



# Cabral Gold

## **Cabral Gold Ltd.**

(An Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS

(Unaudited)

NINE MONTHS ENDED SEPTEMBER 30, 2017

# Cabral Gold Ltd.

## Condensed interim consolidated statements of financial position

(Expressed in Canadian Dollars)

	Notes	Sept. 30, 2017	Dec. 31, 2016
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 524,864	\$ 2,184,746
Accounts receivable		26,666	11,811
Prepaid expenses		2,500	15,770
<b>Total Current assets</b>		<b>554,030</b>	<b>2,212,327</b>
<b>Non-current assets</b>			
Fixed assets	4	815,269	853,890
Mineral properties	5	1,320,150	1,161,731
<b>Total Assets</b>		<b>\$ 2,689,449</b>	<b>\$ 4,227,948</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 175,983	\$ 729,471
Other liabilities and provisions	8	193,111	412,507
<b>Total Current liabilities</b>		<b>369,094</b>	<b>1,141,978</b>
<b>Long-term liabilities</b>	7	302,202	59,320
<b>Total liabilities</b>		<b>671,296</b>	<b>1,201,298</b>
<b>Shareholders' equity</b>			
Share capital	9(a)	3,309,346	3,050,383
Subscription receipts	17	45,900	200,000
Reserves	9(b), 9(c)	202,053	38,253
Accumulated other comprehensive income		(32,867)	25,394
Accumulated deficit		(1,506,279)	(287,380)
<b>Total Shareholders' equity</b>		<b>2,018,153</b>	<b>3,026,650</b>
<b>Total Liabilities and Shareholders' equity</b>		<b>\$ 2,689,449</b>	<b>\$ 4,227,948</b>
<b>Subsequent events (Notes 5(a) and 17)</b>			
<b>Commitments and contingent liabilities (Notes 5, 16 and 17)</b>			

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

Approved by the Board of Directors

"Derrick Weyrauch"  
Derrick Weyrauch, Director

"Charles Oliver"  
Charles Oliver, Director

## Cabral Gold Ltd.

### Condensed interim consolidated statements of loss and comprehensive loss

(Expressed in Canadian Dollars except number of shares)

	Notes	3 months ended Sept. 30, 2017	3 months ended Sept. 30, 2016	9 months ended Sept. 30, 2017	Period from Feb. 17, 2016 (date of incorporation) to Sept. 30, 2016
<b>Expenses</b>					
Professional fees		\$ 81,543	\$ 2,073	\$ 230,314	\$ 2,784
Depreciation	4	2,207	1,508	6,078	2,436
Office and administrative		20,798	11,684	59,519	15,031
Exploration expenditures	10	90,222	48,842	287,927	95,436
Management and consulting	13(a)	65,332	3,911	194,082	5,487
Stock based compensation	9(c)	-	-	163,800	-
Travel		6,073	10,208	51,552	12,953
		<u>266,175</u>	<u>78,226</u>	<u>993,272</u>	<u>134,127</u>
<b>Other income and expenses</b>					
Adjustment to provisions	16	9,656	-	201,934	-
Foreign exchange loss (gain)		10,710	(5,060)	21,530	(5,775)
Penalties and financing charges	7	9,139	3,467	33,655	6,902
Other income	6	(25,757)	-	(25,757)	-
Interest income		105	-	(5,735)	-
		<u>105</u>	<u>-</u>	<u>(5,735)</u>	<u>-</u>
<b>Net loss for the period</b>		<b><u>\$ 270,028</u></b>	<b><u>\$ 76,633</u></b>	<b><u>\$ 1,218,899</u></b>	<b><u>\$ 135,254</u></b>
<b>Other comprehensive income and loss</b>					
Unrealised foreign currency translation items		(14,987)	1,936	58,261	(20,295)
		<u>(14,987)</u>	<u>1,936</u>	<u>58,261</u>	<u>(20,295)</u>
<b>Total comprehensive loss for the period</b>		<b><u>\$ 255,041</u></b>	<b><u>\$ 78,569</u></b>	<b><u>\$ 1,277,160</u></b>	<b><u>\$ 114,959</u></b>
Loss per share, Basic and diluted		\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00
Weighted average shares outstanding, Basic and diluted		126,791,932	90,150,780	126,496,904	74,447,236

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

## Cabral Gold Ltd.

### Condensed interim consolidated statements of changes in shareholders' equity

(Expressed in Canadian Dollars except number of shares)

