# CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016



### INDEPENDENT AUDITORS' REPORT

To the Shareholders of Black Dragon Gold Corp.

We have audited the accompanying consolidated financial statements of Black Dragon Gold Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive income (loss), cash flows and changes in shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

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

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

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

### **Opinion**

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Black Dragon Gold Corp. as at December 31, 2017 and 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



### **Emphasis of Matter**

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

**Chartered Professional Accountants** 

April 27, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

 $AS\ AT$ 

			December 31,
	Notes	2017	2016
ASSETS			
Current			
Cash and equivalents		\$ 1,753,221	\$ 105,834
Receivables	3	69,952	34,319
Prepaid expenses		9,154	664
		1,832,327	140,817
Equipment	4	685	981
Deposits		1,240	1,240
		1,925	2,221
Total assets		\$ 1,834,252	\$ 143,038
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT	ENCY)		
Current			
Accounts payable and accrued liabilities	6	\$ 801,857	\$ 1,893,278
Interest payable	7	-	1,794,016
Loan facility	7		10,498,919
		801,857	14,186,213
Convertible debenture	8	216,200	
Total liabilities		1,018,057	14,186,213
Shareholders' equity (deficiency)			
Share capital	9	19,695,960	13,165,615
Warrants	9	3,164,574	,,
Equity portion of convertible debenture	8	15,388	-
Reserves	9	4,629,463	4,059,101
Deficit		(26,689,190)	
Total shareholders' equity (deficiency)		816,195	(14,043,175
Total liabilities and shareholders' equity (deficiency)		\$ 1,834,252	\$ 143,038

Nature and continuance of operations (Note 1) Subsequent events (Note 16)

These consolidated financial statements were approved for issue by the Board of Directors on  $27^{th}$  April, 2018 and are signed on its behalf by:

/s/ Paul Cronin	/s/ Richard Monti
Paul Cronin	Richard Monti
Director	Director

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

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Expressed in Canadian dollars)

YEARS ENDED

	Notes	December 31, 2017	December 31, 2016
EXPENSES			
Consulting		\$ 34,715	\$ 14,459
Corporate development		Ψ 54,715	5,543
Depreciation	4	296	360
Directors' fees	т	139,282	300
Filing fees		39,306	19,234
Foreign exchange gain		(275,189)	,
General and administrative	11	304,841	184,898
General exploration	11	47,298	5,950
Management fees	11	1,073,979	636,039
Professional fees	11	339,861	371,273
Rent		42,612	72,229
Severance provision		42,012	280,524
Shareholder communication		69,484	25,599
Share-based compensation	9, 11	776,038	23,377
Transfer agent	), 11	14,133	11,074
Travel and related		144,038	398,760
Website design and maintenance			2,000
Loss before other items		(2,750,694)	(1,715,924)
OTHER ITEMS			
Interest and accretion expense	7, 8	(575,229)	(1,130,945)
Gain on settlement of RMB loan	7	7,901,372	-
Loss on settlement of accounts payable	8	(118,815	-
Other income		122,067	<u> 154</u>
		7,329,395	(1,130,791)
Income (loss) and comprehensive			
income (loss) for the year		\$ 4,578,701	\$ (2,846,715)
Basic earnings (loss) per common share	9	\$ 0.03	\$ (0.07)
Diluted earnings (loss) per common share	9	\$ 0.03	\$ (0.07)
snare	9	\$ 0.03	\$ (0.07)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian dollars)

YEARS ENDED

	December 31, 2017	December 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year	\$ 4,578,701	\$ (2,846,715)
Items not affecting cash:	4 1,2 / 2,1 2 2	4 (=,0 10,7 10)
Depreciation	296	360
Interest and accretion expense	575,229	1,130,945
Share-based compensation	776,038	-,,-
Gain on settlement of RMB loan	(7,901,372)	_
Loss on settlement of accounts payable	118,815	_
Unrealized foreign exchange gain	(435,633)	(248,188)
Change in non-cash working capital items		
Decrease in receivables	(38,550)	(15,897)
Decrease (increase) in prepaid expenses	(8,549)	2
Increase (decrease) in accounts payable		
and accrued liabilities	<u>(780,800)</u>	998,481
Net cash used in operating activities	(3,115,825)	(981,012)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan facility	-	305,020
Convertible debenture	251,000	
Settlement of RMB loan	(4,493,966)	-
Shares and units issued for cash, net	8,948,428	671,062
Exercise of stock options	57,750	
Net cash provided by financing activities	4,763,212	976,082
Change in cash and cash equivalents during the year	1,647,387	(4,930)
Cash and cash equivalents, beginning of year	105,834	110,764
Cash and cash equivalents, end of year	\$ 1,753,221	\$ 105,834

