

EDGEWATER EXPLORATION LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

DECEMBER 31, 2018 AND 2017



Independent auditor's report

To the Shareholders of Edgewater Exploration Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Edgewater Exploration Ltd. and its subsidiaries (together, 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 consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of loss (income) and comprehensive loss (income) for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated 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 consolidated 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 consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis for the year ended December 31, 2018.

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Our opinion on the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements

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

In preparing the consolidated 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Mark Platt.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
April 25, 2019

EDGEWATER EXPLORATION LTD.
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)
AS AT DECEMBER 31

| | Note | 2018 | 2017 |
|---|------|--------------|--------------|
| ASSETS | | | |
| Current | | | |
| Cash | | \$ 510,660 | \$ 1,650,066 |
| Short-term investment | 3 | 718,000 | 60,000 |
| GST and other receivables | | 6,099 | 5,342 |
| Prepaid expenses | | 27,635 | 26,439 |
| | | \$ 1,262,394 | \$ 1,741,846 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current | | | |
| Trade and other payables | 5 | \$ 240,448 | \$ 269,844 |
| Shareholders' equity | | | |
| Share capital | | 31,278,896 | 31,278,896 |
| Share-based payments reserve | | 4,799,488 | 4,799,488 |
| Warrants reserve | | 6,743,013 | 6,743,013 |
| Accumulated other comprehensive income | | 1,103,000 | 1,099,178 |
| Accumulated deficit | | (42,902,450) | (42,448,573) |
| | | 1,021,946 | 1,472,002 |
| | | \$ 1,262,394 | \$ 1,741,846 |
| <i>Nature of operations and basis of presentation</i> | 1 | | |
| <i>Commitments</i> | 10 | | |
| <i>Contingencies</i> | 13 | | |

On behalf of the Board:

"Danny Lee" Director _____ *"Douglas Forster"* Director

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

EDGEWATER EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

| | Common shares | | Share-based payments reserve | Warrants reserve | Accum. other comprehensive income (loss) | Deficit | Total |
|--------------------------------------|-------------------|---------------------|------------------------------------|---------------------|--|-----------------------|--------------------|
| | Number | Amount | | | | | |
| Balance – January 1, 2017 | 31,173,609 | \$30,805,679 | \$4,799,488 | \$6,472,830 | \$1,274,276 | \$(46,291,276) | \$(2,939,003) |
| Issued for cash (<i>Note 8(a)</i>) | 7,500,000 | 473,217 | - | 270,183 | - | - | 743,400 |
| Net income for the year | - | - | - | - | - | 3,842,703 | 3,842,703 |
| Foreign currency translation | - | - | - | - | (175,098) | - | (175,098) |
| Balance – December 31, 2017 | 38,673,609 | \$31,278,896 | \$4,799,488 | \$6,743,013 | \$1,099,178 | \$(42,448,573) | \$1,472,002 |

| | Common shares | | Share-based payments reserve | Warrants reserve | Accum. other comprehensive income | Deficit | Total |
|------------------------------------|-------------------|---------------------|------------------------------------|---------------------|---|-----------------------|--------------------|
| | Number | Amount | | | | | |
| Balance – January 1, 2018 | 38,673,609 | \$31,278,896 | \$4,799,488 | \$6,743,013 | \$1,099,178 | \$(42,448,573) | \$1,472,002 |
| Net loss for the year | - | - | - | - | - | (453,878) | (453,878) |
| Foreign currency translation | - | - | - | - | 3,822 | - | 3,822 |
| Balance – December 31, 2018 | 38,673,609 | \$31,278,896 | \$4,799,488 | \$6,743,013 | \$1,103,000 | \$(42,902,450) | \$1,021,946 |