	Issued common shares	Share capital	Subscription receipts	Reserves, Warrants	Reserves, Stock options	Accumulated other comprehensive income	Accumulated deficit	Total shareholders' equity
<b>Balance at February 17, 2016 (date of incorporation)</b>	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
Shares issued for cash	89,495,993	1,283,001	-	-	-	-	-	1,283,001
Comprehensive loss	-	-	-	-	-	20,295	(135,254)	(114,959)
<b>Balance at September 30, 2016</b>	<b>90,500,000</b>	<b>\$ 1,283,001</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>20,295</b>	<b>(\$ 135,254)</b>	<b>\$ 1,168,042</b>
<b>Balance at December 31, 2016</b>	<b>122,341,932</b>	<b>\$ 3,050,383</b>	<b>\$ 200,000</b>	<b>\$ 38,253</b>	<b>\$ -</b>	<b>25,394</b>	<b>(\$ 287,380)</b>	<b>\$ 3,026,650</b>
Shares issued for cash	4,450,000	267,000	(200,000)	-	-	-	-	67,000
Share issuance costs	-	(8,037)	-	-	-	-	-	(8,037)
Subscription receipts	-	-	45,900	-	-	-	-	45,900
Stock options issued	-	-	-	-	163,800	-	-	163,800
Comprehensive loss	-	-	-	-	-	(58,261)	(1,218,899)	(1,277,160)
<b>Balance at September 30, 2017</b>	<b>126,791,932</b>	<b>\$ 3,309,346</b>	<b>\$ 45,900</b>	<b>\$ 38,253</b>	<b>\$ 163,800</b>	<b>(\$ 32,867)</b>	<b>(\$ 1,506,279)</b>	<b>\$ 2,018,153</b>

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

**Cabral Gold Ltd.****Condensed interim consolidated statements of cash flows**

(Expressed in Canadian Dollars)

	<b>9 months ended Sept. 30, 2017</b>	<b>Period from Feb. 17, 2016 (date of incorporation) to Sept. 30, 2016</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(\$ 1,218,899)	(\$ 135,254)
Adjustments for items not involving cash:		
Depreciation	6,078	2,436
Stock based compensation	163,800	-
Unrealised foreign exchange loss	15,879	(19,247)
	<b>(1,033,142)</b>	<b>(152,065)</b>
Net changes in non-cash working capital:		
Increase in accounts receivable	(14,855)	(463,195)
Decrease in prepaid expenses	13,270	-
Increase (decrease) in accounts payable	(884,312)	186,009
Increase in other liabilities and provisions	192,278	-
<b>Cash used in operating activities</b>	<b>(1,726,761)</b>	<b>(429,251)</b>
<b>INVESTING ACTIVITIES</b>		
Additions to mineral properties	(19,999)	(51,937)
Additions to fixed assets	(5,349)	-
Pre-closing cash advanced to acquire Magellan Brazil	-	(360,816)
Cash acquired in Magellan Brazil transaction	-	68,102
<b>Cash used in investing activities</b>	<b>(25,348)</b>	<b>(344,651)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of share capital	67,000	783,001
Share issuance costs	(8,037)	-
Subscription receipts	45,900	-
<b>Cash provided by financing activities</b>	<b>104,863</b>	<b>783,001</b>
<b>Effect of change in exchange rate on cash</b>	<b>(12,636)</b>	<b>1,085</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(1,659,882)</b>	<b>10,184</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>2,184,746</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 524,864</b>	<b>\$ 10,184</b>

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

# **Cabral Gold Ltd.**

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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

Cabral Gold Ltd. was incorporated in Canada on February 17, 2016 under the British Columbia Business Corporations Act. Cabral Gold Ltd. (which, together with its subsidiaries, is collectively referred to as “Cabral” or the “Company”) is in the business of the exploration and development of mineral properties, with a primary focus on gold properties in Brazil.

The Company’s registered office is located at 1200 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T8.

The nature of the Company’s operations results in significant expenditures for the acquisition and exploration of mineral properties. The recoverability of the carrying value of mineral properties and deferred expenditures is dependent upon a number of factors including the existence of recoverable reserves, the ability of the Company to obtain financing to maintain properties and continue exploration and development and the discovery of economically recoverable reserves. To date, the Company has not received any revenue from mining operations and is considered to be in the exploration stage.

#### ***Going concern***

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes the Company will be able to realize its assets and settle its liabilities in the normal course of business. To date, the Company has not generated any revenue from mining or other operations as it is considered to be in the exploration stage. For the nine months ended September 30, 2017, the Company reported a net loss of \$1,218,899 (period from February 17, 2016 (date of incorporation) to September 30, 2016: net loss of \$135,254) and cash applied to operating activities of \$1,726,761 (period ended September 30, 2016: \$429,251), and as at that date had a net working capital balance of \$184,936 (December 31, 2016: \$1,070,349) and an accumulated deficit of \$1,506,279 (December 31, 2016: \$287,380).

The Company’s ability to continue as a going concern is dependent upon its ability to obtain additional funding from loans or equity financings provided by the Company’s existing shareholders and/or new shareholders or through other arrangements. There is no assurance that the Company will be successful in this regard.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

The Company completed a \$4.16 million financing followed by a business combination transaction in October 2017 (see Note 17). Management has estimated that the Company will have adequate funds from existing working capital and the October 2017 financing to meet its corporate development, administrative and property obligations for the year ended September 30, 2018. The Company will periodically need to obtain additional financing, and while it has been successful in the past, there can be no assurance that it will be able to do so in the future.