Supplemental disclosure with respect to cash flows (Note 10)

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

BLACK DRAGON GOLD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

	Share	Capi	tal									
	Number		Amount	Convertible Warrants debenture - Equity portion		Reserves			Deficit		Total	
Balance, December 31, 2015	36,780,761	\$	12,494,553	\$ -	\$	-	\$	4,059,101	\$	(28,421,176)	\$	(11,867,522)
Shares issued for cash, net Loss for the year	14,222,592		671,062	 - -		<u>-</u>		- -	_	(2,846,715)		671,062 (2,846,715)
Balance, December 31, 2016	51,003,353	\$	13,165,615	\$ -	\$	-	\$	4,059,101	\$	(31,267,891)	\$	(14,043,175)
Shares issued for cash, net Shares issued to finder's Exercise of options Debt settlements Convertible debenture Warrants issued with convertible debenture Warrants issued to finder's Share-based compensation Income for the year	167,884,824 11,568,033 1,050,000 5,082,164	_	5,565,702 410,586 96,662 457,395	 2,675,622 - - - 166,764 322,188		15,388		(38,912) - - - - 609,274		- - - - - - 4,578,701		8,241,324 410,586 57,750 457,395 15,388 166,764 322,188 609,274 4,578,701
Balance, December 31, 2017	236,588,374	\$	19,695,960	\$ 3,164,574	\$	15,388	\$	4,629,463	\$	(26,689,190)	\$	816,195

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

#### 1. NATURE OF OPERATIONS AND GOING CONCERN

Black Dragon Gold Corp. (the "Company") was incorporated under the laws of the Province of British Columbia on August 20, 2007, and is classified as a junior mining issuer with the TSX Venture Exchange ("TSX-V"). The Company's head office address is Suite 545 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1. The registered and records office address is 2080 - 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The consolidated financial statements for the year ended December 31, 2017 do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

### 2. SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presentation**

These consolidated financial statements for the year ended December 31, 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and the exercise of management's judgment in applying the Company's accounting policies. Areas involving a high degree of judgment or complexity and areas where assumptions and estimates are significant to the Company's consolidated financial statements are discussed below.

The Company's consolidated financial statements for the year ended December 31, 2017 have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Use of estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

### Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

### Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The company also makes estimates as to when performance conditions for stock options will be met.

The determination of whether or not the achievement of performance milestones for stock options likely requires management to consider factors such as the likelihood of an employee or consultant remaining with the Company until requisite performance is achieved as well as external factors such as government regulations, financial market developments and industry trends which influence the milestones. Additionally, factors internal to the Company, such as the financial and strategic support for the achievement of the milestone must be considered. This determination is subject to significant judgment and changes to any of these factors or management's interpretation thereof, may result in expenses being recognized or previously recognized expense being reversed. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 9.

### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Exploraciones Mineras del Cantabrico S.L. ("EMC"). EMC is a mining company in Asturias, Spain. All inter-company transactions and accounts have been eliminated upon consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided annually over the estimated useful life using the following methods:

Furniture and fixtures
Office equipment
Machinery
20% declining balance
20% declining balance
20% declining balance
30% declining balance
40% declining balance
40% declining balance
40% declining balance

### **Exploration and evaluation assets**

Upon acquiring the legal right to explore an exploration and evaluation asset, costs related to the acquisition, exploration and evaluation are capitalized by property. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and evaluation, and future production or proceeds from the disposition thereof.

The Company considers its exploration and evaluation asset as a "qualifying asset" as defined by IAS 23, *Borrowing Costs*. Borrowing costs include interest expense under the effective interest rate method, but exclude standby and commitment fees, and are capitalized in proportion to the extent that the borrowed funds and subsequent related expenditures are capitalized to the exploration and evaluation asset.

