

BLACKHEATH RESOURCES INC.
Form 51-102F1
Report to Shareholders and
Management Discussion and Analysis
of the Financial Position and Results of Operations
for the Year Ended December 31, 2017

April 25, 2018

TO OUR SHAREHOLDERS:

This Annual Management Discussion and Analysis (“MD&A”) supplements, but does not form part of, the financial statements of the Company for the year ended December 31, 2017. Consequently, the following discussion and analysis of the financial condition and results of operations for Blackheath Resources Inc. (“Blackheath” or the “Company”) should be read in conjunction with the audited financial statements of the Company and the notes thereto for the year ended December 31, 2017, prepared in accordance with International Financial Reporting Standards (“IFRS”). Unless otherwise stated, all amounts herein are expressed in Canadian dollars.

Discussion of the Company, its operations and associated risks is further described in the Company’s filings, which include the December 31, 2016 MD&A and audited financial statements, are available for viewing at www.sedar.com. A copy of this MD&A will be provided to any applicant upon request.

Overall Performance and Outlook

Blackheath was incorporated on May 2, 2011 and commenced business at that time as a mineral exploration company. Subsequently, Blackheath acquired an option to acquire an interest in the Covas tungsten property in northwest Portugal through an option agreement to earn up to an 85% undivided interest in the property from Avrupa Minerals Ltd. (“Avrupa”). The Covas property was primarily of interest for tungsten minerals and had significant historic tungsten resources, not compliant with National Instrument (“NI”) 43-101, with indicated additional potential for gold mineralization. In March 2015, the Company announced its initial NI 43-101 compliant resource estimate on the Covas property (see the Company’s news release dated March 31, 2015 available at www.sedar.com).

During 2012 and 2013, the Company was active in acquiring additional projects and signed agreements providing the option to acquire a 100% interest in the Borralha and Bejanca tungsten properties, up to an 85% interest in the Arga tungsten property, and a 100% interest in the Vale das Gatas and Adoria tungsten properties. In May 2014, the Company completed its expenditure requirement providing it the right to earn a 70% in the Covas property. However, the Company and the optionor agreed to amend the option agreement on the Covas project such that the Company could earn staged interests up to 85% by incurring additional expenditures. Due to disappointing results, the Company abandoned the Arga project in 2014 and the Adoria project in 2015. Due to limited resources, in October 2017 the Company abandoned the Vale das Gatas project and in March 2018, the Covas project.

The tungsten exploration industry is currently experiencing difficult capital and metals markets and equity financing available for exploration programmes is limited. The Company is currently conserving cash and will have to raise additional financing in order to meet its financial commitments and continue with any significant exploration programmes to advance the development of its projects. In July 2017, the Company completed a non-brokered private placement of 7,240,000 units at a price of \$0.05 per unit for gross proceeds of \$362,000. Each unit comprised one common share of the Company and one non-transferable share purchase warrant entitling the holder to purchase one additional common share of the Company at an exercise price of \$0.10 per share for a period of 36 months after closing.

Mineral Properties

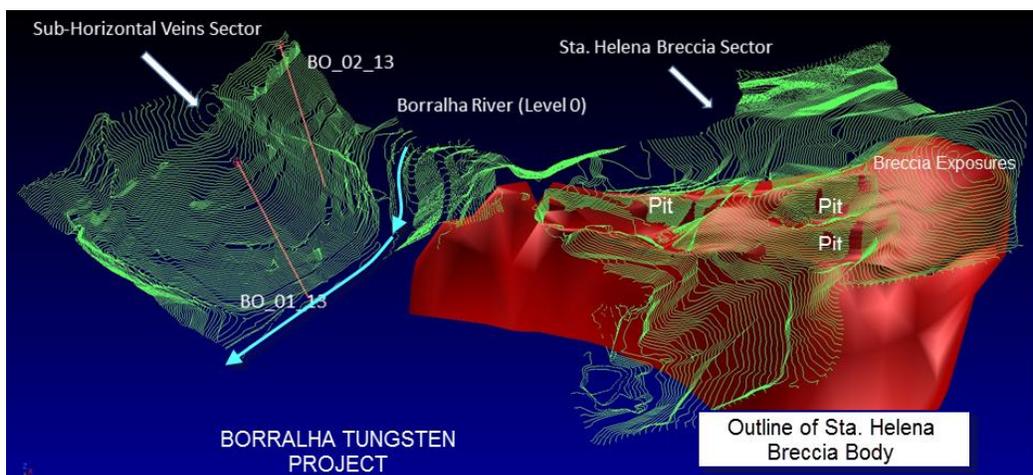
As at December 31, 2017, the Company held mineral interests in three properties in northern Portugal – Borralha, Bejanca and Covas, (see following figure) having terminated its options on the Arga, Adoria and Vale das Gatas properties. On March 29, 2018, the Company also abandoned the Covas project. Barry J. Price, M.Sc., P.Geo. acts as the Company’s independent “Qualified Person,” as defined in National Instrument 43-101.



Borralha

The Borralha property is located in the municipalities of Montalegre and Veira do Minho, approximately 60 kilometres northeast of Porto in northern Portugal. The property comprises 93 square kilometres in area and is accessed by paved roads.

