | - | - | (1,720,181) | (1,720,181) |
| Net loss | - | - | - | - | - | (2,438,621) | - | (2,438,621) |
| **Balance at December 31, 2017** | **115,057,700** | **26,347,520** | **-** | **6,754,087** | **13,090,097** | **(26,305,549)** | **(374,795)** | **19,511,360** |
| Subscriptions receivable | - | 6,194 | - | - | - | - | - | 6,194 |
| Shares and warrants issued on private placement | 13,844,000 | 373,591 | - | 318,609 | - | - | - | 692,200 |
| Share issuance costs | 678,720 | (20,515) | - | 20,515 | - | - | - | - |
| Shares issued on warrant exercise | 100,000 | 8,000 | - | - | - | - | - | 8,000 |
| Value of warrants exercised | - | 10,413 | - | (10,413) | - | - | - | - |
| Shares issued for property option acquisition | 5,000,000 | 100,000 | - | - | - | - | - | 100,000 |
| Issuance of share options | - | - | - | - | 675,510 | - | - | 675,510 |
| Other comprehensive income | - | - | - | - | - | - | 374,795 | 374,795 |
| Net loss | - | - | - | - | - | (21,449,778) | - | (21,449,778) |
| **Balance at December 31, 2018** | **134,680,420** | **26,825,203** | **-** | **7,082,798** | **13,765,607** | **(47,755,327)** | **-** | **(81,719)** |



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

*Expressed in Canadian Dollars*

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, 2018 | Year Ended December 31, 2017 |
|---|---|---|
| | $ | $ |
| **Operating activities** | | |
| Net loss | (21,449,778) | (2,438,621) |
| Add (deduct) non-cash items: | | |
| Share-based payments | 675,510 | 348,851 |
| Depreciation and amortization | 56,012 | 15,347 |
| Impairment of property plant and equipment | 1,315,037 | - |
| Impairment of exploration and evaluation assets | 21,516,557 | 876,791 |
| Gain on sale of subsidiary | (3,067,274) | - |
| **Net change in non-cash working capital** | | |
| Amounts receivable | - | (3,579) |
| Taxes recoverable | 19,756 | - |
| Prepaid expenses | 6,583 | 2,086 |
| Accounts payable and accrued liabilities | 220,542 | 582,313 |
| **Cash flow used in operating activities** | **(707,055)** | **(616,812)** |
| **Investing activities** | | |
| Net proceeds on sale of subsidiaries | 1,081,600 | - |
| Purchase of property, plant and equipment | (297,209) | (73,143) |
| Purchase of property rights, evaluation and exploration costs | (1,784,793) | (2,006,715) |
| **Cash flow used in investing activities** | **(1,000,402)** | **(2,079,858)** |
| **Financing activities** | | |
| Issuance of common shares and warrants | 692,200 | 3,661,284 |
| Issuance of common shares from option and warrant exercise | 8,000 | - |
| Repayment of long-term debt | - | (142,160) |
| **Cash flow provided by financing activities** | **700,200** | **3,519,124** |
| Effect of foreign exchange on cash | (20,376) | (254,547) |
| **Net increase (decrease) in cash** | **(1,027,633)** | **567,907** |
| Cash, beginning | 1,794,778 | 1,223,898 |
| **Cash, ending** | **767,145** | **1,791,805** |



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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1) Nature of operations and going concern

Latin American Minerals Inc. ("LAT" or "the Company") was incorporated under the Canada Business Corporations Act on December 9, 2003. The Company's principal business activity is the exploration and development of resource properties. The head office of the Company is located at Suite 502 – 211 Yonge Street Toronto, ON, M5B 1M4. The Company is listed on the TSX Venture Exchange ("TSX-V") under the symbol LAT.

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

There exist material uncertainties related to events and conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The business of mining and exploration involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of exploration and evaluation expenditures is dependent upon several factors. These 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.

Consistent with other companies in the sector of mineral exploration, the Company has incurred operating losses since inception and is unable to self-finance operations. The Company has significant cash requirements to meet its overhead and maintain its mineral interests.

For the Company to continue to operate as a going concern, it must continue to obtain additional financing to maintain operations. Although the Company has been successful in the past at raising funds, there can be no assurance that this will continue in the future.

These consolidated financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. These adjustments could be material.

## 2) Statement of compliance and basis of preparation

These Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") and related IFRS Interpretations Committee ("IFRICs") as issued by the International Accounting Standards Board ("IASB").

These Financial Statements were authorized for issuance by the Board of Directors on April 29, 2019.

## 3) Summary of significant accounting policies

### a) Basis of measurement

The Consolidated financial statements have been prepared on the accrual basis and are based on historical costs, modified were applicable.