### Impairment of tangible and intangible assets

Management evaluates non-current assets at least annually for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), 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, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount.

### 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, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Compound financial instruments**

A compound financial instrument is a non-derivative financial instrument that contains both a liability and an equity component. The Company accounted for its convertible debentures (Note 8) as compound financial instruments. The conversion feature is treated as an equity component and accounted for in compliance with IAS 32 and IAS 39 relating to initial recognition of compound financial instruments.

IAS 39 deals with the measurement of financial assets and liabilities. Equity instruments are instruments that evidence a residual interest in the assets of an entity after deducting all of its liabilities. Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features embedded in the compound financial instrument other than the equity component is included in the liability component.

The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognizing the components of the instrument separately.

The convertible debentures met the criteria to be accounted for as a compound instrument in accordance with IAS 32. As such, the Company has first determined the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The carrying amount of the equity instrument represented by the conversion feature has then been determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole.

### **Decommissioning provisions**

The Company recognizes the fair value of a liability for a decommissioning provision in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any decommissioning provisions as at December 31, 2017 and 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Income taxes

Income tax 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 expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. 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.

### Loss per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similar to basic earnings (loss) 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 stock at the average market price during the reporting years.

### Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity. Common shares issued for consideration other than cash, are valued based on their trading value at the date the shares are issued.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in a unit private placement to be the more easily measurable component. The balance, if any, is allocated to the attached warrants, except where there is a related flow-through share premium, as detailed in the next paragraph. Any fair value attributed to the warrants is recorded as reserves.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Share-based compensation**

Stock options and direct awards of stock granted to employees and other providing similar services are measured at fair value on the date of grant and is recognized as an expense with a corresponding increase in reserves as the options vest. Fair value is determined using the Black Scholes option pricing model taking into the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value.

Options granted to non-employees are measured at their fair value of goods or series received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received. Consideration paid for the shares on the exercise of stock options is credited to share capital.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

### Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the financial position reporting date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Financial instruments**

### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through other comprehensive income (loss).

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash and equivalents at fair value through profit and loss. The Company's receivables and deposits are classified as loans and receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities, interest payable, convertible debenture and loan facility are classified as other financial liabilities.

### Accounting standards and interpretations issued but not yet applied

As at the date of these financial statements, the following standards have not been applied in these financial statements:

- (i) IFRS 9 New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.
- (ii) IFRS 15 New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018.
- (iii) IFRS 16 New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

Management has assessed the impact of these new standards on the Company's accounting policies and financial statement presentation and applied the standards effective on or after January 1, 2018. Management does not expect these standards will have a significant impact on the measurement or presentation of balances or transactions as reported in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 3. RECEIVABLES

	Do	December 31, 2017			
Value-added tax receivable GST receivable Other	\$	38,719 29,183 2,050	\$	15,529 18,790	
Total	\$	69,952	\$	34,319	

### 4. EQUIPMENT

		Office				
	e	quipment		Total		
Cost						
Balance, December 31, 2015	\$	1,359	\$	1,359		
Additions		-		-		
Balance, December 31, 2016	\$	1,359	\$	1,359		
Additions		-		-		
Balance, December 31, 2017	\$	1,359	\$	1,359		
Accumulated depreciation						
Balance, December 31, 2015	\$	18	\$	18		
Depreciation for the year		360		360		
Balance, December 31, 2016	\$	378	\$	378		
Depreciation for the year		296		296		
Balance, December 31, 2017	\$	674	\$	674		
Carrying amounts						
As at December 31, 2016 As at December 31, 2017	\$ <b>\$</b>	981 <b>685</b>	\$ <b>\$</b>	981 <b>685</b>		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 5. EXPLORATION AND EVALUATION ASSETS

	December 2	· 31, 2017	De	cember 31, 2016
Acquisition costs	\$	-	\$	5,536,947
Exploration and evaluation costs		-		8,872,546
Impairment		<u> </u>		(14,409,493)
Total exploration and evaluation assets	\$	-	\$	-

### **Salave Gold Property**

In April 2010, the Company completed the acquisition of a 100% interest in the Salave property located in the province of Asturias, Spain. The Salave property is comprised of several mineral concessions and an investigation permit. There is contingent consideration of €20,000,000 due to the vendor for the acquisition of the Salave property if certain permits are received to operate an open pit mine.