Borralha was Portugal’s second largest tungsten mine (after Panasqueira) until its closure in 1985 as a result of a decline in tungsten price. The mine started operations in 1903 and available historic records show production of tungsten in wolframite concentrates between 1907 and 1939 with some production of separate tin concentrates as a by-product. In the 1960’s and 1970’s, the mine produced high-quality wolframite concentrates and also lesser amounts of additional scheelite (tungsten) concentrates. Ore was mined primarily from vertical quartz veins, supplemented by limited open pit excavations in the later years. Initial work at Borralha has focussed on the large, partially-developed tungsten-bearing Santa Helena breccia zone with limited work on relatively untested sub-horizontal tungsten and tin bearing veins.



A trenching and sampling programme was carried out at the Santa Helena Breccia at Borralha to assess the area outside the partially mined open pits prior to planning a drill program. The Santa Helena Breccia zone, which has never been drilled, has been partially mined by open pits in areas of more extensive tungsten-bearing quartz veins. Other tungsten veins have been scavenged over the years, often by “apanhistas” or illegal miners, and all mining ceased in 1985 as a result of world-wide low tungsten prices. The breccia body is over 500 metres in length, 200 metres wide at the south end and open to an unknown depth.

While it was not possible to recover samples from most of the previously scavenged surface workings, trenching results outside these workings are encouraging and showed extensive tungsten mineralization at surface in the breccia. The trenches were dug with a backhoe, cleaned and then the bedrock was sampled using a hand held diamond saw to cut a channel sample along their length of the trench.

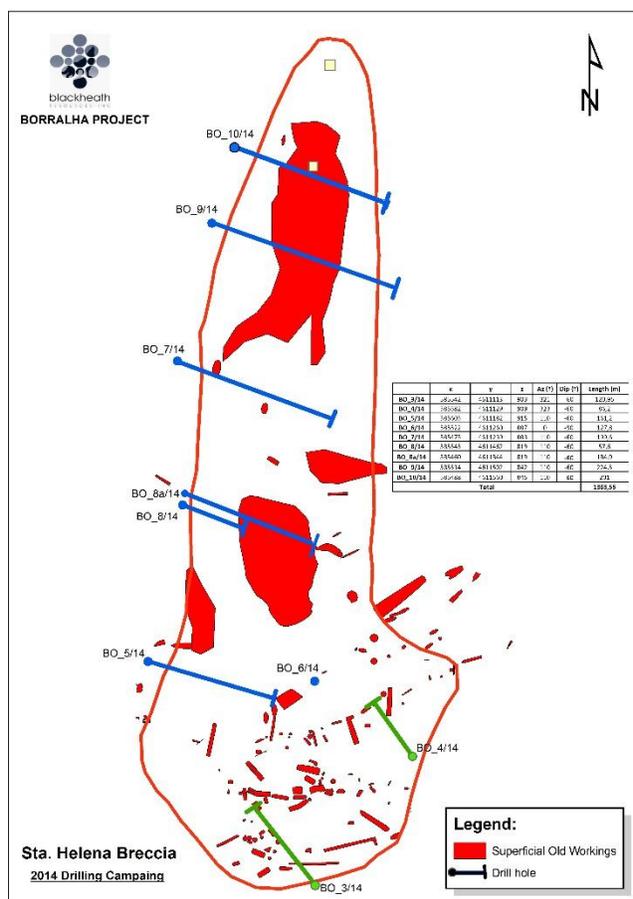
Results were encouraging, showing widespread tungsten mineralization, and included 100 metres averaging 0.13% WO₃ including 20 metres with a grade of 0.33% WO₃ including 5 metres of 1.09% WO₃. Mineralization of disseminated wolframite occurred in all of the trenches in the breccia and appears to be concentrated in some zones.

In 2014, the Company completed a diamond drilling programme at Borralha to test the tungsten values in the Santa Helena Breccia (see figure below). Results (see News Release April 21, 2015) are considered very encouraging, indicating extensive near-surface tungsten mineralisation (see table below). Results included Hole BO 8A, located directly in the middle of the Santa Helena Breccia, which returned a long intercept, starting at 2 metres, with 118 metres from 57 m to 175 m averaging 0.29% WO₃.

Hole ID	Intercept - Metres			Intercept % WO ₃
	From	To	Total	
BO 5	21	117	96	0.14
including	54	117	63	0.20
including	88	117	29	0.27
BO 6	36	112	76	0.09
including	69	89	20	0.14
and	97	112	15	0.06
BO 7	108	175	67	0.08
including	108	123	15	0.13
and	128	142	14	0.15

and	158	175	17	0.08
BO 8A	57	175	118	0.29
including	84	175	91	0.32
BO 9	85	93	8	0.27
and	188	199	11	0.10
BO 10	39	53	14	0.05
and	85	91	6	0.14
and	107	125	18	0.16
	152	171	19	0.07

Assay intercept widths may not be true widths, which cannot as yet be determined, as the shape and size of the mineralized breccia zones has not been determined. Tungsten analyses were performed by ALS Minerals laboratory, an international accredited firm in Vancouver, Canada using standard ME-XRF05 and ME-MS85 assay techniques for assays over 0.05% WO₃. Hole BO 5, which was released July 23, 2014, was re-assayed using the above tungsten analyses, which are considered to be more accurate. QA/QC procedures included standards blanks and duplicates and accuracy and reproducibility are good. Intercepts were estimated with an arbitrary 0.05% WO₃ cut-off grade.



A preliminary independent mining assessment study has been carried out by Visa Consultores, in conjunction with and supervised by Minerália. This work includes: assessment of possible mining operations, open pit design and optimisation, ore processing, waste management, landscape rehabilitation, and closure plans. The purpose is for internal guidance on mining potential. Results of the work are very encouraging and the proposed concept of

development of an initial smaller scale starter pit to be followed by increased production from the main open pit will be closely examined further.

