

BLACKHEATH RESOURCES INC.

FINANCIAL STATEMENTS

31 DECEMBER 2018 and 2017



Independent auditor's report

To the Shareholders of Blackheath Resources Ltd.

Our opinion

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

What we have audited

The Company's financial statements comprise:

- the balance sheets as at December 31, 2018 and 2017;
- the statements of changes in shareholders' (deficiency) equity for the years then ended;
- the statements of loss and comprehensive loss for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

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

PricewaterhouseCoopers LLP

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Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Eric Talbot.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 15, 2019

BLACKHEATH RESOURCES INC.**BALANCE SHEETS****AS AT 31 DECEMBER**

Canadian Dollars

ASSETS	2018	2017
Current		
Cash	\$ 65,062	\$ 50,912
Receivables	8,409	59,404
Prepaid expenses	855	9,709
	<u>74,326</u>	<u>120,025</u>
Performance deposits (Note 6)	-	142,994
Equipment	<u>2,745</u>	<u>3,769</u>
	<u>\$ 77,071</u>	<u>\$ 266,788</u>

LIABILITIES

Current		
Accounts payable and accrued liabilities (Note 8)	<u>\$ 160,492</u>	<u>\$ 142,890</u>

SHAREHOLDERS' EQUITY (DEFICIENCY)

Share capital (Note 4)	7,963,780	7,963,780
Subscriptions received in advance (Note 4)	100,000	-
Contributed surplus (Note 4)	667,166	667,166
Deficit	<u>(8,814,367)</u>	<u>(8,507,048)</u>
	<u>(83,421)</u>	<u>123,898</u>
	<u>\$ 77,071</u>	<u>\$ 266,788</u>

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

ON BEHALF OF THE BOARD:

"James Robertson", Director"Kerry Spong", Director

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

BLACKHEATH RESOURCES INC.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

FOR THE YEARS ENDED 31 DECEMBER

Canadian Dollars

	Number of Shares	Share Capital (Note 4)	Contributed Surplus (Note 4)	Subscriptions Received in Advance (Note 4)	Deficit	Total
Balance – 31 December 2016	42,196,175	\$ 7,619,137	\$ 665,478	\$ -	\$ (8,078,843)	\$ 205,772
Private placement - units	7,240,000	362,000	-	-	-	362,000
Finders' warrants issued	-	(1,688)	1,688	-	-	-
Share issuance costs	-	(15,669)	-	-	-	(15,669)
Loss and comprehensive loss for the year	-	-	-	-	(428,205)	(428,205)
Balance – 31 December 2017	49,436,175	7,963,780	667,166	-	(8,507,048)	123,898
Subscriptions received in advance	-	-	-	100,000	-	100,000
Loss and comprehensive loss for the year	-	-	-	-	(307,319)	(307,319)
Balance – 31 December 2018	49,436,175	\$ 7,963,780	\$ 667,166	\$ 100,000	\$ (8,814,367)	\$ (83,421)

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

BLACKHEATH RESOURCES INC.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED 31 DECEMBER

Canadian Dollars

	2018	2017
Expenses		
Accounting and audit	\$ 17,143	\$ 20,176
Depreciation	1,024	1,557
Exploration and evaluation <i>(Note 6)</i>	227,397	340,249
Foreign exchange gain	(4,151)	(7,281)
Legal fees	19,314	7,727
Office and general	15,338	20,843
Promotion and investor relations	-	1,988
Rent and office services	10,813	21,416
Shareholder communications	1,951	2,068
Stock exchange and filing	10,241	8,480
Transfer agent	5,814	6,652
Travel and accommodation	2,435	4,330
Loss and comprehensive loss for the year	\$ 307,319	\$ 428,205
Loss per share – basic and diluted	\$ 0.01	\$ 0.01
Weighted-average number of shares outstanding – basic and diluted	49,436,175	45,469,052