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB (“International Accounting Standards Board”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’. The accounting policies followed in these condensed interim consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements for the period from February 17, 2016 (date of incorporation) to December 31, 2016.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of November 27, 2017, the effective date the Board of Directors approved these financial statements. Any subsequent changes to IFRS after this date could result in changes to the consolidated financial statements as at and for the nine months ended September 30, 2017.

The condensed interim consolidated financial statements do not contain all disclosures required under IFRS and should be read in conjunction with Company’s annual consolidated financial statements and the notes thereto for the year ended December 31, 2016.

#### **3. RECENT ACCOUNTING PRONOUNCEMENTS**

##### ***IFRS 9 Financial Instruments (2014)***

The IASB replaced IAS 39 Financial Instruments: Recognition and Measurement in its entirety with IFRS 9. IFRS 9 deals with classification and measurement, impairment, hedge accounting and derecognition of financial assets and liabilities. In February 2014, the IASB decided to defer to January 1, 2018 the implementation of IFRS 9. The Company’s management has yet to assess the impact of this new standard on the Company’s financial statements. Management does not expect to implement IFRS 9 until it has been issued and its overall impact can be assessed. IFRS 9 is applicable to annual periods commencing on or after January 1, 2018.

# Cabral Gold Ltd.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

### 4. FIXED ASSETS

	Land	Vehicles	Office equipment	Total
<b>Cost:</b>				
December 31, 2016	\$ 833,100	\$ 16,497	\$ 8,249	\$ 857,846
Additions	-	-	5,349	5,349
Foreign exchange differences	(36,977)	(732)	(366)	(38,075)
September 30, 2017	796,123	15,765	13,232	825,120
<b>Accumulated depreciation:</b>				
December 31, 2016	-	(2,637)	(1,319)	(3,956)
Depreciation expense	-	(3,091)	(2,987)	(6,078)
Foreign exchange differences	-	122	61	183
September 30, 2017	-	(5,606)	(4,245)	(9,851)
<b>Net book value:</b>				
December 31, 2016	833,100	13,860	6,930	853,890
<b>September 30, 2017</b>	<b>\$ 796,123</b>	<b>\$ 10,159</b>	<b>\$ 8,987</b>	<b>\$ 815,269</b>

	Land	Vehicles	Office equipment	Total
<b>Cost:</b>				
February 17, 2016	\$ -	\$ -	\$ -	\$ -
Magellan Brazil transaction	733,452	14,524	7,262	755,238
Foreign exchange differences	99,648	1,973	987	102,608
December 31, 2016	833,100	16,497	8,249	857,846
<b>Accumulated depreciation:</b>				
February 17, 2016	-	-	-	-
Depreciation expense	-	(2,637)	(1,319)	(3,956)
December 31, 2016	-	(2,637)	(1,319)	(3,956)
<b>Net book value:</b>				
February 17, 2016	-	-	-	-
<b>December 31, 2016</b>	<b>\$ 833,100</b>	<b>\$ 13,860</b>	<b>\$ 6,930</b>	<b>\$ 853,890</b>

## Cabral Gold Ltd.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

#### *Land*

Pursuant to an agreement entered into in January 2016 and amended in June 2017, the Company acquired a parcel of land at Cuiú Cuiú with a total area of approximately 30 hectares for a total of R\$ 2,000,000. The land parcel covers the Moreira Gomes deposit which is one of the two gold deposits currently known on the Cuiú Cuiú project.

R\$ 1,000,000 of the R\$ 2,000,000 purchase price was paid in April 2016 prior to the closing of the 2016 Magellan Brazil transaction; the remaining R\$ 1,000,000 was a liability as at the date of closing. Pursuant to the agreement, the outstanding liability was to be paid in two tranches of R\$ 500,000 on each of February 2, 2017 and July 31, 2017. The February and July payments were made by the Company in accordance with the terms of the agreement.

#### 5. MINERAL PROPERTIES

9 months ended September 30, 2017					
	Dec. 31, 2016	Additions	Foreign exchange	Sept. 30, 2017	
Cuiú Cuiú	\$ 1,114,321	\$ 196,528	(\$ 35,993)	\$ 1,274,856	
Bom Jardim	44,866	-	(2,002)	42,864	
Other	2,544	-	(114)	2,430	
	<b>\$ 1,161,731</b>	<b>\$ 196,528</b>	<b>(\$ 38,109)</b>	<b>\$ 1,320,150</b>	

Period from Feb. 17, 2016 (date of incorporation) to Sept. 30, 2016						
	Feb. 17, 2016	Magellan Brazil transaction	Additions	Foreign exchange	Dec. 31, 2016	
Cuiú Cuiú	\$ -	\$ 948,380	\$ 101,069	\$ 64,872	\$ 1,114,321	
Bom Jardim	-	25,417	15,334	4,115	44,866	
Other	-	-	2,440	104	2,544	
	<b>\$ -</b>	<b>\$ 973,797</b>	<b>\$ 118,843</b>	<b>\$ 69,091</b>	<b>\$ 1,161,731</b>	

The Company's primary mineral property is Cuiú Cuiú.