A short diamond drilling programme was undertaken in 2017 to provide further confirmation of the extent of the near-surface tungsten mineralisation in the Santa Helena Breccia, the site of the historic open pit. The programme comprised Hole BO-17, located in the surficial breccia zone approximately 100m south of previously reported Hole BO-8A, which showed 118m assaying 0.29% WO₃ (57m to 175m) and included a 91 metre intersection assaying 0.31% WO₃ (84m to 175m).

Results from Hole BO-17 included a **92m intersection from 39 metres to 131 metres assaying 0.25% WO₃** as shown below:

Hole ID	Intercept - Metres			Intercept % WO ₃
	From	To	Total	
BO-17	5	157	152	0.17
including	31	147	116	0.20
including	39	131	92	0.25

Assay intercept widths may not be true widths, which cannot as yet be determined, as the shape and size of the mineralized breccia zones has not been determined. Tungsten analyses were performed by ALS Minerals laboratory, an accredited and internationally used firm in Vancouver, Canada using standard ME-XRF05 and ME-MS85 assay techniques for assays over 0.05% WO₃. QA/QC procedures included standards blanks and duplicates and accuracy and reproducibility are good.

Tungsten mineralization in the form of wolframite is disseminated throughout the breccia and includes a higher grade mineralized trend from the center to the southern end of the breccia. This higher grade trend is open for expansion. The breccia appears to be continuing at depth, however further drilling will be required to fully understand the true dimensions of the St. Helena Breccia and its mineralized zones and before preparation of a resource estimate.

Bejanca

The Bejanca property is located in the municipalities of Viseu, Vouzela and San Pedro do Sul, approximately 55 kilometres southeast of Porto in northern Portugal. The property comprises 70 square kilometres in size and is accessed by paved roads.

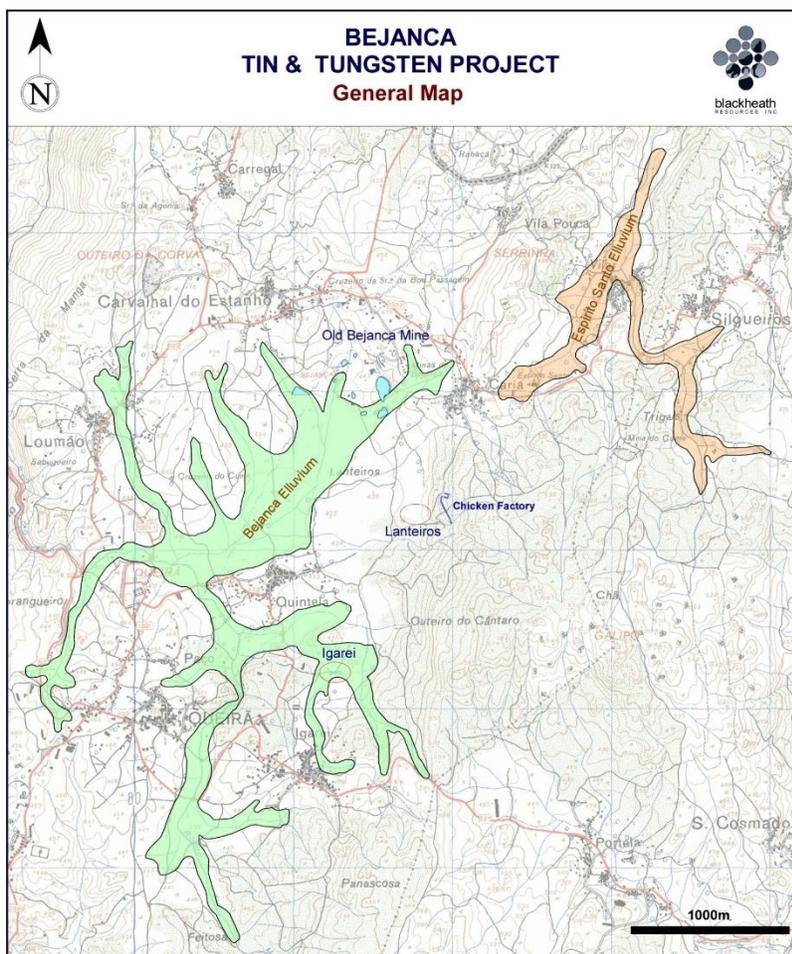
The mines at Bejanca operated from the early 1900's until 1985 when low tungsten prices resulted in their closure. Available historic records show production of tungsten concentrates between 1911 and 1939 as well as production of both wolframite (tungsten) concentrates and cassiterite (tin) concentrates between 1963 and 1985. Mining was from several shallow open pits and shallow underground workings. The tungsten and tin mineralisation occurs in stockworks in greisens and also in hydrothermal quartz veins.

Preliminary work together with mapping and sampling has been undertaken at Bejanca and also at the historic mines within the permit area surrounding the main Bejanca target. Results from grab samples taken from these surrounding areas, all separated by at least one kilometre, included 2.12% WO₃ at Vale da Fonte, 1.68% WO₃ at Mina de Masgalos, 1.00% WO₃ at Mina da Bodiosa and 0.85% WO₃ at Mina de Vale Gouro. *(These must be considered to be preliminary selected samples, and as such, may not be representative of average values for each showing.)*

During the preliminary work program at Bejanca, Blackheath reviewed a historic economic assessment and resource estimate authored by Edward D. Lynton, Consulting Mining Engineer of Glendale, California, in July of 1953 for the Companhia Portuguesa de Minas. Included in the report was a historic resource estimate of the alluvial and eluvial sand areas at Bejanca and nearby Espirito Santo (see figure below) which showed 6,700,000 tonnes with estimated recoverable values of 16,231 tonnes of cassiterite (tin mineral) concentrate containing some estimated

12,660 tonnes of tin and 3,289 tonnes of wolframite (tungsten mineral) concentrate containing some 2,460 tonnes of tungsten trioxide (WO₃).