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

BLACKHEATH RESOURCES INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER

Canadian Dollars

Cash resources provided by (used in)	2018	2017
Operating activities		
Loss for the year	\$ (307,319)	\$ (428,205)
Items not involving cash:		
Unrealized foreign exchange gain	(3,647)	(9,125)
Write-off of performance deposits	146,641	22,131
Depreciation	1,024	1,557
Changes in non-cash working capital		
Receivables	50,995	(22,525)
Prepaid expenses	8,854	-
Accounts payable and accrued liabilities	17,602	7,710
	<u>(85,850)</u>	<u>(428,457)</u>
Investing activities		
Performance deposits	-	14,028
Financing activities		
Shares/units issued for cash	-	362,000
Share issuance costs	-	(15,669)
Subscriptions received in advance	100,000	-
	<u>100,000</u>	<u>346,331</u>
Change in cash position for the year	14,150	(68,098)
Cash position - beginning of year	<u>50,912</u>	<u>119,010</u>
Cash position - end of year	<u>\$ 65,062</u>	<u>\$ 50,912</u>

Supplemental schedule of non-cash financing transactions

Warrants issued as finders' fees	\$ -	\$ 1,688
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- The accompanying notes are an integral part of these financial statements -

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017
Canadian Dollars

1. NATURE OF OPERATIONS AND GOING CONCERN

Blackheath Resources Inc. (the "Company") is a mineral exploration company and is considered to be in the exploration stage with respect to its Borralha mineral property in Portugal, which has been optioned to a third party, subject to shareholder approval. Based on the information available to date, the Company has not yet determined whether its mineral property contains economically recoverable ore reserves. The Company's continuing operation is dependent upon the determination of economically recoverable reserves, the ability of the Company to obtain the financing necessary to maintain operations and successfully complete its exploration and development, and the attainment of future profitable production at Borralha (*Note 6*). The Company is incorporated under the British Columbia Business Corporations Act and its registered office is located at 10th Floor – 595 Howe Street, Vancouver, British Columbia, Canada.

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

The Company has incurred operating losses since inception. As at 31 December 2018, the Company had an accumulated deficit of \$8,814,367 (2017 - \$8,507,048) and a working capital deficiency of \$86,166 (2017 - \$22,865). The Company's working capital resources are insufficient to meet its overhead requirements and exploration activities for the ensuing twelve months.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

The Company's board of directors approved these financial statements for issue on 12 April 2019.

Basis of measurement

These financial statements have been prepared under the historical cost convention, except for those items carried at fair value.

Cash

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

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017

Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Foreign currency translation

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

Equipment

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

Exploration and evaluation

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

Exploration and evaluation expenditures are expensed in the period they are incurred. Significant property acquisition costs are capitalized only to the extent that such costs can be directly attributed to an area of interest where it is considered likely that such costs will be recoverable through future exploitation or sale. Development costs relating to specific properties are capitalized once management has made a development decision.

From time to time, the Company may acquire or dispose of mineral interests pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable under option agreements are not recorded; such payments are recorded in the period that the payments are made or received. The Company does not accrue costs to maintain mineral interests in good standing.

Restoration provisions

The Company recognizes liabilities for legal, statutory, contractual, and constructive obligations associated with the reclamation or rehabilitation of mineral property interests that the Company is required to settle. The Company recognizes liabilities for such obligations in the period in which they occur or in the period in which a reasonable estimate of such costs can be made. The obligation is estimated using a discounted cash flow measurement model using a risk-free discount rate and is recorded as a liability with a corresponding charge to operations. The Company has determined that it has no restoration obligations as at 31 December 2018.

Income taxes

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

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017

Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Income taxes - *continued*

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

Share capital

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

Share-based compensation

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

Significant accounting estimates and judgements

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

The Company's most significant accounting judgement relates to the determination of assumptions used to estimate share-based compensation. 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.

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017

Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Loss per share

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

Adoption of new accounting standard

On 1 January 2018, the Company adopted IFRS 9 – *Financial Instruments*, which replaces IAS 39 – *Financial Instruments – Recognition and Measurement*. The new standard provides guidance that is based on the Company's business model for managing its financial instruments, which includes the purpose for which the financial instruments were acquired as well as their contractual cash flow characteristics.

IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit or loss ("FVTPL"). It also includes a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own-credit risk in other comprehensive income for any liabilities designated as FVTPL.

Determination of the classification of financial instruments is made at initial recognition and reclassifications are made only upon the Company changing its business model for managing its financial instruments. Financial assets are derecognized when they mature or are sold, and substantially all of the risks and rewards of ownership have been transferred. Equity instruments that are held for trading are classified as FVTPL. Other equity instruments are carried at FVTPL unless, upon initial recognition, the Company makes a one-time irrevocable election to designate them as FVTOCI.