### b) Basis of consolidation

These financial statements incorporate the financial statements of the Company and the entities controlled by the Company up to the point control ceased, which consist of:

1. Latin American Minerals Paraguay S.A. ("LAMPA"), owned 100% by the Company until September 1, 2018.
2. Minera Ita Pora S.A. ("MIPSA"), owned 100% by the Company until December 1, 2018.

Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

**c) Foreign currency translation**

These financial statements are presented in Canadian dollars. The functional currency of each entity is determined using the currency of the primary economic environment in which the entity operates. The functional currency, as determined by management, of the parent company is the Canadian dollar. The functional currency of LAMPA and MIPSA was the Paraguayan Guarani.

Transactions in currencies other than the functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the rates of the date of the initial transaction.

Exchange differences are recognized in profit and loss in the period in which they arise.

For the purpose of presenting Financial Statements, the assets and liabilities of the foreign entities are translated to Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognized as a separate component of equity and as a foreign currency translation adjustment in other comprehensive loss.

**d) Cash and cash equivalents**

Cash and cash equivalents represent cash on hand and short-term bank deposits with original maturity dates of less than three months at the time of acquisition or which are readily convertible into known amounts of cash.

**e) Property, plant and equipment**

Property, plant and equipment are stated at cost, less accumulated depreciation and any impairment in value. Cost includes the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site.

The costs of day-to-day servicing are recognized in profit or loss as incurred.

Financing costs directly associated with the construction or acquisition of qualifying assets are capitalized at interest rates relating to loans specifically raised for that purpose, or at the average borrowing rate where the general pool of group borrowings is utilized. Capitalization of borrowing costs ceases when the asset is substantially complete.

Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized as an expense as incurred.

Depreciation is charged using the straight-line method over the estimated useful lives as follows:

| | |
|---|---|
| Vehicles and machinery | 3-5 years |
| Geological and communication equipment | 3-15 years |
| Software | 1-3 years |
| Office furniture and equipment | 3-5 years |

**f) Evaluation and exploration costs**

Evaluation and exploration costs ("E&E") generally include the direct costs of licenses, technical services and studies, environmental studies, seismic studies, exploration drilling and testing, borrowing costs, and directly attributable overhead and administration expenses including remuneration of operating personnel and supervisory management. These costs do not include general prospecting or evaluation costs incurred prior to having obtained the rights to explore an area, which are expensed as they are incurred. E&E expenditures are capitalized and carried forward until technical feasibility and commercial viability of extracting the resource is established.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, expenditures are reclassified to development assets within property, plant and equipment and are carried at cost until the properties to which the expenditures relate are sold, abandoned or determined by management to be impaired in value.

The establishment of technical feasibility of a mineral property is assessed based on a combination of factors including the extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 have been identified through a feasibility study or similar document.

Evaluation and exploration costs are tested for impairment immediately prior to reclassification to development assets.

Proceeds generated from bulk sampling prior to commercial production

Prior to reaching commercial production, proceeds from the sale of gold derived from the Company's bulk sampling facility have been offset against property rights and evaluation and exploration costs and the cost of gold incurred in the Company's bulk sampling facility is capitalized in property rights and evaluation and exploration costs.

Property rights

Acquisition costs for mineral exploration rights are deferred until it is determined that these costs will not be recovered from future operations, at which point these costs are written off to operations. These costs are depleted on a unit-of-production basis commencing at the onset of commercial production for the related property.

Impairment of non-financial assets

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit or loss for the period.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash- generating unit to which the asset belongs.

Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

**g) Environmental remediation and mineral property reclamation liabilities**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of property, plant and equipment and the reclamation of environmental disturbances caused by exploration and evaluation activities. 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 over the economic life of the related asset, through amortization using either the unit of production or the straight-line method as appropriate.

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 or loss.

**h) Share-based payments**

The Company has a stock option plan whereby employees (including officers), directors and consultants of the Company receive remuneration in the form of stock options granted under the plan for rendering services to the Company. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for share-based payments. The fair value for these options is estimated at the date of grant using the Black-Scholes Option Pricing Model. The Company is also required to estimate the expected future forfeiture rate of options in its calculation of share-based payments. The cost of options is recognized, together with a corresponding increase in contributed surplus, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant optioned becomes fully entitled to the award (the "vesting date"). The cumulative expense recognized for option grants at each reporting date until the vesting date reflects the portion of the vesting period that passed and the Company's best estimate of the number of options that will ultimately vest on the vesting date. The Company records share-based payment expense and credits contributed surplus for all stock options granted which represents the movement in cumulative expense recognized as at the beginning and end of that period. Any consideration received on the exercise of stock options is credited to capital stock.

Where the terms of a stock option award are modified, the minimum expense recognized in share-based payment is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the option or is otherwise beneficial to the optioned as measured at the date of modification.