The price of tin is currently \$21,100 per tonne and the price of tungsten has increased to approximately \$33,000 per tonne of contained tungsten trioxide (WO₃). *(These resource estimates are not intended to represent current compliant resource, are historic in nature and have not been verified by the Company or its consultants but are believed to be relevant and informative although not compliant with current NI43-101 standards and should not be relied upon.)*



Blackheath carried out a back-hoe sampling programme in late 2015 and early 2016 to re-assess the alluvial and eluvial material at Bejanca with a view to early establishment of a simple washing plant to extract high grade tin and tungsten values. The deposits cover an extensive area and one area of approximately 2 kilometres by 2 kilometres (the “Bejanca Eluviums”) was selected for testing. A total of 72 test pits were excavated and sampled in successive one metre intervals below the soil and humus layer. The mineralized gravel deposits lie on surface, immediately below the soil layer. Generally, the soil layer was between 0.2 m and 1 m in depth followed by the mineralised gravel layer between 1 m and 5.5 m in thickness and immediately above bedrock. Preliminary work confirmed that the finer minus 2mm material contained more concentrated mineralisation and this material could be readily separated by screening before further processing and concentration.

Highlights of the results were:

- Most of the values are contained in tin in the area tested
- 42% of the pits showed values greater than 400 ppm Sn (tin), and
- Showed an average content of 792 ppm Sn, and
- Contained an average of 35% fine sand containing 1,551 ppm Sn (1.6kg/t)
- Sporadic tungsten values ranged between 10ppm and up to 1,463ppm WO₃

In addition to the initial 50 test-mining pits excavated and sampled, 22 new test-mining pits are located in 3 sections of the Bejanca Eluvium that appear to contain a higher concentration of tin values based on the results from the previous 50 test-mining pits. Highlights of results are:

- The total sampled area of the alluvium has been increased to 330 hectares with an average depth of 2.38 metres
- The average grade in sampled pits is 519 g/t SnO₂ + 138 g/t WO₃
- This includes 113 hectares of higher grades of 732 g/t SnO₂ + 216g/t WO₃
- Higher concentrations of tin and tungsten occur in the finer sizes of alluvium
- The density of the eluvium was analyzed and is 2.66 t/m³
- 80% of values are in tin and 20% in tungsten

Also, an initial programme of metallurgical testing of a composite bulk sample was undertaken at LNEG Laboratory (National Laboratory of Energy and Geology) in Portugal, a Governmental R&D institution for Energy and Geology.

Covas

The Covas property is located in the District of Viana do Castelo in the Province of Minho, approximately 100 kilometres north of Porto, Portugal's second largest city, and 10 kilometres east of the resort town of Caminha. The property comprises 1,949 hectares in area and is accessed by paved roads.

Covas is a past-producing tungsten mine and historic records indicate that past production from the mine between 1951 and 1974 totalled 366,000 tonnes at 0.61% WO₃ (tungsten trioxide). Ore was mined from an open pit and shallow underground workings and processed using gravity and flotation methods, producing separate wolframite and scheelite mineral concentrates. Subsequent exploration by Union Carbide and others, from 1974 until 1980 when the price of tungsten plummeted, included 329 diamond drill holes, testing part of the property and resulting in the determination of the historic resource estimates. The results of subsequent work, discussed below, allowed the Company to prepare a new, current resource estimate.

Following its acquisition of an option for the Covas project in 2011, the Company carried out exploration programs including diamond drilling.

Based on all drill results, in March 2015, the Company announced a maiden current resource estimate in all zones, compliant with the requirements of NI 43-101 and prepared by Gary Giroux, P. Eng., an independent Qualified Person (see news release for details) and filed a 2015 Technical (NI 43-101) Report and Resource Estimate authored by Barry J. Price, M.Sc., P.Geo. and Gary Giroux, M.A.Sc., P.Eng. on SEDAR on May 14, 2015. A summary table of estimated mineral resources is shown below:

WO₃ Cut-off (%)	Classification	Tonnes > Cut-off (tonnes)	Grade WO₃ (%)	Contained Metal MTU WO₃
0.1	Indicated	1,081,000	0.42	449,800
	Inferred	2,211,000	0.35	767,100
0.2	Indicated	860,000	0.48	414,100
	Inferred	1,767,000	0.39	694,200
0.25	Indicated	686,000	0.55	375,200
	Inferred	1,281,000	0.46	584,900
0.3	Indicated	578,000	0.60	345,400
	Inferred	959,000	0.52	497,000

The resource total takes into account all known mineralised areas located within the Covas Tungsten Project. The current indicated and inferred mineral resources are stated using a cut-off grade of 0.10%. 19 drill holes had interval grades capped to a lower grade, allowing for a more conservative average grade. The price of tungsten is currently \$330.00 per metric tonne unit (MTU) (10kg) of contained tungsten trioxide (WO₃).