The Salave property is also subject to a pre-existing lease termination agreement which calls for five cash payments of US\$5,000,000 each with the first payment due when certain permits to construct and operate an open pit mine are received, the second on commencement of commercial production and the remaining three payments based on certain production levels with the final payment due after 800,000 ounces have been produced. Pursuant to the lease termination amending agreement, at the option of the Company and subject to regulatory approval, any of these payments can be satisfied in whole by the issuance of common shares of the Company.

After 800,000 ounces of gold have been produced, the Salave property is also subject to a 5% net smelter return royalty ("NSR"), half of which can be purchased by the Company for a cash payment of US \$5,000,000.

During 2005, the regional government of Asturias, Spain halted open-pit project development of the Salave property due to the introduction of certain zoning legislation and the rejection of a specific authorization for mining of the property. Immediately thereafter, a legal proceeding was commenced by EMC and the former owners of EMC against the government seeking the reversal of the decision to halt open-pit project development. This legal proceeding was not successful and, accordingly, the Company's development plans for the Salave property changed from an open pit to an underground operation. The consequence of this development plan is that the contingent consideration will not be payable.

During the fourth quarter of fiscal 2014, the Company received a negative decision on the Amended Environmental Impact Assessment from the Commission for Environmental Affairs of the Principality of Asturias for the Company's current development proposal of the Salave property. As a result of this decision, the Company impaired all of its acquisition costs and exploration and evaluation costs for the year ended December 31, 2014.

During April 2015, the Company filed a lawsuit before the Asturias Court of Justice challenging the decision to reject approval of a proposed underground mine operation for the Salave project. The initial legal action sought to challenge this ruling. In conjunction with this legal action, the Company filed a statement of claim (the "Claim") against the Ministry of Economy and Employment of the Principality of Asturias (the "Ministry") in November 2015. The Claim sought to recover Euro 8.59 million of expenditures incurred on the Salave property since 2010 when the Company acquired the property.

During fiscal 2016, the Company's claim was rejected by the Asturias Court of Justice. While the Company initially filed an appeal, current management rescinded this appeal and intends to work closely with the Spanish government to develop a feasibility study that meets the requirements of the Spanish government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017			
Accounts payables Accrued liabilities	\$	411,144	\$	526,464
Due to related parties (Note 11)		275,943 114,770		396,725 970,089
Total	\$	801,857	\$	1,893,278

### 7. LOAN FACILITY

		2017	2016
Loan facility borrowings, beginning of year Loan facility borrowings made during the year Foreign exchange Settlement	(35	8,919 - (8,868) (0,051)	\$ 10,472,288 305,020 (278,389)
Loan facility borrowings, end of year	\$	-	\$ 10,498,919
Loan transaction costs, beginning of year  Loan transaction costs accreted during the year	\$	<u> </u>	\$ (377,975)
Loan transaction costs, end of year	\$	-	\$ -
Loan facility balance, end of year	\$	-	\$ 10,498,919

In June 2013, the Company, through their subsidiary, EMC, closed an agreement for a \$10,000,000 loan facility ("Facility") to be provided by RMB Australia Holdings Limited ("RMB"), the lender. On August 8, 2013, the Facility was amended to convert all amounts owing and future borrowings from Canadian dollars to US dollars. Previously drawn Canadian dollar amounts were converted to their US dollar equivalents. The total value of the loan facility available to the Company was converted to US\$10,000,000. During the year ended December 31, 2017, the Company recorded \$540,011 (2016 - \$740,686) in interest expense. The facility accrues interest at LIBOR plus 6% per annum. As of July 6, 2017, \$10,140,051 (December 31, 2016 - \$10,498,919) had been drawn and \$2,255,287 (December 31, 2016 - \$1,794,016) of interest was payable.

The repayment of principal and interest, originally due June 2016, was extended to July 6, 2017.