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

EDGEWATER EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF LOSS (INCOME) AND COMPREHENSIVE LOSS (INCOME)
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

| | 2018 | 2017 |
|---|-------------------|-----------------------|
| EXPENSES | | |
| Accounting and audit fees | \$ 53,521 | \$ 22,000 |
| Field costs | 40,872 | 48,210 |
| Insurance | 15,260 | 16,146 |
| Investor relations, marketing and conferences | 2,490 | 546 |
| Legal | 15,552 | 28,992 |
| Office costs | 3,969 | 10,287 |
| Salaries and benefits (<i>Notes 13(b) and 13(d)</i>) | 345,933 | 117,191 |
| Regulatory fees | 12,270 | 11,263 |
| | 489,867 | 254,634 |
| OTHER INCOME | | |
| Interest and other income | (16,352) | (15,160) |
| Foreign exchange gain | (19,637) | (7,330) |
| De-recognition of reclamation costs (<i>Note 7</i>) | - | (82,561) |
| Recovery of input tax credits (<i>Note 4</i>) | - | (92,828) |
| Write-off of payables (<i>Note 15</i>) | - | (78,548) |
| De-recognition of deferred revenue (<i>Note 13(a)</i>) | - | (3,820,911) |
| | 453,878 | (3,842,703) |
| OTHER COMPREHENSIVE LOSS (INCOME) | | |
| Items that will be reclassified subsequently to profit or loss: | | |
| Foreign currency translation | (3,822) | 175,098 |
| | 450,056 | (3,667,605) |
| Comprehensive loss (income) for the year | \$ 450,056 | \$ (3,667,605) |
| Loss (income) per share – basic and diluted | \$ 0.01 | \$ (0.12) |
| Weighted average number of shares outstanding: | | |
| Basic and diluted | 38,673,609 | 31,707,856 |

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

EDGEWATER EXPLORATION LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31

| | 2018 | 2017 |
|---|--------------------|---------------------|
| CASH PROVIDED BY (USED IN): | | |
| Cash flows from operating activities: | | |
| Net income (loss) for the year | \$ (453,878) | \$ 3,842,703 |
| Interest income reclassified to cash flow from investing activities | (1,634) | (1,259) |
| Non-cash items: | | |
| Amortization of provision for loss on lease | 14,740 | 14,740 |
| Unrealized foreign exchange | (17,371) | 8,117 |
| De-recognition of reclamation costs | - | (82,561) |
| Write-off of payables | - | (78,548) |
| De-recognition of deferred revenue | - | (3,820,911) |
| Changes in non-cash working capital: | | |
| GST and other receivables | (678) | (2,528) |
| Prepaid expenses | (1,194) | 31,331 |
| Trade and other payables | (45,988) | (233,550) |
| | (506,004) | (322,466) |
| Cash flows from investing activities: | | |
| Interest income | 1,634 | 1,259 |
| Return of reclamation deposits | - | 910,084 |
| Repayment of government grants | - | (48,171) |
| Purchase of short-term investment | (658,000) | (45,000) |
| | (656,366) | 818,172 |
| Cash flows from financing activities: | | |
| Shares issued for cash, net of share issuance costs | - | 743,400 |
| Effect of exchange rate on cash | 22,963 | 23,885 |
| Increase (decrease) in cash | (1,139,406) | 1,262,991 |
| Cash – beginning of year | 1,650,066 | 387,074 |
| Cash – end of year | \$ 510,660 | \$ 1,650,066 |

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

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. NATURE OF OPERATIONS

Edgewater Exploration Ltd. and its subsidiaries (collectively, “Edgewater” or the “Company”) are in the mineral property exploration and development business. Edgewater Exploration Ltd., the parent, is a public company that is listed on the NEX board of the TSX Venture Exchange (symbol: EDW.H). It is incorporated in Canada and its head office is located at 413 – 595 Burrard Street, P.O. Box 49167, Vancouver, British Columbia, V7X 1J1.

The Board of Directors approved the statements for issue on April 25, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of measurement

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The significant subsidiaries of the Company are as follows:

| <u>Entity</u> | <u>Location</u> | <u>2018</u> | <u>2017</u> |
|------------------------------------|-----------------|-------------|-------------|
| <i>Subsidiaries (Consolidated)</i> | | | |
| Mineira de Corcoesto, S.L. | Spain | 100% | 100% |
| Corcoesto, S.A. | Panama | 100% | 100% |

Subsidiaries are entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date which control is transferred until the date that control ceases.