Where an option is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognized for the award is recognized immediately.

However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

**i) Loss per share**

Basic loss per share is computed by dividing the net 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 and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting period.

**j) Warrants issued in equity financing transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants ("Warrants"). Depending on the terms and conditions of each equity financing agreement, the Warrants are exercisable into additional common shares prior to expiry at a price stipulated by the Agreement. Warrants that are part of units are measured at fair value on the date of issue using the Black-Scholes Option Pricing Model and included in share capital with the common shares that were concurrently issued. Broker compensation options are classified as issuance costs and a deduction from equity and measured at fair value on the date of issue using the Black-Scholes Option Pricing Model.

After issuance the terms of warrants may be modified throughout the warrant life. At the time of the modification the warrant is valued under the new terms immediately preceding and immediately after the modification using the Black-Scholes pricing model. The incremental value in the warrants issued as compensation for services is added to warrant equity and a warrant modification expense is recorded to the consolidated statement of loss and comprehensive loss.

**k) Provisions**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received, and the amount receivable can be measured reliably.

**l) Income taxes**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

**m) Financial instruments**

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") on a retroactive basis in accordance with the transitional provisions. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The standard promulgates a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. The adoption of IFRS 9 did not result in any change in the carrying values of any of the Company's financial assets on the transition date; therefore, comparative figures have not been restated.

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

| Financial asset/ liability | Original classification IAS 39 | New classification IFRS 9 |
|---|---|---|
| Cash | Fair value through profit and loss | Amortized cost |
| Short-term investments | Fair value through profit and loss | Fair value through profit and loss |
| Accounts payable and accrued liabilities | Amortized cost | Amortized cost |
| Bank loans | Amortized cost | Amortized cost |

Expected Credit Loss Impairment Model

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements.

Financial assets and financial liabilities are initially recognized at fair value; subsequent measurement is dependent on the applicable classification. The Company has classified loans when a floating rate does not apply and receivables at amortized cost, which approximates fair value. The Company has classified marketable equity securities at fair value through profit and loss. The Company has classified accounts payable and accrued liabilities as other financial liabilities. The carrying amounts of accounts payable approximates the fair values of those financial instruments, due to the short-term maturity of such instruments.

## 4) Critical accounting judgements, estimates and assumptions

In the application of the Company's accounting policies, which are described in note 3, 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 which the estimates are revised and in any future period affected.

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 estimates

Useful life of property, plant and equipment

The Company reviews the estimated lives of its property, plant and equipment at the end of each reporting period. There were no material changes in the lives of property and equipment during the year ended December 31, 2018.

Share-based payments

Management uses the Black-Scholes Option Pricing Model for valuation of share-based compensation and finder's warrants which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materiality affect the fair market value estimate and the Company's results and equity reserves.

Impairment of non-financial assets

Judgment is involved in assessing whether there is any indication that an asset or cash generating unit may be impaired. This assessment is made based on the analysis of, amongst other factors, changes in the market and business environment, the events that have transpired that have impacted the asset or cash generating unit, and information from internal reporting.

Income taxes

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that probable that future taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax assets and unused tax losses can be utilized. In addition, the valuation of tax credits receivable requires management to make judgements on the amount and timing of recovery.

Decommissioning provision

The value of decommissioning liabilities depends on estimates of current risk-free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**b) Critical judgements**

Going concern evaluation

As discussed in note 1, these Financial Statements have been prepared under the assumptions applicable to a going concern. 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 and the reported expenses and such adjustments could be material.

The Company reviews the going concern assessment at the end of each reporting period. There were no material changes to the assessment as at December 31, 2018.

Carrying value and recoverability of property rights, evaluation and exploration assets and impairment

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of property rights, evaluation and exploration assets. The amounts shown for evaluation and exploration costs do not necessarily represent present or future values. The recoverability of the assets' carrying values is dependent upon the determination of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permits to complete development and future profitable production or proceeds from the disposition thereof.

At each reporting date of the consolidated balance sheet, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of operations and comprehensive income (loss), unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfer and title may be affected by undetected defects. Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfer and title may be affected by undetected defects.

## 5) New Accounting standards issued and adopted in the current period and recent Accounting pronouncements not yet adopted

New Standards Adopted in the Current Year

***New standard IFRS 9 "Financial Instruments"***

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for the Company as of January 1, 2018. Overall, the implementation of IFRS 9 has not had a significant impact on the Company's financial assets. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements not yet adopted

Recent Accounting Pronouncements have been issued by the IASB. The Company is assessing the impact of these new standards on future consolidated financial statements. Pronouncements that are not applicable or where it has been determined do not have a significant impact on the Company have been excluded herein.