On July 6, 2017, the Company settled the RMB loan facility, including accrued interest, for cash consideration of \$4,493,966 and the granting by the Company to RMB of a 2% net smelter return royalty on the first 800,000 ounces of gold production from the Salave property.

As a result, during the year ended December 31, 2017, the Company recorded a gain on settlement of debt totalling \$7,901,372.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

#### 8. CONVERTIBLE DEBENTURE

During April 2017, the Company issued unsecured convertible debentures with a total principal amount of \$251,000, bearing interest at the rate of 15% per annum. The debentures will mature and be repayable on or before April 18, 2019. The debentures are convertible into common shares of the Company at a conversion price \$0.055 per share until April 18, 2018, and \$0.10 per share thereafter until April 18, 2019. For each \$1,000 in principal amount of debentures, 18,181 common share purchase warrants were issued. Each warrant entitles the holder to acquire one additional common share of the company at a price of \$0.11 per common share for a period of 24 months. If, during this 24-month period, the volume-weighted average price of the Company's common shares is at least \$0.22 for a period of seven consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof to all holders of the warrants, and, in such case, the warrants will expire on the earlier of: (i) the 30th day after the date on which the news release or written notice is provided by the Company; and (ii) the original expiry date. In connection with the issuance of the debentures, the holders thereof will be granted a right to nominate a member for election to the Company's board of directors at any meeting of shareholders where directors are to be elected, provided such nominee is acceptable to regulatory authorities, for so long as the debentures are outstanding.

Pursuant to a service agreement dated July 11, 2016, and previously approved by the TSX-V, Lionsbridge Capital Pty. Ltd., a company owned and controlled by Brian S. Wesson, former chief executive officer, B. Clyde Wesson, former chief operating officer, and Amelia Wesson, former vice-president, received a finder's fee of 570,454 common shares, valued at \$25,671, in connection with the closing of the debentures. The fair value of the warrants issued is \$166,764 determined using the Black Scholes option pricing model and recorded the amounts as share-based compensation during the year ended December 31, 2017.

Upon initial recognition, the Company allocated the proceeds, net of transaction costs (which totaled \$25,671), between the debt and equity components and recorded accretion on the liability component of \$6,259 (2016 - \$Nil) during the year ended December 31, 2017.

		Liabili	Equit	ty component		
	]	Fair value	value Carrying value		F	air value
Balance, December 31, 2016 and 2015	\$	-	\$	-	\$	-
Issuance of convertible debentures, net		251,000	-	209,941	-	15,388
Accretion		-		6,259		-
Balance, December 31, 2017	\$	251,000	\$	216,200	\$	15,388

The fair value of the liability component was calculated by discounting the future principal and interest payments using a discount rate of 18%, with the residual value allocated to the equity component. The discount rate was based on comparable instruments without a conversion feature. Transaction costs were allocated on a pro-rata basis based on the values assigned to the components.

Subsequent to the initial recognition, the convertible loan is carried at amortized cost and is amortized to its principal amount. As at December 31, 2017, \$28,057 (December 31, 2016 - \$Nil) in accrued interest was included in accounts payable and accrued liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 9. SHARE CAPITAL AND RESERVES

Authorized:

Unlimited number of common shares without par value.

### Issued

On October 25, 2017, the Company issued 11,000,000 units at \$0.09 per unit for proceeds totaling \$990,000, in conjunction with the closing of a non-brokered private placement. Each unit is comprised of one common share of the Company and one share purchase warrant. Each warrant enables the holder to acquire one common share at the price of \$0.20 per share until December 31, 2019. The Company paid cash issuance costs of \$5,700.

On October 11, 2017, the Company issued 4,508,365 common shares and 573,799 units in conjunction with the settlement of \$323,988 of debt. The fair value of the 4,508,365 common shares and 573,799 units issued was \$457,395, or \$0.09 both per common share and per unit, resulting in a loss on settlement of \$133,407. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share at an exercise price of \$0.20 per share, until October 11, 2019. There was no residual value allocated to the warrants of the units issued.

On October 10, 2017, the Company received proceeds of \$57,750 in conjunction with the exercise of 1,050,000 stock options. In addition \$38,912 representing the fair value of the options on initial vesting was re-allocated from reserves to share capital.