All of the Company's properties are located in Brazil.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee their titles. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

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It is possible that economically recoverable reserves may not be discovered and accordingly a material portion of the carrying value of mineral properties could be impaired in the future.

The Company is required to make certain option payments in order to maintain its property agreements in good standing. These future payments totalled US\$ 40,000 as at September 30, 2017 all of which is conditional on the formal registration of title to an optioned secondary property (see Note 5(b)). The Company is also required to make statutory claim maintenance expenditures to the Brazilian authorities each year to maintain certain of its properties in good standing.

#### **(a) Cuiú Cuiú**

##### ***Surface access agreement, garimpiero condominium***

On February 19, 2006, Magellan Minerais Prospecção Geológica Ltda. (“Magellan Brazil”, a wholly owned subsidiary of Magellan Gold Ltd.) entered into an agreement with the owners of the traditional surface rights over the Cuiú Cuiú property. Additional minority stakeholders were included in the agreement in 2008. The owners are organized into a ‘condominium’ (which is similar to a cooperative, but with fewer rights) comprising 60 minority stakeholders and 10 majority stakeholders. Magellan Brazil agreed to pay each of the majority stakeholders R\$ 4,000 per year and each of the minority stakeholders R\$ 2,000 per year for a period of up to five years in May of each year; the first payment was made on May 16, 2006, and subsequent payments were made in May of each year through 2010.

The February 2006 agreement was extended through February 16, 2016 pursuant to a renewal agreement dated December 7, 2010. The terms remained the same as the original agreement with the exception of the annual payments which increased from R\$ 2,000 to R\$ 2,500 for minority stakeholders (equivalent of \$985 as at September 30, 2017) and from R\$ 4,000 to R\$ 5,000 for majority stakeholders (\$1,971).

The February 2006 agreement was extended a second time pursuant to a second renewal agreement dated March 29, 2017 for four years through May 2018 (including in respect of the two years ended May 2016). With certain minor exceptions, the terms remained the same as the initial December 2010 amendment. The March 2017 amendment did, however, recognise a reduction in the number of minority stakeholders to 57 and an increase in the number of majority stakeholders to 18.

The March 2017 amendment also set out additional charges in respect of inflation adjustments and interest charges relating to the delay in payment of annual fees since 2014. Total charges amounted to R\$ 1,268,079 in respect of the four years ended May 2018 which was to be paid as follows: R\$ 751,383 on or before March 30, 2017 and the remaining R\$ 516,696 on or before June 30, 2017. Subject to minor late adjustments, minor delays in payment to certain individuals residing in remote locations and R\$ 22,991 still owing to one majority and two minority stakeholders as at both September 30, 2017 and November 27, 2017, all amounts were paid in accordance with the March 2017 amendment.

The agreements specify that in the event an economically viable gold resource is identified, Magellan Brazil will make an additional payment to the owners of the traditional surface rights

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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based on the amount of gold defined (as measured in accordance with Australasian Joint Ore Reserves Committee definitions) as follows:

- Less than 1.0 million ounces: US\$ 2,000,000
- 1.0 million ounces to 2.0 million ounces: US\$ 3,000,000
- 2.0 million ounces to 3.0 million ounces: US\$ 4,000,000
- 3.0 million ounces to 4.0 million ounces: US\$ 6,000,000
- More than 4.0 million ounces: an additional US\$ 3,000,000 for every additional million ounces identified in excess of 4.0 million ounces of contained gold.

Upon delivery and approval of the final research reports on the areas under consideration to the Brazilian National Department of Mineral Production or at any time if the size of the gold reserve is found to be economically viable (supported by a formal feasibility study), Magellan Brazil is to provide written notice to the condominium following which the aforementioned payment is to be made within 90 days.

#### ***Sandstorm NSR***

In May 2012, Magellan and Magellan Brazil granted Sandstorm Gold Ltd. (“Sandstorm”) a 1.0% net smelter royalty (“NSR”) on the Cuiú Cuiú project for consideration of US\$ 500,000. The Company is required to pay an advance royalty of US\$ 250,000 on the date that it obtains a feasibility study that recommends placing all or part of the Cuiú Cuiú project into production and a further advance royalty payment of US\$ 250,000 on each one year anniversary of this date thereafter until the property enters commercial production. As part of the transaction, Magellan provided Sandstorm with a right of first refusal on any future royalty or gold stream financing for the Cuiú Cuiú project.

Magellan’s rights and responsibilities associated with this agreement were transferred to Cabral pursuant to an agreement dated May 2, 2016.

#### ***Magellan NSR***

In conjunction with the April 2016 agreement between the Company, Magellan and two of the Company’s founding shareholders relating to the transfer of Magellan Brazil from Magellan to the Company, Magellan Brazil and the Company agreed to grant Magellan a 0.5% royalty on the Cuiú Cuiú property. The Magellan NSR is subordinate to the Sandstorm NSR.