***New standard IFRS 16 "Leases"***

This new standard replaces IAS 17 "Leases" and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is not substantially changed. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities that have adopted IFRS 15. While the Company is currently evaluating the impact this new guidance will have on its consolidated financial statements, the recognition of certain leases is expected to increase the assets and liabilities on the consolidated statements of financial position.

## 6) Financial instruments and risk management

### a) Fair value hierarchy

Financial instruments are recorded at fair value are classified using a fair value hierarchy that reflects the significant of the inputs used in making the measurements.

The fair value of hierarchy has the following levels:

- 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 the 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 financial instruments include cash and cash equivalents, short-term investments, accounts payable, and bank loans. The carrying value of cash and cash equivalents is carried at fair value. Short-term investments, accounts payable and accrued liabilities, and bank loans approximate their fair value due to their short-term nature.

### b) Credit risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. Credit risk arises from cash and cash equivalents with banks and financial institutions. It is management's opinion that the Company is not exposed to significant credit risk arising from these financial instruments. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties.

### c) 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 not exposed to significant interest rate risk.

### d) Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. The Company incurs certain expenditures in Paraguayan Guarani and US dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the functional currency of the Company or subsidiary that holds the financial asset or liability. The Company's risk management policy is to review its exposure to non-Canadian dollar forecast operating costs on a case-by-case basis. The majority of the Company's forecast operating costs are in Canadian dollars. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of foreign currency financial assets and liabilities in Canadian dollars as at December 31, 2018 is as follows:

**Canadian Dollar amounts of foreign currency assets and liabilities**

| | Assets | Liabilities |
|---|---|---|
| US Dollars | $253,395 | $707,133 |

Based on the financial instruments held as at December 31, 2018, the Company's deficit would have changed by $20,376 had the Canadian dollar shifted by 10% as a result of foreign exchange effect on translation of non-Canadian dollar denominated financial instruments.

### e) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. Where insufficient liquidity may exist, the Company may pursue various debt and equity instruments for short or long-term financing of its operations.

As at December 31, 2018, the Company had a working capital deficiency of $57,835 and operating cash flow will not provide sufficient funds to cover all the Company's expenditures for the next 12 months. Cash constraints have caused the Company to consider financing alternatives.

The Company's potential sources of cash flow in the upcoming year will be from possible proceeds of possible equity financings, loans, lease financing and entering into joint venture agreements; or any combination thereof.

*Expressed in Canadian Dollars*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7) Sale of Subsidiaries

On September 1, 2018, the Company entered into a share sale agreement (the "Agreement") with a local consortium (the "Purchaser") pursuant to which the Company agreed to sell all of the shares of LAMPA for USD$1,000,000 (CAD$1,294,500). The Company paid a commission of $212,900 (US$165,000) on the sale. Under the terms of the Agreement, the Company forgave all of the inter-company debt owed by LAMPA to the Company. The purchaser also agreed to assume responsibility for certain liabilities incurred by the Company on behalf of LAMPA, as well as all outstanding asset retirement obligations and other contingent liabilities of LAMPA.

As at September 1, 2018, the gain on the sale of LAMPA was as follows:

| | | |
|---|---|---|
| Net Book value of LAMPA on September 1, 2018 | | |
| Total Assets | $ | 781,264 |
| Total liabilities | | (2,769,000) |
| Net book value of LAMPA | | (1,987,736) |
| | | |
| Gross proceeds | | 1,294,500 |
| Less selling commission | | 212,900 |
| Net proceeds received | | 1,081,600 |
| | | |
| **Gain on sale** | **$** | **3,069,336** |

On December 15, 2018 the Company entered into a share sale agreement (the "MIP Agreement") with the Purchaser pursuant to which the Company agreed to sell all of the shares of MIP for cash consideration of USD$1. Under the terms of the Agreement, the Purchaser assumed all of the obligations and contingent liabilities of MIP. The Company paid a commission of USD$1.

As at December 31, 2018 the loss on the sale of MIP was as follows:

| | | |
|---|---|---|
| Net Book value of MIP Dec 31, 2018 | | |
| Total Assets | $ | 5,490 |
| Total liabilities | | (3,428) |
| Net Book value of MIP December 31, 2018 | | 2,062 |
| **Loss on sale** | **$** | **(2,062)** |