In 2017, the Company conducted further diamond drilling at Covas. This work was focussed on the hypothesis of a previously untested bulk tonnage tungsten target possibly indicated by coincident geophysical and geochemical anomalies. Subsequent to December 31, 2017, the Company received and announced the results of the diamond drill hole, which was drilled to 225 metres. Visual interpretation of the core indicated moderate to strong greisen alteration in the top third of the hole and locally strong to pervasive silicification in the bottom half of the hole. However, no tungsten mineralization was observed and no assays of any of the samples showed any significant results. Following a review of all results to date and of future commitment requirements for the property, the Company subsequently determined to terminate its option on the Covas property and currently retains no further interest.

Vale das Gatas

The Vale das Gatas property, located in the 130-square kilometre Vila Verde exploration licence about 100 kilometres east of Porto in northern Portugal, was the third largest tungsten mine in Portugal. The Vale das Gatas mine closed in 1986 as a result of a significant decline in tungsten price. At its peak, the mine employed over 1,000 workers and produced up to 635 tonnes of tungsten concentrates annually. Ore was mined primarily from quartz veins containing the tungsten mineral wolframite together with lesser amounts of the tin mineral cassiterite. The average recovered grade of the mine was 0.35% WO₃ per tonne.

During the term of the option, the Company incurred approximately €277,000 at Vale das Gatas and in October 2017, due to limited resources, the Company abandoned the project and returned the property to the optionor.

Selected Annual Information

The following table summarizes selected financial data for the Company for each of the three most recent fiscal years prepared in accordance with IFRS:

	2017	2016	2015
Total assets	\$ 266,788	\$ 340,952	\$ 439,062
Cash	\$ 50,912	\$ 119,010	\$ 187,154
Current assets	\$ 120,025	\$ 165,598	\$ 253,050
Current liabilities	\$ 142,890	\$ 135,180	\$ 175,122
Long term liabilities	\$ -	\$ -	\$ -
Total shareholders' equity	\$ 123,898	\$ 205,772	\$ 263,940
Loss and comprehensive loss for the year	\$ 428,205	\$ 767,899	\$ 1,216,239
Basic and diluted loss per share	\$ 0.01	\$ 0.02	\$ 0.04
Weighted-average shares outstanding	45,469,052	38,962,395	30,451,561

Results of Operations

The Company had a loss (and comprehensive loss) for the current year of \$428,205, which compares to a loss (and comprehensive loss) of \$767,899 for the comparative year. The Company experienced decreases in most expense categories due to significant decreases in corporate activities during the current year as it conserved cash in response to the current market conditions. Significant items included in the current and comparative losses are as follows:

	2017	2016
Accounting and audit	\$ 20,176	\$ 21,076
Consulting	\$ -	\$ 19,674
Exploration and evaluation	\$ 340,249	\$ 308,509
Management and director fees	\$ -	\$ 252,000
Office and general	\$ 20,843	\$ 23,244
Promotion and investor relations	\$ 1,988	\$ 10,196
Rent and office services	\$ 21,416	\$ 24,891
Share-based compensation	\$ -	\$ 65,305
Travel and accommodation	\$ 4,330	\$ 11,239

The Company relies on its directors and officers to fulfill many of its administrative, management, and investor relations requirements. With the depressed markets for junior tungsten explorers, the Company has reduced operating expenses wherever possible in order to conserve cash while endeavouring to maintain its mineral interests during this market downturn. As a result, consulting, promotion, investor relations, and travel expenses were lower in 2017 as compared to 2016. In addition, effective January 1, 2017, the chief executive officer, chief financial officer, and the chairman agreed to waive their monthly compensation reducing management fees to \$nil for the current year. There were no stock options granted in 2017 resulting in no share-based compensation being recorded for 2017.

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

Portugal	Expenditures 2017	Expenditures 2016	Cumulative 2017
Covas	\$ 95,264	\$ 48,676	\$ 2,424,557
Bejanca	54,869	123,163	516,653
Borralha	136,378	91,827	1,039,888
Vale das Gatas	53,738	44,843	400,295
	<u>\$ 340,249</u>	<u>\$ 308,509</u>	<u>\$ 4,381,393</u>

Exploration and evaluation expenditures by activity are as follows:

	2017	2016
Administration	\$ 32,272	\$ 33,148
Camp and general	22,427	31,554
Consulting	-	87,090
Drilling	107,602	-
Field materials	1,251	557
Geochemical, assays	12,339	22,480
Geological	86,647	118,643
Legal, license and taxes	58,154	39,503
Local labour	10,860	1,280
Roadwork	5,262	-
Travel and accommodation	3,435	16,139
Expenditure recoveries	-	(41,885)
	<u>\$ 340,249</u>	<u>\$ 308,509</u>

Exploration expenditures were higher during 2017 due to the Company conducting drill programmes at Covas and Borralha, whereas in 2016, it concentrated on the review of its resource estimate on Covas, compiled and reviewed data on all projects, continued with mapping and sampling programmes at Vale das Gatas, and performed test-pits and sampling at Bejanca. Due to limited cash resources, the Company has scaled back its field programmes while

still continuing to advance the projects as it negotiates reduced expenditure requirements with the optionors and the government of Portugal. In October 2017, the Company abandoned the Vale das Gatas project, and subsequent to December 31, 2017, the Company abandoned the Covas project. A detailed breakdown of activity costs for each of the Company's properties is provided in Note 6 to the Company's December 31, 2017 financial statements.