#### **(b) Bom Jardim**

Magellan Brazil holds rights to mineral properties in the Bom Jardim region pursuant to two separate option agreements as follows:

- Option agreement dated 1 June 2011 requiring total payments of R\$ 100,000 (paid in full as at the date of closing of the 2016 Magellan Brazil transaction)
- Option agreement dated May 4, 2009 requiring total payments of R\$ 35,000 and US\$ 40,000. As at the date of closing of the 2016 Magellan Brazil transaction, R\$ 35,000 had been paid and US\$ 40,000 was unpaid pending the formal transfer of mineral rights to the Company; the final US\$ 40,000 option payment remained unpaid as at September 30, 2017 due to the absence of formal transfer.

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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The second option agreement specifies that in the event that a gold deposit is identified, Magellan Brazil will immediately make an additional payment to the optionors based on the amount of gold defined (as measured in accordance with Australasian Joint Ore Reserves Committee definitions) as follows:

- Up to 15 tons: US\$ 2,000,000
- Between 15 and 30 tons: US\$ 3,000,000
- Between 30 and 45 tons: US\$ 4,000,000
- Between 45 and 60 tons: US\$ 5,000,000
- Between 60 and 90 tons: US\$ 6,000,000
- More than 90 tons: US\$ 8,000,000.

#### **(c) Uniao**

Magellan Brazil holds the rights to the Uniao property.

Pursuant to an agreement entered into with a third party in 2014, Magellan agreed to transfer the Uniao property out of Magellan Brazil for nominal consideration. As at November 27, 2017, the transfer of the Uniao property had not been completed. None of the purchase price consideration relating to the April 2016 Magellan Brazil transaction was attributed to the Uniao property.

#### **6. POCONÉ**

The Company is a party to two sets of agreements with third parties pursuant to which mineral properties in the Poconé region of the state of Mato Grosso in Brazil were to be identified, explored and developed. The first agreement was entered into between Magellan and ECI Exploration & Mining Inc. (“ECI”) on October 17, 2011 effective December 2009 pursuant to which ECI and Magellan would share equally in the rights and responsibilities associated with the identification, exploration and development of mineral properties (the “ECI Venture”). The second set of agreements was between Magellan, ECI and Brasil Central Engenharia Ltda. (“Brasil Central”) pursuant to which Magellan, ECI, and Brasil Central would seek to identify, explore and develop mineral properties through a newly incorporated entity, Poconé Gold Mineração Ltda. (“PGM”), an entity in which Magellan Brazil holds a 35% interest (as at both the date of closing of the 2016 Magellan Brazil transaction and September 30, 2017).

Magellan’s rights and responsibilities associated with both the ECI Venture and PGM were transferred to Cabral prior to the date of closing of the 2016 Magellan Brazil transaction pursuant to an agreement dated April 15, 2016 between the Company, Magellan and ECI.

Virtually no exploration activity was undertaken on any of the Poconé properties since 2012.

None of the purchase price consideration relating to the 2016 Magellan Brazil transaction was attributed to the Poconé properties, however, various liabilities amounting to \$18,788 relating to the ECI Venture and PGM were recognised.

One of the mineral claims held by the ECI Venture was sold in September 2017 for R\$ 250,000. R\$ 125,000 of the proceeds of disposal was received in September 2017 of which the Company’s

## Cabral Gold Ltd.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

50% interest amounted to R\$ 62,500 (\$25,757). The remaining proceeds on sale will be recognised when received.

#### 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Sept. 30, 2017	Dec. 31, 2016
Restructured Brazil taxes (see Note 8)	\$ 317,483	\$ 71,935
Cuiú Cuiú condominium liability (see Note 5(a))	9,061	337,830
Brazil taxes (not deferred)	33,395	283,041
Restructured Brazil claim maintenance (see Note 8)	16,678	13,486
Transaction (business combination and financing, see Note 17)	65,673	
Other	35,895	82,499
	<u>478,185</u>	<u>788,791</u>
Long-term portion, restructured Brazil taxation (see Note 8)	(290,583)	(49,577)
Long-term portion, restructured claim maintenance (see Note 8)	(11,619)	(9,743)
	<u>\$ 175,983</u>	<u>\$ 729,471</u>

#### *Restructuring of Brazilian tax and claim maintenance liabilities*

During the fourth quarter of 2014 and the first quarter of 2016, Magellan Brazil restructured certain unpaid taxes due to various federal and state taxation and administrative bodies in Brazil. The payment plan including discount was entered into pursuant to a general program offered by these bodies. The restructured liabilities are being repaid over 60 months. Monthly repayments are increased to recognise the impact of inflation pursuant to indices published each month.

Magellan Brazil entered into a new restructuring agreement relating to approximately \$289,525 of unpaid social taxes, penalties, interest and fees in May 2017. The restructured liabilities are being repaid over 120 months. Monthly repayments are increased to recognise the impact of inflation pursuant to indices published each month.