*Expressed in Canadian Dollars*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8) Property, plant and equipment

| | Land | Processing Plant & Geology Equipment | Furniture & Equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **Balance January 1, 2017** | **$ 135,975** | **$ 2,747,854** | **$ 747,729** | **$ 3,631,558** |
| Additions | - | 402,278 | 1,876 | 404,154 |
| Foreign exchange | (10,970) | (222,543) | (58,174) | (291,687) |
| **Balance December 31, 2017** | **$ 125,005** | **$ 2,927,589** | **$ 691,431** | **$ 3,744,025** |
| Additions | - | 297,209 | - | 297,209 |
| Disposals (Note 7) | - | (2,459,101) | (351,211) | (2,810,312) |
| Impairment | (129,015) | (842,019) | (344,003) | (1,315,037) |
| Foreign exchange | 4,010 | 76,322 | 3,783 | 84,115 |
| **Balance December 31, 2018** | **$ -** | **$ -** | **$ -** | **$ -** |
| | | | | |
| **Accumulated Amortization** | | | | |
| **Balance January 1, 2017** | **$** - | -$ 1,937,230 | -$ 362,223 | -$ 2,299,453 |
| Amortization | - | (334,876) | (11,482) | (346,358) |
| Foreign exchange | - | 130,740 | 53,991 | 184,731 |
| **Balance December 31, 2017** | **$** - | (2,141,366) | (319,714) | (2,461,080) |
| Amortization | - | (178,407) | (838) | (179,245) |
| Disposals (Note 7) | - | 2,459,101 | 351,211 | 2,810,312 |
| Foreign exchange | - | (139,328) | (30,659) | (169,987) |
| **Balance December 31, 2018** | $ - | $ - | $ - | $ - |
| | | | | |
| **Carrying Amounts** | | | | |
| **At December 31, 2017** | **$ 125,005** | **$ 786,223** | **$ 371,717** | **$ 1,282,945** |
| **At December 31, 2018** | **$ -** | **$ -** | **$ -** | **$ -** |

The Company assessed the value of certain assets and expenditures that had been capitalized to property, plant and equipment based on the results of its exploration program that was completed in July 2018. These assets were associated with its mining operations at the Paso Yobai project. At the time the Company determined that the current configuration of the mine would not allow it to obtain sufficient throughput to make the plant and milling circuit economically viable and determined that continued capitalization of these amounts was no longer justifiable on a value in use basis. Furthermore, given the limited legal mining activity in Paraguay and lack of a developed resale market for used mining and milling equipment in the country, management was unable to assess the net realizable value of these assets from a potential sale, making continued capitalization of these amounts no longer justified. For the year ended December 31, 2018, the Company recorded an impairment charge of $1,315,037 against the amounts previously capitalized (December 31, 2017: $nil) reducing the carrying amount of expenditures that had been capitalized to property plant and equipment to $nil.

*Expressed in Canadian Dollars*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9) Property rights, evaluation and exploration assets

| | Butt Township | Paso Yobai | Total |
|---|---|---|---|
| **Balance January 1, 2017** | **$ -** | **$ 18,862,139** | **$ 18,862,139** |
| Additions | - | 2,067,598 | 2,067,598 |
| Interest capitalized | - | 43,806 | 43,806 |
| Amortization | - | 335,204 | 335,204 |
| Provision for environmental remediation | - | 181,309 | 181,309 |
| Write-down of mineral property | - | (876,791) | (876,791) |
| Foreign exchange | - | (1,498,426) | (1,498,426) |
| **Balance December 31, 2017** | **$ -** | **$ 19,114,839** | **$ 19,114,839** |
| Additions | 150,000 | 1,734,793 | 1,884,793 |
| Interest capitalized | - | 2,792 | 2,792 |
| Impairment | - | (21,516,557) | (21,516,557) |
| Foreign exchange | - | 664,133 | 664,133 |
| **Balance December 31, 2018** | **$ 150,000** | **$ -** | **$ 150,000** |

### Paso Yobai Project Impairment and Disposal

The Paso Yobai project comprises the Discovery Trend property, which was 99% owned by the Company; the other 1% being owned by a third party that receives 1% net smelter returns royalty on a yearly basis and the X-Mile Trend exploration property, which is 100% owned by the Company.

The Company assessed the value of certain expenditures that had been capitalized to the exploration and evaluation assets and determined that continued capitalization of these amounts was no longer justified during the year ended December 31, 2018. The Company recorded an impairment charge of $21,516,557 against the amounts previously capitalized reducing the carrying to nil.

As at December 31, 2018 the Company no longer held any property rights, evaluation or exploration assets in Paraguay.