There was no impact on the carrying values or equity as at 1 January 2018 and no measurement differences or classification changes due to adopting this new standard. As a result of adopting IFRS 9, the Company's accounting policy for financial instruments is as follows:

Financial assets

FVTPL

Financial assets classified as FVTPL are initially recognized at fair value with transaction costs being expensed in the period incurred. Realized gains and losses recognized upon derecognition and unrealized gains and losses arising from changes in the fair value of the financial assets are included in profit or loss in the period in which they arise.

Amortized cost

A financial asset is measured at amortized cost if the objective of the Company's business model is to hold the instrument for the collection of contractual cash flows, which are comprised solely of payments of principal and interest. Financial assets at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment. Impairment losses are included in profit or loss in the period the impairment is recognized.

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017

Canadian Dollars

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Adoption of new accounting standard - continued

Financial liabilities

The Company's financial liabilities include accounts payable, which are measured at amortized cost.

All of the Company's financial instruments, which include cash, receivables, performance deposits, and accounts payable are carried at amortized cost.

New accounting pronouncements

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 – Leases, according to which all leases will be presented on the balance sheet of lessees, except those that meet the limited exception criteria. The standard is effective for annual periods beginning on or after 1 January 2019. The Company does not expect the adoption of this standard to have any impact on its financial statements.

3. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of the following:

	2018	2017
Cash		
Cash on deposit	\$ 65,062	\$ 50,912
Receivables		
Value-added taxes	\$ 8,409	\$ 59,404
Performance deposits	\$ -	\$ 142,994
Accounts payable and accrued liabilities		
Accounts payable	\$ 22,056	\$ 15,688
Accrued audit, legal, exploration, and other	138,436	127,202
	\$ 160,492	\$ 142,890

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. 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. All of the Company's financial instruments are carried at amortized cost.

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017

Canadian Dollars

3. FINANCIAL INSTRUMENTS - continued

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 \$8,148, 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 and receivables totalling \$73,471 represents the Company's maximum exposure to credit risk as at 31 December 2018.

The Company is exposed to market risk, which is the risk that the fair values of financial instruments will fluctuate with changes in market prices. The significant market risk to which the Company is exposed is currency risk. As at 31 December 2018, the Company held the equivalent of \$8,148 in receivables and \$75,697 in accounts payable, 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 2018, the euro strengthened against the Canadian dollar by approximately 3.7%. Based on the Company's euro denominated monetary assets and liabilities as at 31 December 2018, each 5% fluctuation in the exchange rate would result in a gain or loss of approximately \$3,377.

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 exploration projects in Portugal and does not employ any forward contracts or hedges to manage its currency risk. Due to the size and 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 (*Note 1*). The Company manages this risk by maintaining cash balances to ensure that it is able to meet its short- and long-term obligations as and when they fall due. Cash projections are regularly updated to reflect the dynamic nature of the business.

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Share Capital	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued and outstanding			
Balance – 31 December 2016	42,196,175	\$ 7,619,137	\$ 665,478
Private placement – units	7,240,000	362,000	-
Finders' warrants issued	-	(1,688)	1,688
Share issuance costs	-	(15,669)	-
Balance – 31 December 2018 and 2017	49,436,175	\$ 7,963,780	\$ 667,166

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017
Canadian Dollars

4. SHARE CAPITAL AND CONTRIBUTED SURPLUS - continued

Private placements

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

In October 2018, the Company optioned its Borralha project to a third party. As part of the agreement, the third party subscribed for 2,000,000 shares of the Company at a price of \$0.05 per share (presented as a subscription received in advance) and will make certain future annual investments of \$25,000 at market prices until a final exploitation license is granted on the property or the option is terminated. The agreement and private placement are subject to shareholder and regulatory approval (*Note 6*).

5. STOCK OPTIONS AND WARRANTS

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

	Warrants		Options	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding – 31 December 2016	13,768,573	\$ 0.21	3,630,000	\$ 0.14
Issued	7,354,000	\$ 0.10	-	
Expired	<u>(6,409,823)</u>	\$ 0.25	<u>(160,000)</u>	\$ 0.35
Outstanding – 31 December 2017	14,712,750	\$ 0.14	3,470,000	\$ 0.13
Expired	<u>(7,358,750)</u>	\$ 0.18	-	
Outstanding – 31 December 2018	7,354,000	\$ 0.10	3,470,000	\$ 0.13
Exercisable – 31 December 2018	7,354,000	\$ 0.10	3,470,000	\$ 0.13