On June 30, 2017, the Company issued 155,549,824 units at \$0.055 per unit for gross proceeds of \$8,555,240 in conjunction with the closing of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share at an exercise price of \$0.11 per share, until June 30, 2019. A residual value of \$2,333,247 was allocated to the warrants and \$6,221,993 to the common shares.

Finders' fees paid in conjunction with this private placement were comprised of cash payments totalling \$662,485, the issuance of 10,997,579 shares valued at \$384,915 and the issuance of 9,664,589 share purchase warrants valued at \$322,188, of which 1,664,589 warrants are exercisable for two years and of which 8,000,000 warrants are exercisable for four years, all with the same terms as those attached to the unit warrants.

On May 1, 2017, the Company issued 570,000 units at \$0.055 per unit for gross proceeds of \$31,350 in conjunction with the closing of a tranche of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share at an exercise price of \$0.11 per share, until May 1, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid cash issuance costs of \$915.

During March, 2017, the Company issued 765,000 units at \$0.055 per unit for gross proceeds of \$42,075 in conjunction with the closing of two tranches of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share at an exercise price of \$0.11 per share, expiring between March 28 and March 29, 2019. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid cash issuance costs of \$1,137.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
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### 9. SHARE CAPITAL AND RESERVES (continued)

### Issued (continued)

During December 2016, the Company issued 3,940,000 units for gross proceeds of \$216,700 in conjunction with the closing of two tranches of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.11 per share, expiring between December 6 and December 22, 2018. If, during the warrant term, the closing price of the Company's common shares is at least \$0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid a finder's fee of \$660.

During August 2016, the Company issued 10,282,592 units for gross proceeds of \$514,130 in conjunction with a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of \$0.07 per share, expiring August 12, 2018. If, during the warrant term, the closing price of the Company's common shares is at least \$0.20 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. A cash finder's fee of \$37,500 was paid to Lionsbridge Pty Ltd., a company controlled by the Company's former CEO. In addition, the Company paid cash issuance costs of \$21,608.

### Warrants

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2015 Issued Expired	5,000,000 \$ <u>14,222,592</u> <u>(5,000,000)</u>	0.62 0.08 0.62
Outstanding, December 31, 2016	14,522,592	0.08
Issued	182,686,643	0.12
Outstanding, December 31, 2017	196,909,235 \$	0.11

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 9. SHARE CAPITAL AND RESERVES (continued)

A summary of the number of common shares reserved pursuant to the Company's warrants outstanding as at December 31, 2017 is as follows:

Expiry date	Number	Exercise Price
August 12, 2018	10,282,592	0.07
December 6, 2018	1,410,000	0.11
December 7, 2018	900,000	0.11
December 22, 2018	1,630,000	0.11
March 28, 2019	400,000	0.11
March 29, 2019	365,000	0.11
April 18, 2019	4,563,431	0.11
May 1, 2019	570,000	0.11
June 30, 2019	157,214,413	0.11
October 11, 2019	573,799	0.11
December 31, 2019	11,000,000	0.20
June 30, 2021	8,000,000	0.11
Total	196,909,235	

The fair value for share purchase warrants issued have been estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2017	2016
Risk-free interest rate	0.96%	-
Expected life (in years)	2.00	-
Expected volatility	219.89%	-
Expected dividend rate	0.00%	-
Fair value	\$0.03	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
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### 9. SHARE CAPITAL AND RESERVES (continued)

### Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

A summary of the status of the Company's stock options as at December 31, 2017 and 2016 is as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2015	3,335,000 \$	0.54
Expired / forfeited	(1,470,000)	0.72
Outstanding, December 31, 2016	1,865,000	0.40
Granted	21,630,000	0.08
Exercised	(1,050,000)	0.06
Expired	(1,665,000)	0.39
Cancelled	(800,000)	0.06
Outstanding, December 31, 2017	19,980,000 \$	0.08
Stock options exercisable, December 31, 2017	780,000 \$	0.14

A summary of the number of common shares reserved pursuant to the Company's options outstanding as at December 31, 2017 is as follows:

Expiry date	Number of Options	Number Exercisable	Exercise Price
March 19, 2018 <sup>1</sup>	200,000	200,000	0.40
February 22, 2019	580,000	580,000	0.055
September 24, 2027	7,180,000	-	0.08
September 24, 2027	3,590,000	-	0.11
September 24, 2027	3,590,000	-	0.11
September 24, 2027	3,590,000	-	0.15
October 22, 2027	500,000	-	0.08
October 22, 2027	750,000	-	0.08
Total	19,980,000	780,000	

<sup>&</sup>lt;sup>1</sup>These options expired unexercised subsequent to year end.