### Butt Township Uranium and Rare Earth Project

On August 24, 2018, the Company entered into an option agreement (the “Option Agreement”) with Griftco Corporation (“Griftco”) pursuant to which the Company has been granted the right to earn a 100% ownership interest in the Butt Township uranium and rare-earth mineral property (collectively, the “Property”) in Ontario. The following is required to exercise the option:

- the payments of $50,000 (paid) and the issuance of 5,000,000 (issued) common shares to Griftco on September 27, 2018, the date the TSX V granted approval of the transaction (the “Effective Date”);
- the payment of $25,000, the issuance of 2,500,000 Common Shares to Griftco and the Company incurring $200,000 in expenditures on the Property on or before the first anniversary of the Effective Date;
- the payment of $25,000, the issuance of 2,500,000 Common Shares to Griftco and the Company incurring a further $200,000 in expenditures on the Property on or before the second anniversary of the Effective Date; and
- the payment of $25,000, the issuance of 2,500,000 Common Shares to Griftco and the Company incurring a further $500,000 in expenditures on the Property on or before the third anniversary of the Effective Date.

***Expressed in Canadian Dollars***

## 10) Accounts payable and accrued liabilities

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Accounts Payable | $ | 975,386 | $ | 1,688,975 |
| Accrued liabilities | | 36,000 | | 43,250 |
| **Total** | **$** | **1,011,386** | **$** | **1,732,225** |

## 11) Bank loan

On June 19, 2014, the Company received USD$700,000 ($758,520) loan provided by the Banco Bilbao Vizcaya Argentaria ("BBVA") in Paraguay, which is divided in two parts. The first part is a secured 6-year loan ("Term Loan") of USD$600,000 including a one-year grace period on capital, bearing an annual interest rate of 10%. Subject to a penalty of 4% over the balance outstanding, the Company is allowed to prepay the Term Loan. The second part is a revolving line of credit ("Line of Credit") of USD$100,000 bearing an annual interest rate of 8.5%.

Both the Term Loan and the Line of Credit were secured by the pilot plant machinery and certain real estate in Paraguay.

Effective September 1, 2018 the Company sold 100% of its ownership in the Paso Yobai Project (see Note 7) and the acquirer assumed the outstanding loan.

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **Opening balance** | **$** | **376,255** | **$** | **561,760** |
| New borrowings | | - | | - |
| Repayments | | (75,086) | | (142,835) |
| Interest capitalized in property rights, evaluation and exploration costs | | - | | 43,806 |
| Interest paid on term loan and line of credit | | (22,492) | | (43,806) |
| Foreign exchange | | 19,379 | | (42,670) |
| Balance assumed by Purchaser (Note 7) | | (320,548) | | - |
| **Ending Balance** | **$** | **-** | **$** | **376,255** |
| **Current portion** | **$** | **-** | **$** | **150,540** |
| **Non-current portion** | **$** | **-** | **$** | **225,715** |

## 12) Share capital

### a) Authorized

Unlimited number of common shares without par value.

<u>Year ended December 31, 2018</u>

On June 12, 2018 the Company closed a non-brokered private placement (the "June 2018 Financing") by issuing 13,844,000 units at a price of $0.05 per unit for gross proceeds of $692,200. Each unit is comprised of one common share and one warrant. Each warrant entitles the holder to purchase one common share for a period of 2 years from the closing of the offering at a price of $0.10 per common share. The warrants are estimated with a fair value $318,609.

The Company recorded $20,515 for the issuance of 678,720 broker warrants and the issuance of 678,720 common shares in lieu of cash compensation to certain finders. The warrants have an exercise price of $0.10 and expiry date of 2 years from the date of issuance.

*Expressed in Canadian Dollars*

The fair value of the warrants and broker's warrants was determined with the following weighted average assumptions:

| Assumption | June 12, 2018 |
|---|---|
| Share price | **$0.05** |
| Risk-free rate | **1.90%** |
| Expected dividend yield | **0.00%** |
| Expected volatility | **118%** |
| Warrant life in years | **2.00** |

On September 27, 2018, the Company issued 5,000,000 common shares to Griftco as payment under the Option Agreement (Note 9) at a fair value of $100,000.

On April 13, 2018 the Company issued 100,000 shares on the exercise of warrants for proceeds of of $8,000. Pursuant to the exercise, $10,413 was reclassified from reserves to share capital.

Year ended December 31, 2017

On May 18, 2017, the Company closed the first tranche of a non-brokered private placement (the "First Tranche") by issuing 12,445,167 units at a price of $0.12 per unit for gross proceeds of $1,493,420. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of $0.15 per common share. The warrants are estimated with a fair value of $729,601.

On June 2, 2017, the Company closed the second tranche (the "Second Tranche") by issuing 1,508,333 units at a price of $0.12 per unit for gross proceeds of $181,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of $0.15 per common share. The warrants are estimated with a fair value of $88,283.

In connection with the First and Second Tranches, the Company incurred $80,640 in cash transaction costs and recorded $86,406 in issuances of 664,667 units to the brokers. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share for a period of 24 months from the closing of the offering at a price of $0.15 per common share. The warrants are estimated with a fair value of $82,637. The Company issued 1,082,280 broker warrants. Each broker warrant entitles the holder to purchase one common share for a period of 24 months from the closing of the offering at a price of $0.12 per common share. The broker warrants are estimated with a fair value of $135,740.