Cash flows used in operations, before changes in non-cash working capital items, totalled \$413,642 (2016 - \$698,361) and include \$318,118 (2016 - \$308,509) in exploration and evaluation expenses and \$95,524 (2016 - \$389,852) in general and administrative expenses. The reduction in cash used for operations reflects the decreases in general and administrative expenses as detailed above.

Changes in non-cash working capital items required cash of \$14,815 resulting primarily from an increase in exploration value-added-taxes receivable in Portugal. In addition, the Company received \$14,028 from the refund of a performance deposit on the abandoned Adoria project and \$346,331 in net proceeds from a private placement completed in July 2017 (see *Outstanding Share Data*).

Summary of Quarterly Results

Quarterly Financial Data

The Company has no operating revenue. Selected financial information set out below is based on and derives from the unaudited condensed interim financial statements of the Company for each of the quarters listed:

Quarter Ended	Three Months Dec 31 2017	Three Months Sep 30 2017	Three Months Jun 30 2017	Three Months Mar 31 2017	Three Months Dec 31 2016	Three Months Sep 30 2016	Three Months Jun 30 2016	Three Months Mar 31 2016
Exploration and evaluation	\$ 200,889	\$ 45,878	\$ 30,930	\$ 62,552	\$ 71,336	\$ 83,772	\$ 101,940	\$ 51,461
Share-based compensation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 65,305	\$ -	\$ -
Loss and comprehensive loss	\$ 214,028	\$ 68,655	\$ 61,543	\$ 83,979	\$ 148,896	\$ 218,632	\$ 220,060	\$ 180,311
Loss per share - basic and diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

The most significant variations amongst the losses for these quarters are discussed below:

During the quarter ended March 31, 2016, the Company continued to reduce corporate and exploration expenditures to preserve cash resources. Having completed a financing in June 2016, during the second and third quarters of 2016, the Company commenced work on its initial environmental impact study and began bulk sampling and mineralogical work at Covas, continued with test pits and metallurgical testing at Bejanca, and initiated a preliminary independent mining assessment at Borralha. The Company also began bulk sampling and mineralogical work at Borralha. During the quarter ended September 30, 2016, the Company granted 1,080,000 incentive stock options and recorded \$65,305 in share-based compensation, a non-cash item.

During 2017, the Company continued to reduce corporate expenses to preserve cash resources while endeavouring to maintain its mineral properties in good standing. Effective January 1, 2017, the chairman, president and chief executive officer, and chief financial officer agreed to waive their monthly compensation resulting in no management fees being recorded for 2017. During the quarter ended December 31, 2017, the Company conducted drill programmes at Covas and Borralha resulting in an increase in exploration and evaluation costs for the quarter.

Discussion of Fourth Quarter

The Company had a loss (and comprehensive loss) for the current quarter in the amount of \$214,028, which compares to a loss (and comprehensive loss) of \$148,896 for the comparative quarter ended December 31, 2016. Significant items comprising the current loss include exploration and evaluation expenditures of \$200,889 (2016 - \$71,336) and management fees of \$nil (2016 - \$51,000). Compared to the fourth quarter of 2016, the Company had

higher exploration and evaluation expenditures in 2017 due to the drill programmes, and lower general and administrative expenses due to cost reductions.

Cash flows used in operations, before changes in non-cash working capital items, equalled \$194,471. Changes in non-cash working capital items produced a source of cash of \$59,204, which resulted primarily from an increase in exploration advances made to Avrupa for the Covas drill programme. The Company had no investing or financing activities during the quarter.

Financial Position and Liquidity

Blackheath has no history of profitable operations and the exploration of its mineral properties is at an early stage. Therefore, it is subject to many risks common to comparable companies, including a lack of revenues, under-capitalization, cash shortages, and limitations with respect to personnel, financial and other resources. Without operating revenues, the Company is dependent on meeting its future capital requirements through the issuance of capital stock. Accordingly, management has identified certain conditions that cast significant doubt upon the Company's ability to continue as a going concern, as discussed in Note 1 to the December 31, 2017 financial statements.

At December 31, 2017, the Company had cash on hand of \$50,912 (December 31, 2016 - \$119,010). The decrease in cash during the year results from the cash used in operating activities (\$428,457) exceeding the cash provided by investing activities (\$14,028), which resulted from the refund of a performance deposit, and the cash provided by financing activities (\$346,331), which resulted from the completion of a private placement.

At December 31, 2017, the Company had a working capital deficiency of \$22,865 (December 31, 2016 – working capital of \$30,418). The Company intends to increase its working capital position by raising additional equity financing, however, the success of any future financings is not assured.

During the year, the Company experienced cash administrative expenses of approximately \$96,000 and cash exploration and evaluation expenses of approximately \$318,000. Management considers the Company's working capital resources to be insufficient to meet its overhead requirements and desired exploration programmes for the ensuing twelve months.

To continue with new exploration programmes on the its properties, the Company will need to raise additional equity funding. The administrative budget and the exploration budgets for each of the Company's properties are established depending on expected cash resources and such budgets are regularly adjusted according to actual cash resources. Given the current uncertainty in the capital markets, while management has plans for additional exploration programmes on its properties, the extent of such programmes will be tailored to available cash resources.

Capital Resources and Commitments

The Company and Avrupa entered into an option agreement in May 2011, which was amended in May 2014 to provide the Company the option to acquire up to an 85% interest in the Covas project by incurring staged exploration expenditures of up to €2,651,000. As at December 31, 2017, the Company had incurred approximately €1,743,000 under the agreement, which was sufficient enough to provide it the right to earn a 75% interest in the project and elect to form a joint venture with Avrupa to further the development of the project. The Company did not provide such an election during the term of the agreement. Subsequent to December 31, 2017, the Company continued to work with Avrupa and the government of Portugal in respect of future expenditure requirements and analyzed the results of the recent drill programme. In March 2018, the Company advised Avrupa that it would abandon the project and return the property. Concurrently with abandoning the project, the Company forfeited its related performance deposit in the amount of €50,000.