BLACKHEATH RESOURCES INC.
NOTES TO FINANCIAL STATEMENTS
31 DECEMBER 2018 AND 2017
Canadian Dollars

5. STOCK OPTIONS AND WARRANTS - continued

At 31 December 2018, the Company had outstanding stock options and warrants as follows:

	Number of Shares	Exercise Price	Expiry Date
Options	2,390,000	\$ 0.13	30 December 2020
	360,000	\$ 0.13	5 July 2021
	<u>720,000</u>	\$ 0.13	26 July 2021
	<u>3,470,000</u>		
Warrants	7,354,000	\$ 0.10	19 July 2020

The outstanding options have a weighted average remaining life of 2.17 years; the outstanding warrants have a remaining life of 1.55 years.

6. EXPLORATION AND EVALUATION

Covas, Portugal

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

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

During the term of the option, the Company incurred sufficient expenditures under the agreement to provide it the right to earn a 75% interest in the project and elect to form a joint venture with the optionor to further the development of the project. The Company did not make such an election and in March 2018 provided notice to the optionor that it would abandon the project and return the property.

Bejanca, Portugal

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

The Company incurred sufficient expenditures to maintain the property in good standing to 31 July 2017. Due to limited financial resources, in September 2018 the Company provided notice to the optionor that it would abandon the project and return the property.

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6. EXPLORATION AND EVALUATION - *continued*

Borralha, Portugal

In December 2012, the Company entered into an option agreement to acquire up to a 100% interest in the Borralha tungsten project located in northern Portugal. The Company paid the owner of the property (the "Optionor") €25,000 upon signing and in addition to keeping the concessions in good standing, must pay the Optionor an additional €100,000 upon the grant of a preliminary exploitation license and €1,000,000 upon the grant of a final exploitation license.

During the term of the agreement, the Company had incurred sufficient expenditures to maintain the concession in good standing until 31 July 2017. During 2018, the Company was unable to negotiate a suitable reduction in expenditure requirements and consequently was in arrears under the option agreement and property concession.

In October 2018, the Company optioned the Borralha project to a third party (the "Optionee"). Under the terms of the agreement, which is subject to shareholder and regulatory approval, the Optionee must fulfill all of the terms of the original agreement with the Optionor and incur \$5 million on exploration and evaluation expenditures or complete a feasibility study to earn a 90% interest in the project. The Company will retain a 10% working interest in Borralha, which may be converted to a 1% net smelter returns royalty at the Company's option.

As part of the agreement, the third party subscribed for 2,000,000 shares of the Company at a price of \$0.05 per share (received), subject to regulatory approval, and will make future annual investments of \$25,000 at market prices until a final exploitation license is granted on the property or the option is terminated.

Vale das Gatas, Portugal

In November 2013, the Company entered into an option agreement to acquire up to a 100% interest in the Vale das Gatas tungsten project located in northern Portugal. In October 2017, the Company terminated the agreement and returned the project to the optionor.

Performance deposits

As at 31 December 2018, the Company had funded \$nil (€nil) (2017 - \$142,994 (€95,000)) in performance deposits held by the government of Portugal. These deposits were refundable upon the completion of technical, expenditure, and reporting requirements in accordance with the Covas, Bejanca, and Borralha concession contracts.

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

In March 2018, the Company abandoned the Covas project and wrote off the related performance deposit of \$79,335 (€50,000); in September 2018, it abandoned the Bejanca project and wrote off the performance deposit of \$37,550 (€25,000).

In October 2018, the Company optioned the Borallha project to a third party, which includes the assignment of the related performance bond, subject to shareholder approval. As the Company was in arrears in respect of exploration expenditure requirements on the Borralha project, it wrote off the related performance bond in the amount of \$29,756 (€20,000).