On December 1, 2017, the Company closed the first tranche of a non-brokered private placement (the "December First Tranche") by issuing 14,046,667 units at a price of $0.075 per unit for gross proceeds of $1,053,500. Each unit is comprised of one common share and one common share purchase warrant. Each warrant will entitle the holder thereof to purchase one common share for a period of 5 years from the closing of the offering at a price of $0.10 per common share. The warrants are estimated with a fair value of $523,620.

On December 20, 2017, the Company closed the second tranche of a non-brokered private placement (the "December Second Tranche") by issuing 14,619,999 units at a price of $0.075 per unit for gross proceeds of $1,096,500, of which $6,194 was recorded as receivable and received during the year ended December 31, 2018. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share for a period of 5 years from the closing of the offering at a price of $0.10 per common share. The warrants are estimated with a fair value of $544,993.

On December 29, 2017 the Company closed the third tranche of a non-brokered private placement (the "December Third Tranche") by issuing 1,333,334 units at a price of $0.075 per unit for gross proceeds of $100,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for a period of 5 years from the closing of the offering at a price of $0.10 per common share. The warrants are estimated with a fair value $50,659.

The Company incurred $182,497 in cash transaction costs and recorded $123,341 for the issuance of broker's warrants.

*Expressed in Canadian Dollars*

The fair value of the warrants and broker's warrants was determined with the following weighted average assumptions:

| Assumption | |
|---|---|
| Share price | $0.12 |
| Risk-free rate | 1.48% |
| Expected dividend yield | 0.00% |
| Expected volatility | 247.00% |
| Warrant life in years | 4.02 |

## b) Stock options

The Company has established an incentive stock option plan (the "Plan") for management, directors, and consultants of the Company, as designated and administered by a committee of the Company's Board of Directors. Under the Plan, the Company may grant options for up to 10% of the issued and outstanding common shares of the Company.

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

On January 9, 2018 the Company granted 4,950,000 incentive stock options to officers and Directors of the Company. These options are exercisable at a price of $0.13 per common share for a period of five years from the grant date.

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

On June 5, 2017 the Company granted 1,150,000 incentive stock options to officers of the Company. These options are exercisable at a price of $0.15 per common share for a period of five years from the grant date.

On July 18, 2017 the Company granted 1,000,000 stock options to an officer of the Company. These options are exercisable at a price of $0.15 per common share for a period of five years from the grant date.

On September 11, 2017 the Company granted 845,000 stock options to officers of the Company. These options are exercisable at a price of $0.15 per common share for a period of five years from the date of grant with all options vesting evenly over 12 months following the grant date.

The following table summarizes information about stock options outstanding as at December 31, 2018:

| Expiry date | Exercise Price | December 31, 2018 Outstanding | December 31, 2018 Exercisable |
|---|---|---|---|
| July 7, 2019 | $0.17 | 350,000 | 350,000 |
| July 26, 2021 | $0.35 | 1,750,000 | 1,750,000 |
| August 22, 2021 | $0.37 | 500,000 | 500,000 |
| June 5, 2022 | $0.15 | 1,150,000 | 1,150,000 |
| July 18, 2022 | $0.15 | 1,000,000 | 1,000,000 |
| September 11, 2022 | $0.15 | 845,000 | 845,000 |
| January 9, 2023 | $0.13 | 4,950,000 | 4,950,000 |
| | | **10,545,000** | **10,545,000** |

*Expressed in Canadian Dollars*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table reflects the continuity of stock options for the periods presented:

| Stock option activity | 31-December 2018 | Weighted Average Exercise price | 31-December 2017 | Weighted Average Exercise price |
|---|---|---|---|---|
| **Balance – beginning of period** | 5,914,000 | $0.26 | 6,839,000 | $0.36 |
| Granted | 4,950,000 | $0.13 | 2,995,000 | $0.15 |
| Expired | (319,000) | $0.60 | ($3,420,000) | $0.29 |
| Forfeited | - | - | ($500,000) | $0.37 |
| **Balance – end of period** | 10,545,000 | $0.19 | 5,914,000 | $0.36 |

The fair value of stock options granted during the year ended December 31, 2018 was $637,200 with the following assumptions:

| Assumption | January 9, 2018 |
|---|---|
| Share price | **$0.13** |
| Risk-free rate | **2.01%** |
| Expected dividend yield | **0.00%** |
| Expected volatility | **229.69%** |
| Warrant life in years | **5.00** |

The company recognized $38,310 in share-based payments for stock options granted on September 11, 2017 but vested during the year ended December 31, 2018.