During the year ended December 31, 2017, the Company recognized \$776,038 (2016 - \$Nil) of share-based compensation expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 9. SHARE CAPITAL AND RESERVES (continued)

### **Stock options** (continued)

On February 23, 2017, the Company granted 2,430,000 stock options to directors, officers, and consultants of the Company. The options are exercisable for a period of two years at a price of \$0.055 per share. The options vested immediately upon grant.

On September 25, 2017, the Company granted 17,950,000 stock options to directors of the Company. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) three years from the date each milestone is obtained, or ii) ten years from the date of grant being September 24, 2027. 40% will vest upon receipt of a drilling permit for the Salave Gold project; or if a previous permit is deemed to be still active, upon commencement of a drilling program, exercisable at a price of \$0.08 per share. 20% will vest upon completion of an equity financing of minimum \$1,000,000 in North America, exercisable at a price of \$0.11 per share. 20% will vest upon commencement of trading of the Company's shares on the Australia Stock Exchange, exercisable at a price of \$0.11 per share. 20% will vest upon completion of a Preliminary Economic Assessment Study or a Scoping Study on the Salave Gold Project, exercisable at a price of \$0.15 per share. As at December 31, 2017, none of the milestones have been achieved.

On October 23, 2017, the Company granted 1,250,000 stock options to an employee of the Company exercisable at a price of \$0.08 per share. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) five years from the date each milestone is obtained, or ii) ten years from the date of grant being October 22, 2027. 40% will vest upon completion of 1,000m of drilling at the Salave Gold Project and 60% will vest upon completion of a Joint Ore Reserves Committee Report on exploration results, mineral resources and ore reserves or National Instrument 43-101 Preliminary Economic Assessment or Scoping Study on the Salave Gold Project. As at December 31, 2017, none of the milestones have been achieved.

The Company did not grant any stock options during the year ended December 31, 2016.

#### **EPS and diluted EPS**

Basic EPS is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year.

Diluted EPS is determined by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potential dilutive common shares related to stock options, warrants, and convertible debentures issued by the Company.

	2017			2016
Net income (loss) attributable to common shareholders	\$ 4,	,578,701	\$ (2	,846,715)
Weighted average number of common shares - basic	139,707,185 4		41	,113,521
Weighted average number of common shares - diluted	144,361,872 41,113		,113,521	
Basic earnings (loss) per common share - basic	\$	0.03	\$	(0.07)
Basic earnings (loss) per common share - diluted	\$	0.03	\$	(0.07)

The Company's stock options and convertible debentures had a dilutive effect during the year ended December 31, 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 10. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

During the years ended December 31, 2017 and 2016, the Company incurred the following non-cash transactions that are not reflected in the statements of cash flows:

	2017	2016
Residual value of unit warrants	\$ 2,675,622	\$ -
Fair value of finder's warrants	\$ 322,188	\$ -
Fair value of warrants issued with convertible debentures	\$ 166,764	\$ 

### 11. RELATED PARTY TRANSACTIONS

The Company considers personnel with the authority and responsibility for planning, directing and controlling the activities of the Company to be key management personnel.

Transactions with key management personnel

The following amounts were incurred with respect to the President and Chief Executive Officer, a Director, the Chief Operating Officer and the Chief Financial Officer of the Company:

	2017	2016
Management fees – current Chief Executive Officer	\$ 158,951	\$ -
Management fees – former management	615,028	636,039
Severance – former management	300,000	195,900
Directors' fees – current directors	94,282	-
Directors' fees – former directors	45,000	_
Professional fees – former Chief Financial Officer	144,000	43,500
Severance – former Chief Financial Officer	36,000	
Share-based compensation	585,114	-
-	\$ 1,978,375	\$ 875,439

There is \$114,770 (2016 - \$970,089) in accounts payable and accrued liabilities at December 31, 2017 that is due to former directors, officers and companies controlled by directors or officers or a former director or officer of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

#### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### Fair value

The inputs used in making fair value measurements are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 Unadjusted quoted prices in active markets for identical assets and liabilities;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 Inputs that are not based on observable market data.