In December 2012, the Company entered into an agreement for an option to acquire up to a 100% interest in the Bejanca project. To earn its interest, the Company paid the optionor €25,000 upon signing and must pay an additional €100,000 upon the grant of a preliminary exploitation licence and a further €1 million upon mine production and the grant of a final exploitation licence. In addition, during the term of the option, the Company must keep the property license in good standing by incurring annual exploration expenditures as determined by the government of Portugal. The Company has incurred sufficient exploration expenditures to maintain the Bejanca property in good standing until July 31, 2017. The Company and the optionor are currently in discussions with the

government of Portugal to determine the level of expenditures required to maintain the property in good standing to July 31, 2018 and beyond.

In December 2012, the Company entered into an agreement for an option to acquire up to a 100% interest in the Borralha project. To earn its interest, the Company paid the optionor €25,000 upon signing and must pay an additional €100,000 upon the grant of a preliminary exploitation licence and a further €1 million upon mine production and the grant of a final exploitation licence. In addition, during the term of the option, the Company must keep the property license in good standing by incurring annual exploration expenditures as determined by the government of Portugal. The Company has incurred sufficient exploration expenditures to maintain the Borralha property in good standing until July 31, 2017. The Company and the optionor are currently in discussions with the government of Portugal to determine the level of expenditures required to maintain the property in good standing to July 31, 2018 and beyond.

In November 2013, the Company entered into an option agreement to acquire up to a 100% interest in the Vale das Gatas tungsten project. The Company paid the optionor €12,500 upon signing and incurred approximately €262,000 in exploration expenditures at Vale das Gatas over the term of the agreement. In October 2017, the Company abandoned the project and returned the property to the optionor. Upon abandoning the project, the Company forfeited the related €15,000 performance deposit to the optionor.

The Company is currently in discussions with the optionors and the government of Portugal to establish new expenditure requirements on its Bejanca and Borralha properties. As at the date of this report, these discussions are not complete and therefore the Company cannot provide any assurance regarding the outcome or the levels of expenditure that will be required to ensure the renewal of the licenses in 2018. Should the Company fail to negotiate an acceptable level of expenditure requirements on the Bejanca or Borralha projects and abandon either of these properties, it would also forfeit the related performance deposit.

All of the Company's projects are past-producing properties and are at an early stage of exploration. The future expenditures required to establish whether or not the properties contain economical deposits are not determinable at this time. If the results of exploration programmes on the Company's properties warrant incurring further exploration expenditures, and should the Company choose to complete its expenditure and cash payment requirements to earn its interests in these properties, then the Company will be required to raise additional funding.

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

Management believes that it will be able to raise equity capital as required in the long term, but recognizes the risks attached thereto. To date, the capital requirements of the Company have been met by equity subscriptions. Although the Company has been successful in the past in obtaining financing, there can be no assurance that it will be able to obtain adequate financing in the future or that the terms of such financing will be favourable.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as at December 31, 2017 or as at the date hereof.

Proposed Transactions

The Company had no proposed transactions as at December 31, 2017 or as at the date hereof.

Related Party Transactions and Key Management Compensation

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

between the parties. All services were provided on terms equivalent to those that would prevail with arm's length parties. Key management includes executive and non-executive directors and executive officers.

All property transactions to date have been conducted on an arm's length basis. Until March 31, 2016, the Company paid a director for chairing its audit committee. Effective April 1, 2016, this director waived further payment of this fee. Until December 31, 2016, the Company paid the chairman, president and chief executive officer ("CEO"), and chief financial officer ("CFO") for management, administrative, accounting and investor relations services. In June 2016, the chairman reduced his monthly fee by 50% and the CEO and CFO reduced their monthly fees by 25%. Effective January 1, 2017, these officers agreed to waive payment or accrual of any monthly fees until further notice.

The compensation paid or payable to key management, and parties related to key management, for the years ended December 31, is as follows:

	2017	2016
Management and director fees:		
A company controlled by the chairman/director	\$ -	\$ 85,000
A company controlled by the president and CEO	-	112,750
CFO/director	-	51,250
Chair of audit committee/director	-	3,000
	\$ -	\$ 252,000

In addition, the Company recorded share-based compensation of \$nil (2016 - \$65,305), which relates to incentive stock options granted to directors and officers. Share-based compensation is a non-cash item calculated using the Black-Scholes Option-Pricing Model with the assumptions detailed in Note 5.

Accounts payable includes amounts due to related parties as follows:

	2017	2016
A company controlled by the chairman/director	\$ 15,000	\$ -
A company controlled by the president and CEO	24,750	-
CFO/director	11,250	-
	\$ 51,000	\$ -

Changes in Accounting Policies

The Company's December 31, 2017 financial statements have been prepared in accordance with IFRS. A detailed listing of the Company's significant accounting policies and recent pronouncements is provided in Note 2 to these statements. There were no changes in accounting policies during the year under review.