All intercompany transactions and balances have been eliminated on consolidation.

Significant judgments, estimates and assumptions

The preparation of the Company’s financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Cash

Cash includes cash on account, demand deposits and money market investments with maturities from the date of acquisition of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant changes in value.

Short-term investment

Investments held for a period not exceeding one year or with an outstanding term to maturity not exceeding one year are classified as short-term investments. Short-term investments are recorded at amortized cost with interest earned while holding them is reported as interest income in the statement of comprehensive loss.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the asset-liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 date of the balance sheet.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it does not recognize the asset. 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 Company records proceeds from share issuances net of issue costs and any tax effects. The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. 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 proceeds from the issue of units is allocated between common shares and common share purchase warrants on a relative fair value basis, wherein, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets

The Company classifies its financial assets into the following categories:

Held at amortized cost

Financial assets with fixed or determinable payments that are not quoted on an active market are held at amortized cost. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition such financial assets are measured at amortized cost using the effective interest method. This category includes cash and short-term investment.

Financial liabilities

Financial liabilities are classified into the following:

Held at amortized cost

This category includes trade and other payables, which are recognized at amortized cost using the effective interest method.

Share-based payments

The Company grants stock options to certain directors, employees, and consultants of the Company. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting period by increasing share-based payments reserve based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

Currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates, which is known as the functional currency. The functional currency of Edgewater Exploration Ltd. (parent) and Corcoesto S.A. is the Canadian dollar while the functional currency of Mineira de Corcoesto, S.L. is the Euro. The presentation currency of the consolidated financial statements is the Canadian dollar.

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the period-end exchange rate;
- Income and expenses are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income as foreign currency translation reserve. When a foreign operation is sold or control is lost, such exchange differences are recognized in the consolidated statement of loss and comprehensive loss as part of the gain or loss on disposition.

Newly adopted and upcoming standards

IFRS 9, Financial Instruments (“IFRS 9”), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes nine primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“OCI”) and FVTPL. There is now a new expected credit losses 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 OCI, for liabilities designated at FVTPL. The standard was adopted by the Company on January 1, 2018. The adoption of IFRS 9 did not have a significant measurement or disclosure impact on the Company’s consolidated financial statements.

In January 2016, the IASB issued a new standard IFRS 16, *Leases* (“IFRS 16”). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company does not expect the adoption of IFRS 16 to have a material measurement or disclosure impact on its consolidated financial statements.

3. SHORT-TERM INVESTMENT

A guaranteed investment certificate (“GIC”) with a principal value of \$718,000 (2017 - \$60,000) is held with a Canadian chartered bank as at December 31, 2018. The GIC is for a 1-year term, redeemable at any time without penalty, and earns an interest rate of 2.05% per annum.

4. RECLAMATION DEPOSITS

| | <u>2017</u> |
|--------------------------------|---------------|
| Opening balance | \$ 873,266 |
| Return of reclamation deposits | (910,085) |
| Foreign exchange | <u>36,819</u> |
| Ending balance | <u>\$ -</u> |

During 2017, the Company received a refund of \$910,085 (equivalent to €618,049) in reclamation deposits. The funds were returned to the Company because all reclamation obligations in Spain were assumed by a third party. The transfer of reclamation liabilities also resulted to the Company recovering input tax credits from the Spanish Government totaling \$92,828, which has been accounted for as income in 2017.

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

5. TRADE AND OTHER PAYABLES

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-------------------|-------------------|
| Trade payables and accruals | \$ 111,207 | \$ 140,603 |
| Payables due to related parties | <u>129,241</u> | <u>129,241</u> |
| | \$ <u>240,448</u> | \$ <u>269,844</u> |

Amounts due to related parties relate to unpaid fees incurred in the normal course of operations. The amounts outstanding are unsecured. These related party payables have no interest or specific repayments terms. All related party transactions were recorded at the amount agreed upon by the related parties.