In the nine months ended September 30, 2017, two additional new restructuring agreements were entered into as follows:

- INSS social taxes of R\$ 65,642 (approximately \$25,757)
- Poconé claim maintenance charges of R\$ 31,532 (approximately \$12,373); entered into by ECI, amounts reflect Magellan Brazil's share.

Of the total balance of restructuring taxes and deferred claim maintenance expenditures of \$334,161 outstanding as at September 30, 2017, \$31,959 is due through September 30, 2018 and \$302,202 is due subsequent to September 30, 2018 through April 2027.

The Company is contemplating further restructuring of its tax liabilities (pursuant to new programs introduced by the applicable Brazilian tax authorities) in order to reduce its current tax liabilities.

# Cabral Gold Ltd.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

### 8. OTHER LIABILITIES AND PROVISIONS

Various legal, tax and regulatory matters are outstanding from time to time due to the nature of the Company's operations. The balance of Other liabilities and provisions as at September 30, 2017 is comprised of a provision of approximately \$193,000 representing management's best estimate of expenditures required to settle present contingent obligations relating to such matters. The ultimate outcome or actual cost of settlement may vary materially from management estimates due to the inherent uncertainty regarding the Company's estimates (see Note 16).

### 9. SHAREHOLDERS' EQUITY

#### (a) Share capital

The Company has authorized capital of an unlimited number of common shares with no par value.

#### *January 12, 2017 private placement*

On January 12, 2017, the Company closed a private placement financing pursuant to which 4,450,000 common shares of Cabral were issued at a price of \$0.06 per common share, for gross proceeds of \$267,000 (including \$200,000 received prior to 2017 and classified as Subscription receipts as at December 31, 2016).

No finder's fees or similar fees were paid or compensation options issued in connection with the financing.

All securities issued in connection with the private placement were subject to a four month hold period following issuance.

#### (b) Compensation options

1,471,261 compensation options were issued to an external adviser (the "Advisor") in connection with the December 2016 private placement. Each compensation option provides the Advisor with the right to acquire one common share of the Company at an exercise price of \$0.06 for a period commencing on the date of closing of the private placement and ending on the date that is two years following the date of a go-public transaction.

	Number of compensation options	Weighted average exercise price
Incorporation	-	\$ -
Compensation options issued	1,471,261	0.06
<b>December 31, 2016</b>	<b>1,471,261</b>	<b>0.06</b>
<b>September 30, 2017</b>	<b>1,471,261</b>	<b>\$ 0.06</b>

## Cabral Gold Ltd.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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The weighted average remaining contractual life of the compensation options as at September 30, 2017 was 2.1 years.

#### (c) Stock options

	Number of stock options	Weighted average exercise price
Incorporation	-	\$ -
<b>December 31, 2016</b>	<b>-</b>	<b>-</b>
Stock options issued	5,200,000	0.06
<b>September 30, 2017</b>	<b>5,200,000</b>	<b>\$ 0.06</b>

Stock-based compensation totalled \$163,800 in the nine months ended September 30, 2017 (period from February 17, 2016 (date of incorporation) to September 30, 2016: nil).

5,200,000 stock options were granted on February 15, 2017. All stock options will expire on February 14, 2020. All stock options vested immediately upon issuance.

The fair values of the stock options granted in February 2017 were estimated as at the date of issuance using the Black-Scholes option-pricing model applying the following assumptions:

Dividends	-
Expected volatility (average)	91%
Risk-free interest rate	1.15%
Expected life (months)	36
Expected rate of forfeiture	5.0%

All stock options outstanding as at September 30, 2017 were exercisable as at this date.

## Cabral Gold Ltd.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

#### 10. EXPLORATION AND DEVELOPMENT EXPENDITURES

Nine months ended Sept. 30, 2017				
	Cuiú Cuiú	Pocone	Local administration	Total
Incurred in the nine months ended Sept. 30, 2017:				
Office and logistics	\$ -	\$ -	\$ 76,808	\$ 76,808
Field costs	30,673	-	-	30,673
Consulting, internal	-	-	121,980	121,980
Consulting, third parties	41,619	-	-	41,619
Other (net)	-	1,135	-	1,135
Travel	495	-	15,217	15,712
	<u>\$ 72,787</u>	<u>\$ 1,135</u>	<u>\$ 214,005</u>	<u>\$ 287,927</u>

Period from Feb. 17, 2016 (date of incorporation) to Sept. 30, 2016				
	Cuiú Cuiú	Pocone	Local administration	Total
Incurred in the period ended Sept. 30, 2016:				
Office and logistics	\$ -	\$ -	\$ 20,838	\$ 20,838
Field costs	21,202	-	-	21,202
Consulting, third parties	46,585	-	-	46,585
Other (net)	-	1,690	-	1,690
Travel	5,121	-	-	5,121
	<u>\$ 72,908</u>	<u>\$ 1,690</u>	<u>\$ 20,838</u>	<u>\$ 95,436</u>

#### 11. SALARY AND WAGES

Total payroll, consulting and related costs incurred in the nine months ended September 30, 2017 amounted to \$340,908 (period from February 17, 2016 (date of incorporation) to September 30, 2016: \$16,167).