Critical Accounting Estimates and Judgements

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

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

Financial Instruments

The Company's financial instruments consist of the following:

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

The Company has designated its financial instruments as follows:

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

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

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

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

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

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

Disclosure for Companies without Significant Revenue

Consistent with other companies in the mineral exploration industry, Blackheath has no source of operating revenue. The statement of loss and comprehensive loss included in the Company's December 31, 2017 financial statements provides a breakdown of the general and administrative expenses for the year under review. Note 6 to these financial statements includes detailed listings of the exploration and evaluation costs incurred on its mineral properties.

Outstanding Share Data

As at December 31, 2017, the Company had 49,436,175 (diluted – 67,618,925) common shares issued compared to 42,196,175 (diluted – 59,594,748) common shares issued and outstanding as at December 31, 2016.

During the year, the Company completed a private placement of 7,240,000 shares and 7,354,000 share purchase warrants; 6,409,823 warrants and 160,000 stock options expired unexercised. Notes 4 and 5 to the Company's December 31, 2017 financial statements provide additional details of the Company's share capital activity for the year.

At December 31, 2017 and the date hereof, the Company had outstanding stock options and warrants enabling holders to acquire common shares as follows:

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

Management

Blackheath is dependent upon the personal efforts and commitments of its existing management. To the extent that management's services would be unavailable for any reason, a disruption to the operations of Blackheath could result, and other persons would be required to manage and operate the Company.

Risk Factors

There are risks associated with the securities of the Company and such risks are described in documents filed on www.sedar.com under the Company's profile. The securities of the Company are highly speculative due to the nature of the Company's business and the present stage of its development. There is no assurance that the Company's exploration will result in the discovery of an economically viable mineral deposit. The Company's interest in and rights to its mineral properties are subject to various risks. There can be no assurance that there are not title defects affecting the interest of the Company or the optionors in the Bejanca and Borralha properties (together, the "Portugal Properties"). There is no assurance that the Company will be capable of exercising its option to acquire an interest in the Portugal Properties. The optionors' interests in the Portugal Properties cannot be assigned without the approval of the Portuguese Government. The optionors would need to acquire such approval in

order for legal title to the properties to be transferred to the Company or to a future subsidiary of the Company. The Company has incurred losses to date and management considers the Company's current financial resources to be insufficient to cover general and corporate expenses for the next twelve months. The Company currently has insufficient funds to incur the exploration expenditures required to keep its Portugal Properties in good standing and will have to raise additional funds to further explore and to increase its ownership interest in the Portugal Properties. There is no assurance such additional funding will be available to the Company. Should the Company fail to make the minimum required expenditures on its Portugal Properties, it could forfeit its interest in the properties and the related performance deposits. Additional equity financing may result in substantial dilution thereby reducing the marketability of the Company's common shares. The Company's activities are subject to the risks normally encountered in the mining exploration business. The economics of exploring, developing and operating resource properties are affected by many factors including the cost of exploration and development operations, variations of the grade of any ore mined, the rate of resource extraction, fluctuations in the price of resources produced, government regulations relating to royalties, taxes and environmental protection. The Company may become subject to liability for hazards against which it is not insured. The Company's mineral properties have been previously mined and it is possible that previous operations have resulted in pollution or other environmental hazards that the Company could become responsible for. The Company competes with other mining companies with greater financial and technical resources. Certain of the Company's directors and officers serve as directors or officers of other public and private resource companies, and to the extent that such other companies may participate in ventures in which the Company may participate, such directors and officers of the Company may have a conflict of interest.

Controls and procedures

The CEO and CFO of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim condensed financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate for non-venture issuers under National Instrument ("NI") 52-109 (Certification of disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in NI 52-109.

Disclosure controls and procedures

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

TSX-V listed companies are not required to provide representations in the interim and annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in NI 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitations on the ability of certifying officers of a TSX-V issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Cautionary Note

This document contains “forward-looking information” which includes, but is not limited to, statements with respect to the future price of metals, historical estimates of mineralization, capital expenditures, success of exploration activities, permitting time lines, requirements for additional capital, government regulation of mining operations, environmental risks, unanticipated reclamation expenses, title disputes or claims, limitations on insurance coverage, the completion of regulatory approvals. In certain cases, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. In making statements containing forward looking information, the Company has applied certain factors and assumptions that it believes are reasonable, including that there is no material deterioration in general business and economic conditions; that the supply and demand for, deliveries of, and the level and volatility of prices of the Company's primary metals and minerals develop as expected; that the concession contracts for its Bejanca and Borralha mineral properties are renewed; that the Company receives regulatory and governmental approvals for its mineral properties on a timely basis; that the Company is able to obtain financing for the development of its mineral properties on reasonable terms; that the Company is able to procure equipment and supplies in sufficient quantities and on a timely basis; that exploration timetables and capital costs for the Company's exploration plans are not incorrectly estimated or affected by unforeseen circumstances; that any environmental and other proceedings or disputes are satisfactorily resolved; and that the Company maintain its ongoing relations with the other parties to the option agreements on the Bejanca and Borralha properties. However, statements containing forward-looking information involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors may include, among others, actual results of current exploration activities; future metal prices; accidents, labour disputes and other risks of the mining industry; the risk that the concession contracts for the Bejanca and Borralha properties are not renewed beyond their current expiry dates; delays in obtaining governmental or regulatory approvals or financing or in the completion of exploration activities. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information, except in accordance with applicable securities laws.

Approval

The Board of Directors of the Company has approved the disclosure contained in this Annual MD&A, a copy of which will be provided to any interested parties upon request.

Respectfully submitted

On Behalf of the Board of Directors

“Alex Langer”

Alex Langer, President & CEO