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6. EXPLORATION AND EVALUATION - continued

Expenditures

The Company expenses exploration and evaluation expenditures in the period incurred. Expenditures for the years ended 31 December and cumulative expenditures as at 31 December 2018 are as follows:

Portugal	Expenditures 2018	Expenditures 2017	Cumulative 2018
Covas			
Administration	\$ 1,254	\$ 3,387	\$ 36,719
Camp and general	10,619	12,505	118,456
Consulting	-	-	41,912
Drilling	-	50,021	860,741
Field materials	-	-	22,688
Geochemical, assays	-	954	90,537
Geological	6,930	22,605	855,559
Geophysical	-	-	104,981
Legal, license, and taxes (i)	79,335	-	247,759
Local labour	-	-	62,980
Mapping and reports	-	-	389
Roadwork	-	5,262	26,489
Travel and accommodation	-	530	74,455
Expenditure recoveries	-	-	(20,970)
	98,138	95,264	2,522,695
Bejanca			
Administration	12,662	10,478	61,106
Camp and general	1,281	1,643	34,168
Field materials	-	-	6,011
Geochemical, assays	-	-	19,787
Geological	-	35,207	279,606
Legal, license, and taxes (i)	37,550	7,239	75,525
Local labour	-	-	9,231
Mapping and reports	-	-	4,984
Option payments	-	-	32,117
Travel and accommodation	-	302	45,611
	51,493	54,869	568,146
Borrahla			
Administration	13,422	11,303	62,433
Camp and general	1,754	5,863	47,476
Consulting	-	-	55,599
Drilling	-	57,581	380,212
Field materials	72	1,251	18,110
Geochemical, assays	-	10,565	85,757
Geological	31,585	23,794	247,565
Legal, license, and taxes (i)	29,756	14,392	102,521
Local labour	-	9,444	35,330
Mapping and reports	-	-	6,550
Option payments	-	-	32,118
Travel and accommodation	1,177	2,185	64,898
Expenditure recoveries	-	-	(20,915)
	77,766	136,378	1,117,654
Balance carried forward	\$ 227,397	\$ 286,511	\$ 4,208,495

BLACKHEATH RESOURCES INC.
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6. EXPLORATION AND EVALUATION - *continued*

Expenditures - *continued*

Portugal	Expenditures 2018	Expenditures 2017	Cumulative 2018
Balance brought forward	\$ 227,397	\$ 286,511	\$ 4,208,495
Vale das Gatas			
Administration	-	7,104	34,413
Camp and general	-	2,416	34,848
Field materials	-	-	3,265
Geochemical, assays	-	820	12,240
Geological	-	5,041	170,356
Legal, license, and taxes (i)	-	36,523	80,096
Local labour	-	1,416	8,388
Option payments	-	-	17,769
Travel and accommodation	-	418	38,920
	-	53,738	400,295
	\$ 227,397	\$ 340,249	\$ 4,608,790

(i) Amounts include the write-off of performance deposits as detailed above.

Title

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

7. COMMITMENTS

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

8. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

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

Key management includes executive and non-executive directors and executive officers. There was no compensation paid or payable to key management or parties related to key management during the years ended 31 December 2018 or 2017 (*Note 7*).

Accounts payable includes \$51,000 (2017 - \$51,000) in fees due to key management, which were accrued during 2016. During the year, the Company received temporary loan advances totalling \$15,000 from certain of its directors and officers. These advances were interest-free, due on demand with no fixed terms of repayment, and were repaid in December 2018.

BLACKHEATH RESOURCES INC.
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9. SEGMENTED INFORMATION

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

10. CAPITAL DISCLOSURES

In the management of capital, the Company considers its capital resources to be shareholders' equity. The Company is in the business of mineral exploration and has no source of operating revenue. The Company has no short- or long-term debt and finances its operations through the issuance of capital stock. Capital raised is held in cash in an interest bearing bank account or guaranteed investment certificate until such time as it is required to pay operating expenses or exploration and evaluation costs. The Company is not subject to any externally imposed capital restrictions. Its objectives in managing its capital are to safeguard its cash and its ability to continue as a going concern, and to utilize as much of its available capital as possible for exploration activities (Note 1). The Company's objectives have not changed during the year.

11. INCOME TAXES

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

	2018	2017
Loss before income taxes for accounting purposes	\$ (307,319)	\$ (428,205)
Statutory rate	27.00%	26.00%
Expected tax recovery for the year	(82,976)	(111,333)
Non-deductible (non-taxable) items	2,541	(1,630)
Unrecognized benefit of losses and expenditures	80,435	112,963
Tax recovery for the year	\$ -	\$ -

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

	2018	2017
Non-capital losses – expire 2031 to 2038	\$ 1,137,034	\$ 1,099,924
Share issuance costs – deductible 2019 to 2021	11,930	30,478
Mineral property expenditures – no expiry	1,311,494	1,250,096
Equipment – no expiry	3,125	2,650
	\$ 2,463,583	\$ 2,383,148