6. PROVISION FOR GOVERNMENT GRANTS

| | <u>2017</u> |
|----------------------|-------------|
| Opening balance | \$ 47,808 |
| Installment payments | (48,171) |
| Foreign exchange | <u>363</u> |
| Ending balance | \$ <u>-</u> |

The Company had a payment plan with the Spanish government to repay the grants in ten semi-annual instalments beginning in 2012. The Company fully repaid the government grants during 2017.

7. PROVISION FOR RECLAMATION

| | <u>2017</u> |
|-------------------------------------|--------------|
| Opening balance | \$ 77,595 |
| De-recognition of reclamation costs | (82,561) |
| Foreign exchange | <u>4,966</u> |
| Ending balance | \$ <u>-</u> |

During 2017, the Company de-recognized the reclamation liability associated with the Carles property to correspond with the return of the reclamation deposits (*Note 4*). De-recognition of the Carles reclamation liability resulted in the Company recognizing \$82,561 as income during 2017.

8. SHARE CAPITAL

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

8. SHARE CAPITAL (cont'd.)

(a) *Private Placement*

In 2017, the Company completed a non-brokered private placement financing of 7,500,000 Units at a price of \$0.10 per Unit to raise gross proceeds of \$750,000. Each Unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share for \$0.135 until December 5, 2018. Edgewater did not pay any finder's fees in connection with the Private Placement. The Company incurred \$6,600 in transaction fees related to the Private Placement. The allocation of fair value of the warrants issued in connection with this Private Placement was \$270,183. The fair value of the warrants was determined using the Black-Scholes pricing model with a risk-free rate of 1.52%, volatility factor of 100% and an expected life of the warrants of one year.

(b) *Stock Options*

The maximum number of stock options that the Company may grant under its current Stock Option Plan is 3,375,000. As at December 31, 2018, the Company has 2,637,500 stock options available for grant. All stock options granted are subject to the following vesting schedule: 25% at grant date and 25% every six months thereafter.

A summary of the Company's stock options as at December 31, 2018 is presented below:

| Exercise price | January 1, 2018 | Expired | December 31, 2018 | Expiry date | Remaining contractual life in years | Number of options vested |
|----------------|-----------------|-----------|-------------------|---------------------------------|-------------------------------------|--------------------------|
| \$2.00 | 87,500 | (87,500) | - | April 5, 2018 | - | - |
| \$0.80 | 75,000 | (75,000) | - | August 30, 2018 | - | - |
| \$0.40 | 762,500 | (25,000) | 737,500 | July 14, 2019 | 0.53 | 737,500 |
| | 925,000 | (187,500) | 737,500 | | | 737,500 |
| | \$0.58 | \$1.31 | \$0.40 | Weighted average exercise price | | |

A summary of the Company's stock options as at December 31, 2017 is presented below:

| Exercise price | January 1, 2017 | Expired | December 31, 2017 | Expiry date | Remaining contractual life in years | Number of options vested |
|----------------|-----------------|-----------|-------------------|---------------------------------|-------------------------------------|--------------------------|
| \$2.08 | 100,000 | (100,000) | - | January 9, 2017 | - | - |
| \$1.60 | 387,500 | (387,500) | - | October 11, 2017 | - | - |
| \$1.60 | 6,250 | (6,250) | - | November 22, 2017 | - | - |
| \$2.00 | 87,500 | - | 87,500 | April 5, 2018 | 0.26 | 87,500 |
| \$0.80 | 75,000 | - | 75,000 | August 30, 2018 | 0.66 | 75,000 |
| \$0.40 | 762,500 | - | 762,500 | July 14, 2019 | 1.53 | 762,500 |
| | 1,418,750 | (493,750) | 925,000 | | | 925,000 |
| | \$0.97 | \$1.70 | \$0.58 | Weighted average exercise price | | |