#### 12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties. The Company's assets are located in Canada and Brazil as follows:

# Cabral Gold Ltd.

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited, Expressed in Canadian Dollars)

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	Canada	Brazil	Total
<b>Non-current assets:</b>			
Sept. 30, 2017	\$ 3,907	\$ 2,131,512	\$ 2,135,419
December 31, 2016	-	2,015,621	2,015,621
<b>Net loss:</b>			
9 months ended Sept. 30, 2017	700,108	518,791	1,218,899
Period ended Sept. 30, 2016 (a)	\$ 30,479	\$ 104,775	\$ 135,254

(a) Period from February 17, 2016 (date of incorporation) to September 30, 2016

### 13. RELATED PARTY TRANSACTIONS

#### (a) Management and director compensation

	9 months ended Sept. 30, 2017	Period ended Sept. 30, 2016 (a)
<b>Management:</b>		
Employment and consulting remuneration	\$ 177,083	\$ -
Payroll related costs	16,999	5,487
	<u>194,082</u>	<u>5,487</u>
<b>Directors:</b>		
Stock-based compensation	130,725	-
Advisory fees	46,875	-
	<u>177,600</u>	<u>-</u>
	<u>\$ 371,682</u>	<u>\$ 5,487</u>

(a) Period from February 17, 2016 (date of incorporation) to September 30, 2016

Management comprises the President and Chief Executive Officer and Chief Financial Officer.

Advisory fees were paid to a director who was based in and actively involved in activities in Brazil. These fees were terminated effective October 1, 2017.

#### (b) Balances due to related parties

As at September 30, 2017, the Company owed a total of \$4,298 to management in connection with unreimbursed expenditures incurred on behalf of the Company. This liability was settled in full in November 2017.

### 14. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are as follows:

- To safeguard its ability to continue as a going concern

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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- To have sufficient capital to be able to meet its strategic objectives including the continued exploration and development of its existing mineral projects and the identification of additional projects.

Given the current exploration stage of its projects, the Company's primary source of capital is derived from equity issuances. Capital consists of equity attributable to common shareholders.

The Company has no externally imposed capital requirements and manages its capital structure in accordance with its strategic objectives and changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares in the form of private placements and/or secondary public offerings.

Additional information relating to going concern is disclosed in Note 1.

#### **15. FINANCIAL INSTRUMENTS**

##### **(a) Carrying value and fair value**

The Company's financial instruments comprise cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and other liabilities and provisions.

Financial instruments recognized at fair value on the consolidated balance sheets are classified in fair value hierarchy levels as follows:

- Level 1: Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques based on inputs other than Level 1 quoted prices that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices)
- Level 3: Valuation techniques with unobservable market inputs (involves assumptions and estimates by management).

Cash and cash equivalents and accounts receivable are classified as loans and receivables and are recorded in the financial statements at amortized cost. Amortized cost approximates fair market value due to the short-term nature of the balances.

Accounts payable and accrued liabilities and other liabilities and provisions are classified as other financial liabilities and are recorded in the financial statements at amortized cost. The fair value of accounts payable and accrued liabilities may be less than the carrying value as a result of the Company's credit and liquidity risk.

##### **(b) Financial risks**

The Company's activities expose it to a variety of financial risks, including foreign exchange risk, liquidity risk, credit risk and interest rate risk.

## Cabral Gold Ltd.

### NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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#### *Foreign exchange risk*

The Company operates primarily in Brazil and is therefore exposed to foreign exchange risk arising from transactions denominated in Brazilian reais (“R\$”). Other than Canadian dollar balances, the Company’s cash and cash equivalents, receivables and accounts payable and accrued liabilities are denominated in R\$ and US\$. Accordingly, the Company is subject to foreign exchange risk relating to such balances in connection with fluctuations against the Canadian dollar. The Company has no program in place for hedging foreign currency risk.

The Company held the following foreign currency denominated balances as at September 30, 2017 and December 31, 2016:

	Sept. 30, 2017		December 31, 2016	
	R\$	US\$	R\$	US\$
Cash and cash equivalents	31,391	45,900	47,498	150,764
Receivables and prepaid expenses	4,270	-	2,350	-
Liabilities and provisions	(1,463,395)	(517)	(2,802,630)	-
	(1,427,734)	45,383	(2,752,782)	150,764
Equivalent in Canadian dollars	(562,676)	56,636	(1,135,542)	202,422

Based on the balances held as at September 30, 2017, a 10% decrease in the \$ per R\$ and \$ per US\$ exchange rates on this date would have resulted in an increase in the net loss for the period then ended of approximately \$56,277 (December 31, 2016: \$103,680).

#### *Liquidity risk*

Liquidity risk encompasses the risk that an entity cannot meet its financial obligations in full as they become due. The Company manages liquidity by taking the appropriate steps to maintain adequate cash and cash equivalent balances. The Company monitors actual and forecast cash flows, and matches the maturity profile of financial assets and liabilities. See Note 1.