The carrying value of receivables and accounts payable and accrued liabilities and loan facility approximated their fair value because of the short-term nature of these instruments. Cash is measured at fair value using Level 1 inputs. The carrying value of deposits also approximates its fair value.

Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and equivalents	\$ 1,753,221	\$ - \$	- \$	1,753,221

The Company has exposure to the following risks from its use of financial instruments:

### Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's cash is held at large financial institutions and it believes it has no significant credit risk.

### Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at December 31, 2017, the Company had current assets of \$1,832,327 to settle current liabilities of \$801,857 which either have contractual maturities of less than 30 days and are subject to normal trade terms or are due on demand.

#### Market risk

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates and foreign exchange rates.

### a) Interest rate risk

Interest rate risk is the risk due to variability of interest rates. The Company is exposed to interest rate risk on its bank account. The income earned on the bank account is subject to the movements in interest rates. The Company has cash balances and no-interest bearing debt, therefore, interest rate risk is nominal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars)
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### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Spain by using Euros converted from its Canadian bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. Based on the Company's Euro denominated financial instruments at December 31, 2017, a 10% change in exchange rates between the Canadian dollar and the Euro would result in a \$35,302 change in foreign exchange gain or loss.

#### 13. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity and a loan facility agreement (see Note 7). The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. 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, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company will need to raise additional capital by obtaining equity financing, selling assets and incurring debt to develop its business.

### 14. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration of exploration and evaluation assets located in Spain. Geographic information is as follows:

	Deposits	Equipment	Total	
December 31, 2017 Canada Spain	\$ 1,240	\$ 685	\$ 1,925	
	\$ 1,240	\$ 685	\$ 1,925	
December 31, 2016 Canada Spain	\$ 1,240	\$ 981	\$ 2,221	
	\$ 1,240	\$ 981	\$ 2,221	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Expressed in Canadian dollars) FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

### 15. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

		2017		2016
Gain (Loss) for the year	\$	4,578,701	\$	(2,846,715)
Expected income tax recovery (26%)	\$	1,190,000	\$	(741,000)
Change in statutory, foreign tax, foreign exchange rates and other	Ψ	(853,000)	Ψ	637,000
Share issuance costs		(174,000)		(16,000)
Permanent differences		145,000		(42,000)
Adjustment to prior year tax provision versus statutory tax returns		(572,000)		154,000
Change in unrecognized deductible temporary differences		264,000	_	8,000
Total income tax expense (recovery)	\$	-	\$	_

In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

The significant components of the Company's temporary differences and tax losses that have not been recognized on the consolidated statements of financial position are as follows:

Temporary Differences	2017	Expiry Date Range	2016	Expiry Date Range
Exploration and evaluation assets Share issue costs and other Non-capital losses available for future period	\$ 19,017,000 705,000 11,769,000	No expiry date 2038 to 2041  2023 to no expiry	\$ 17,923,000	No expiry date 2037 to 2040 2027 to 2036

Tax attributes are subject to review and potential adjustment by tax authorities.

### 16. SUBSEQUENT EVENTS

Subsequent to year end, the Company granted 1,000,000 incentive stock options to an officer. These options vest upon achievement of certain performance conditions and expire at the earlier of: i) three years from the date the milestone is obtained, or ii) ten years from the date of grant being February 7, 2028. 100% of the options will vest upon commencement of trading of the Company's shares on the Australia Stock Exchange, exercisable at a price of \$0.11 per share.

Subsequent to December 31, 2107 the Company received a demand letter claiming total debt of approximately US\$50,000 was due by the Company to the claimant in connection with transactions occurring prior to December 31, 2017. The Company intends to defend the allegations set out in the demand letter vigorously and believes the claim to be without merit. However, any adverse decision in resolving these proceedings could have an adverse effect on the Company.