EDGEWATER EXPLORATION LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

8. SHARE CAPITAL (cont'd.)

c) *Share Purchase Warrants*

A summary of the Company's share purchase warrants as at December 31, 2018 is presented below:

| Exercise price | January 1, 2018 | Expired | December 31, 2018 | Expiry date | Remaining contractual life in years |
|----------------|-----------------|-------------|-------------------|---------------------------------|-------------------------------------|
| \$0.40 | 3,975,000 | - | 3,975,000 | January 7, 2019 | 0.02* |
| \$0.20 | 5,000,000 | - | 5,000,000 | September 8, 2021 | 2.69 |
| \$0.14 | 7,500,000 | (7,500,000) | - | December 5, 2018 | - |
| | 16,475,000 | (7,500,000) | 8,975,000 | | |
| | \$0.22 | \$0.14 | \$0.29 | Weighted average exercise price | |

*Expired subsequent to year ending December 31, 2018.

A summary of the Company's share purchase warrants as at December 31, 2017 is presented below:

| Exercise price | January 1, 2017 | Issued | December 31, 2017 | Expiry date | Remaining contractual life in years |
|----------------|-----------------|-----------|-------------------|---------------------------------|-------------------------------------|
| \$0.40 | 3,975,000 | - | 3,975,000 | January 7, 2019 | 1.02 |
| \$0.20 | 5,000,000 | - | 5,000,000 | September 8, 2021 | 3.69 |
| \$0.14 | - | 7,500,000 | 7,500,000 | December 5, 2018 | 0.93 |
| | 8,975,000 | 7,500,000 | 16,475,000 | | |
| | \$0.29 | \$0.14 | \$0.22 | Weighted average exercise price | |

9. RELATED PARTY TRANSACTIONS

Included in GST and other receivables is a receivable from a related party of \$3,956 relating to shared office rent. During 2018, the Company recovered \$15,069 in rent from related companies (2017 - \$9,926). The rental office sharing arrangement with Pinecrest Resources Ltd. was made in order to minimize administration costs and is on a month-to-month basis.

10. COMMITMENTS

a) The Company has a five-year office rental lease agreement which will expire in June 30, 2020. The total future lease obligation amounts to \$168,225. All lease costs of the Company are expensed in the year incurred. The future lease obligation of the Company under this agreement is as follows:

| | 2019 | 2020 | Total |
|------------------|-----------|----------|-----------|
| Lease obligation | \$112,150 | \$56,075 | \$168,225 |

The Company has a sub-lease agreement with a third party ("Tenant") to take over its office rental lease agreement. The Company expects to recover \$145,260 in rent from the Tenant over the remaining term of the lease. The Company expects that the proceeds from the sub-lease and the contributions from Pinecrest Resources Ltd. will offset the office rental commitments referred to above. See also note 9.

b) The Company has several management consulting agreements in place with terms ranging up to three years. The Company may terminate these agreements for any reason (other than by the expiry of the term or change of control) with a lump sum payment equal to the consultants' annual compensation. The aggregate lump sum that the Company would have to pay should it decide to terminate these agreements is \$930,000 based on existing management consulting agreements.

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11. SEGMENTED INFORMATION

The Company operates in a single segment. The Company's business is the acquisition, exploration, evaluation, and development of mineral resource properties, which was previously conducted in Spain. The Company has no reportable segment revenues.

| | 2018 | 2017 |
|---|---------------------|----------------|
| <i>Assets by geographic location, at cost</i> | | |
| Canada | | |
| Total assets | \$ 1,230,802 | \$ 1,457,002 |
| Total liabilities | \$ 195,171 | \$ 214,079 |
| Net loss (income) for the year | \$ 65,917 | \$ (3,804,654) |
| Spain | | |
| Total assets | \$ 31,592 | \$ 284,844 |
| Total liabilities | \$ 45,277 | \$ 55,765 |
| Net loss (income) for the year | \$ 387,961 | \$ (38,049) |

12. FINANCIAL INSTRUMENTS

The Company's financial assets and liabilities consist of cash, other receivables, short-term investment, and trade and other payables.