#### *Credit risk*

Credit risk is the risk of economic loss arising from a counterparty’s failure to repay or service debt according to the contractual terms. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and receivables. The carrying value of the Company’s financial assets recorded in the consolidated financial statements represents its maximum exposure to credit risk.

All accounts receivable balances are collectable and no valuation allowance or provision was applied or required as at September 30, 2017.

# **Cabral Gold Ltd.**

## **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited, Expressed in Canadian Dollars)

Nine months ended September 30, 2017

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### ***Interest rate risk***

Interest rate risk is the risk that cash flows will fluctuate due to changes in market interest rates. While the Company's financial assets are generally not exposed to significant interest rate risk because of their short-term nature, changes in interest rates will have a corresponding impact on interest income realised on such assets.

The Company's restructured tax and claim maintenance liabilities in Brazil are subject to charges which are calculated based on the domestic rate of inflation in Brazil and related indices published by the Brazilian authorities.

### **16. CONTINGENT LIABILITIES**

The Company is subject to litigation in the counties where it operates. As at September 30, 2017 and November 27, 2017, there were several cases outstanding which had not been settled or where final judgement had not been rendered. Management is vigorously defending against those claims and has assessed the likelihood of loss related to the outstanding litigation and has recorded a provision of approximately \$193,000 with regard to all outstanding litigation and related exposures.

### **17. SUBSEQUENT EVENT**

#### ***Business combination***

On May 10, 2017, the Company and San Angelo Oil Limited ("San Angelo") entered into a business combination agreement (as subsequently amended). San Angelo was previously listed on the TSX Venture Exchange and since November 2016 - following the sale of its subsidiary, San Angelo Operating Corp. - had been listed on the NEX.

On October 31, 2017, the Company and San Angelo announced that they had completed the business combination transaction (the "Transaction"). The Transaction was carried out by way of a three-cornered amalgamation, whereby the Company amalgamated with 1116669 B.C. Ltd., a wholly owned subsidiary of San Angelo.

Concurrently with closing of the Transaction, San Angelo completed a five-for-one share consolidation. Shareholders of the Company received 0.18 of a post-consolidation common share of San Angelo for each common share of the Company held by them immediately prior to the completion of the Transaction. San Angelo issued 29,753,868 post-consolidation shares in exchange for the common shares of the Company (including 6,931,328 common shares issued on conversion of the Subscription Receipts; see 'Financing', below). Following closing of the Transaction, San Angelo had 31,052,418 common shares issued and outstanding.

Outstanding stock options, share purchase warrants and compensation warrants of the Company were exchanged for similar instruments of San Angelo exercisable for or convertible into San Angelo post-consolidation securities on the basis of the 0.18 exchange ratio

## **Cabral Gold Ltd.**

### **NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

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#### ***Financing***

Prior to closing of the Transaction, the Company completed a private placement financing (the “Offering”) which raised gross proceeds of \$4,158,801 through the sale of 38,507,414 subscription receipts (the “Subscription Receipts”) at a price of \$0.108 per Subscription Receipt. The Company issued a total of 2,227,137 special warrants (the “Special Warrants”) to various finders and paid cash finders’ fees and commissions totalling approximately \$240,531 to the finders in connection with the Offering.

The Offering was comprised of both brokered and non-brokered components (\$1,799,902 and \$2,358,899, respectively).

Immediately prior to the closing of the Transaction:

- Each Subscription Receipt was converted, without additional consideration, into one unit of the Company which, in conjunction with the closing of the Transaction, was exchanged for 0.18 of one unit of San Angelo. Each whole unit of San Angelo (a “Unit”) was comprised of one post-consolidation common share of San Angelo, one-half of one class A warrant and one-half of one class B warrant. Each whole class A warrant entitles the holder to purchase one post-consolidation common share of San Angelo at a price of \$0.75 until October 30, 2018, and each whole class B warrant entitles the holder to purchase one post-consolidation common share of San Angelo at a price of \$0.90 until October 30, 2019.
- Each Special Warrant was automatically exercised into a compensation warrant of the Company, which, in conjunction with closing of the Transaction, was exchanged for 0.18 of a compensation warrant of San Angelo. Each compensation warrant entitles the holder to acquire one Unit of San Angelo at an exercise price of \$0.60 until October 30, 2019.

The net proceeds of the Offering will be used to finance the work program on the Cuiú Cuiú project and for general working capital.

As at September 30, 2017, \$45,900 of the stated cash balance related to subscription receipts received in connection with the financing. This cash balance was held in escrow as at this date and therefore the use of these funds was restricted.

#### ***Other***

Following closing of the Transaction, San Angelo changed its name from “San Angelo Oil Limited” to “Cabral Gold Inc.”. The common shares of Cabral Gold Inc. commenced trading on the TSX Venture Exchange under the symbol “CBR” on November 2, 2017.