| Weighted Average | |
|---|---|
| Share price | **$0.12** |
| Risk-free interest rate | **1.35%** |
| Expected dividend yield | **0.00%** |
| Expected volatility | **234.84%** |
| Estimated life | **5.00** |

## c) Warrants

The following table summarizes warrants outstanding at December 31, 2018:

| Date of Issuance | Date of Expiry | Exercise Price | December 31, 2018 Outstanding |
|---|---|---|---|
| May 15, 2017 | May 15, 2019 | $0.15 | **14,618,167** |
| June 2, 2017 | June 2, 2019 | $0.12 | **1,082,280** |
| December 29, 2017 | December 29, 2022 | $0.10 | **30,000,000** |
| December 29, 2017 | December 29, 2022 | $0.10 | **1,184,559** |
| June 12, 2018 | June 12, 2020 | $0.10 | **13,844,000** |
| June 12, 2018 | June 12, 2020 | $0.05 | **678,720** |
| | | | **61,407,726** |

| | December 31, 2018 |
|---|---|
| The outstanding warrants have a weighted-average exercise price of: | $0.11 |
| The weighted average remaining life in years of the outstanding warrants is: | 2.44 |

*Expressed in Canadian Dollars*

| Warrant activity | December 31, 2018 | Weighted Average Exercise price | December 31, 2017 | Weighted Average Exercise price |
|---|---|---|---|---|
| **Balance – beginning of period** | 102,995,413 | $0.14 | 56,735,018 | $0.16 |
| Issued on private placements | 14,522,720 | $0.10 | 46,885,006 | $0.12 |
| Issued from exercise of broker warrants | 100,000 | $0.10 | - | $0.00 |
| Exercised | (100,000) | $0.08 | - | $0.00 |
| Expired | (56,110,407) | $0.16 | (624,611) | $0.25 |
| **Balance – end of period** | **61,407,726** | **$0.11** | 102,995,413 | $0.14 |

## 13) Capital management

The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

## 14) Related party transactions

Related party transactions are summarized as follows:

| Name and principal position | Year | Remuneration or fees (1) | Share based payments (1) | Included in accounts payable (1) |
|---|---|---|---|---|
| Mathew Wilson, CEO - management fees[2] | **2018** | **$120,000** | **$64,364** | **$5,650** |
| | 2017 | - | - | - |
| Dennis Logan, CFO - management fees[2] | **2018** | **$84,000** | **$38,618** | **$3,955** |
| | 2017 | - | - | - |
| Bira De Oliveira, COO - management fees | **2018** | **$103,000** | **$64,364** | **$21,921** |
| | 2017 | - | - | - |
| Jeremy Niemi, Director of Exploration[2] | **2018** | **$69,500** | **$128,727** | - |
| | 2017 | - | - | - |
| Directors -director fees | **2018** | **$8,000** | **$218,836** | **$6,000** |
| | 2017 | - | - | - |
| Basil Botha, former CEO – management fees | **2018** | - | - | - |
| | 2017 | $25,000 | - | - |
| Miles Rideout, former CEO – management fees | **2018** | - | - | - |
| | 2017 | 13,000 | - | $12,300 |
| Clearline CPA (Grant T. Smith), former CFO – management fees | **2018** | - | - | **$2,800** |
| | 2017 | $63,000 | - | $14,700 |
| Cameron Tymstra, former COO – management fees | **2018** | - | - | - |
| | 2017 | $77,500 | - | $10,000 |
| Michael Hepworth, former Director – management fees | **2018** | - | - | - |
| | 2017 | $20,000 | - | - |

(1) Amounts disclosed were paid or accrued to the related party during the year ended December 31, 2018 and 2017.

(2) Amounts paid to the individuals indirectly through companies controlled by the related party.

*Expressed in Canadian Dollars*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | $ | $ |
| Net Loss for the year | (21,449,778) | (2,438,621) |
| Statutory tax rate | 27.0% | 26.5% |
| Expected tax ( recovery) | (5,791,000) | (687,000) |
| Share issuance costs | (14,000) | (67,000) |
| Non-deductible expenditures and non-taxable revenues | $169,000 | 156,000 |
| Adjusted to prior years provisions versus statutory tax returns | $296,000 | 72,000 |
| Permanent differences | $388,000 | 93,000 |
| Tax benefit not recognized | $4,952,000 | 433,000 |
| **Income tax recovery** | - | - |

Deferred tax not recognized:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| | $ | $ |
| Property, plant and equipment | - | 28,000 |
| Non-capital loss | 4,588,000 | 2,198,000 |
| Allowable capital loss | 2,651,000 | 28,000 |
| Share issue costs | 102,000 | 135,000 |
| **Income tax recovery** | 7,341,000 | 2,389,000 |