(a) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company attempts to ensure there is sufficient access to funds to meet short-term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of the Company's assets, liabilities, and cash flows. The Company prepares annual budgets which are approved by the Board of Directors and prepares cash flows and liquidity forecasts when appropriate. The Company's cash is held as cash deposits or invested in GICs which are available on demand to fund the Company's short-term financial obligations. All current liabilities are due within the next 12 months.

(b) Credit Risk

The Company's credit risk is primarily attributable to its cash and other receivables. The risk exposure is limited to their carrying values at the balance sheet date. Cash are held as cash deposits or invested in GICs with counterparties that carry investment grade ratings as assessed by external rating agencies. Other receivables consist of rent receivables.

(c) Market Risks

The significant market risks to which the Company is exposed are currency risk and interest rate risk. The Company does not currently use derivative or hedging instruments to reduce its exposure to fluctuations in such risks.

i) Currency Risk

The Company's functional currency is the Canadian dollar. The functional currency of the Company's subsidiary is the Euro. The Company is exposed to foreign currency risk on cash and receivable balances and the settlement of purchases that are denominated in other than the functional currencies.

ii) Interest Rate Risk

The Company's interest rate risk arises from the interest earned on its deposits and short-term investment. Deposits including its short-term investment are invested on a short-term basis to enable adequate liquidity for payment of operational expenditures. The Company's other financial assets and liabilities are not subject to interest rate risk since they do not bear interest.

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12. FINANCIAL INSTRUMENTS (cont'd.)

(d) Capital Management

The Company's objectives in managing its capital resources are to safeguard the entity's ability to continue as a going concern and maximize returns to shareholders in the context of the market. The Company satisfies its capital requirements through management of its cash resources and by utilizing equity issues, as necessary, based on the prevailing economic conditions of both the industry and the capital markets and the underlying risks characteristics of the related assets. The Company's principal source of capital is from the issuance of common shares. To meet the objectives, management monitors the Company's ongoing capital requirements against net working capital and assesses additional capital requirements on a case-by-case basis. The Company is not subject to any externally imposed capital requirements. The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, share-based payments reserve, warrants reserve, accumulated other comprehensive income, and deficit.

13. CONTINGENCIES

a) The Company acquired Mineira de Corcoesto, S.L. ("MDC") from Lundin Mining Corporation ("Lundin") for US\$8,000,000 in 2010. MDC owned a 100% interest in the Malpica-Tuy Gold project including the Corcoesto Gold Deposit in northwest Spain as well as an additional 7 gold and gold-copper projects in southwest Spain. Lundin retains a 1.5% net smelter return ("NSR") royalty ("Lundin NSR Royalty") upon the commencement of commercial production from the Corcoesto Gold Project subject to Edgewater having the right to repurchase 1.0% of the Lundin NSR Royalty at any time for US\$1,500,000.

In 2012, the Company created and sold to an arm's length third party a 1.0% NSR royalty on production from the Corcoesto Gold Project for gross proceeds of \$3,426,500. The net proceeds on the sale of \$3,210,342 (which is net of costs of \$216,158) were recorded as deferred revenue on the balance sheet and will be amortized to revenue over the life of the mine based on a "units of production" method. In addition, the Company sold to the same party its right to the Lundin NSR Royalty for gross proceeds of \$489,500. The net proceeds were applied against the carrying value of the Corcoesto Gold Project in 2012.

During 2017, as a result of ongoing litigation against the Kingdom of Spain and the determination that the Company does not see any prospect of continuing to advance the Corcoesto project, the Company de-recognized the deferred revenue balance of \$3,820,911. The deferred revenue is tied to the Corcoesto project reaching commercial production and with the inability to advance the project, the deferred revenue is no longer a liability to the Company.

b) During 2013, the Galician Government took the view that the Company had failed to demonstrate the requisite technical expertise and financial ability to fund the development of the Corcoesto Gold Project, even while the feasibility process was still being completed. The Galician Government also took the view that the Company and its subsidiary had to demonstrate funding sources in the amount of €30 million, which is approximately 25% of the total capital costs estimated by the Company in its previous engineering studies. On March 20, 2014, the Company was notified by the Galician authorities that its permitting applications had been denied. Given the lack of progress in discussions and uncertainties of a fair outcome, the Company wrote-off the entire \$26,614,356 carrying value of the Corcoesto Gold Project in 2014.

During 2015, the Galician Government in Spain issued a resolution declaring the "caducidad" of the mining concessions for the Corcoesto Gold Project in which it unilaterally terminates the Corcoesto mining concessions. On October 21, 2015, the Company served the Kingdom of Spain a notice of dispute pursuant to the terms of the bilateral investment treaty ("BIT") between Spain and Panama. The Company signed a litigation funding agreement with a third party in order to finance the prosecution of the Company's claims under the BIT. Compensation of the third party is contingent on a successful outcome and resolution from the dispute with Spain. The actual amount received by the third party will vary in accord to the actual settlement received by the Company from Spain. During 2018, the Company incurred \$68,832 (2017 - \$117,191) in salaries and benefits for its personnel and \$40,872 (2017 - \$48,210) in field-related costs in Spain.

c) During 2016, the Company signed a settlement agreement with a former employee for termination severance benefits. Payment of the termination severance benefits of US\$68,826 is contingent on the successful outcome of the Company's litigation against the Kingdom of Spain.

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13. CONTINGENCIES (cont'd.)

d) During 2018, the Company signed a termination and settlement agreement with an employee in Spain for termination severance benefits. The agreement entitles the employee to benefits totaling EUR360,306 of which EUR180,000 is contingent on the successful outcome of the Company's litigation against the Kingdom of Spain. The remaining EUR180,306 (CAD\$277,101) was paid by the Company to the employee in 2018 and accordingly, was expensed into salaries and benefits during the year.

14. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision for the years ended December 31 is as follows:

| | <u>2018</u> | <u>2017</u> |
|--|--------------|--------------|
| Income (loss) for the year before income taxes | \$ (453,878) | \$ 3,842,703 |
| Effective statutory rate | 26% | 26% |
| Expected income tax recovery | \$ (118,008) | \$ 999,103 |
| Reversal of deferred revenue | - | (993,437) |
| Effect of tax rate difference between Canada and foreign countries | 3,841 | (4,876) |
| Other items | (22,467) | - |
| Change in tax benefits not recognized | 136,634 | (789) |
| | <u>\$ -</u> | <u>\$ -</u> |

Deferred income tax assets and liabilities 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. The significant components of the Company's deferred income tax assets and liabilities as at December 31 are as follows:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Deferred income tax assets not recognized: | | |
| Non-capital loss carry-forwards | \$ 9,841,357 | \$ 9,431,598 |
| Undeducted share issue costs | 2,585 | 5,687 |
| | <u>\$ 9,843,942</u> | <u>\$ 9,437,285</u> |

The Company has non-capital losses of approximately \$39 million (2017 - \$37.6 million), which can be used to reduce taxable income in future years. Non-capital loss carry-forwards in Canada and Spain are approximately \$9.7 million and \$29.3 million respectively. The non-capital loss carry-forwards in Canada are subject to expire between 2027 and 2038. The non-capital losses in Spain are not subject to expiry.

In accordance with Spain legislation, income taxes cannot be considered definitive until they have been inspected and agreed by the Spanish tax authorities or before the relevant inspection year has lapsed. As a consequence of the different fiscal legislation interpretation, additional liabilities could arise from such tax inspections. Management does not expect that such tax liabilities, if they occur, will significantly affect the accounts of the Company.

15. WRITE-OFF OF ACCOUNTS PAYABLE

During 2017, the Company wrote-off \$78,548 in trade payables. Of this balance, \$56,887 relates to invoices that were settled with a third party in conjunction with the transfer of the reclamation liabilities (*Note 4*). The remaining \$21,661 pertains to old invoices that the Company deemed no longer payable.