# EDGEWATER EXPLORATION LTD.

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
(Expressed in Canadian Dollars - Unaudited)

**FOR THE THREE MONTHS ENDED MARCH 31, 2020**

**NOTICE TO READER**

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. In accordance with National Instrument 51-102, the Company discloses that its independent auditors have not reviewed the condensed interim consolidated financial statements for the period ended March 31, 2020.

**EDGEWATER EXPLORATION LTD.**
**CONSOLIDATED BALANCE SHEETS**
(Expressed in Canadian Dollars - Unaudited)

| | Note | | March 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current** | | | | | |
| Cash | | $ | **449,989** | $ | 434,170 |
| Short-term investment | | | **522,112** | | 515,766 |
| GST and other receivables | | | **3,395** | | 2,432 |
| Prepaid expenses | | | **23,575** | | 26,900 |
| | | $ | **999,071** | $ | 979,268 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIT** | | | | | |
| **Current** | | | | | |
| Trade and other payables | 1 | $ | **2,135,855** | $ | 2,132,642 |
| **Shareholders' deficit** | | | | | |
| 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 | | | **1,104,873** | | 1,103,327 |
| Accumulated deficit | | | **(45,063,053)** | | (45,078,098) |
| | | | **(1,136,784)** | | (1,153,374) |
| | | $ | **999,071** | $ | 979,268 |
| ***Subsequent event*** | 9 | | | | |

**On behalf of the Audit Committee:**

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

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

**EDGEWATER EXPLORATION LTD.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)**
(Expressed in Canadian Dollars - Unaudited)
**FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2020**

| | Common shares | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number | | Amount | | Share-based payments reserve | | Warrants reserves | | Accumulated other comprehensive income | | Accumulated deficit | | Total |
| Balance – January 1, 2019 | 38,673,609 | $ | 31,278,896 | $ | 4,799,488 | $ | 6,743,013 | $ | 1,103,000 | $ | (42,902,451) | $ | 1,021,946 |
| Net loss for the period | - | | - | | - | | - | | - | | (24,115) | | (24,115) |
| Foreign currency translation | - | | - | | - | | - | | 626 | | - | | 626 |
| Balance – March 31, 2019 | 38,673,609 | $ | 31,278,896 | $ | 4,799,488 | $ | 6,743,013 | $ | 1,103,626 | $ | (42,926,566) | $ | 998,457 |

| | Common shares | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number | | Amount | | Share-based payments reserve | | Warrants reserves | | Accumulated other comprehensive income | | Accumulated deficit | | Total |
| Balance – January 1, 2020 | 38,673,609 | $ | 31,278,896 | $ | 4,799,488 | $ | 6,743,013 | $ | 1,103,327 | $ | (45,078,098) | $ | (1,153,374) |
| Net income for the peirod | - | | - | | - | | - | | - | | 15,045 | | 15,045 |
| Foreign currency translation | - | | - | | - | | - | | 1,546 | | - | | 1,546 |
| Balance – March 31, 2020 | 38,673,609 | $ | 31,278,896 | $ | 4,799,488 | $ | 6,743,013 | $ | 1,104,873 | $ | (45,063,053) | $ | (1,136,784) |

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

**EDGEWATER EXPLORATION LTD.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS (INCOME) AND COMPREHENSIVE LOSS (INCOME)**
(Expressed in Canadian Dollars - Unaudited)
**FOR THE THREE MONTHS ENDED MARCH 31**

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Accounting and audit fees | $ | **9,719** | $ | 10,057 |
| Insurance | | **3,657** | | 3,815 |
| Office costs | | **1,266** | | 787 |
| Rent | | **6,465** | | 913 |
| Regulatory fees | | **2,139** | | 2,134 |
| | | **23,246** | | 17,706 |
| **OTHER EXPENSE (INCOME)** | | | | |
| Interest and other income | | **(11,357)** | | (12,855) |
| Foreign exchange loss (gain) | | **(26,934)** | | 19,264 |
| **Net loss (income) for the period** | | **(15,045)** | | 24,115 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| Items that will be reclassified subsequently to profit or loss: | | | | |
| Foreign currency translation | | **(1,546)** | | (626) |
| **Comprehensive loss (income) for the period** | $ | **(16,591)** | $ | 23,489 |
| **Loss (income) per share – basic and diluted** | $ | **0.00** | $ | 0.00 |
| **Weighted average number of shares outstanding:** | | | | |
| **Basic and diluted** | | **38,673,609** | | 38,673,609 |

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

**EDGEWATER EXPLORATION LTD.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in Canadian Dollars - Unaudited)
**FOR THE THREE MONTHS ENDED MARCH 31**

| | | 2020 | | 2019 |
|---|---|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | | | |
| **Cash flows from operating activities:** | | | | |
| Net income (loss) for the period | $ | **15,045** | $ | (24,115) |
| Interest income reclassified to cash flow from investing activities | | **(11,357)** | | (12,855) |
| Non-cash items: | | | | |
| Amortization of provision for loss on lease | | **3,685** | | 3,685 |
| Unrealized foreign exchange | | **2,406** | | 18,565 |
| Changes in non-cash working capital: | | | | |
| GST and other receivables | | **(927)** | | (53) |
| Prepaid expenses | | **3,329** | | 4,257 |
| Trade and other payables | | **(435)** | | (3,088) |
| | | **11,746** | | (13,604) |
| **Cash flows from investing activities:** | | | | |
| Interest income | | **11,357** | | 12,855 |
| Purchase of short-term investment | | **(6,347)** | | (7,766) |
| | | **5,010** | | 5,089 |
| Effect of exchange rate on cash | | **(938)** | | (20,073) |
| **Increase (decrease) in cash** | | **15,818** | | (28,588) |
| **Cash – beginning of period** | | **434,170** | | 510,660 |
| **Cash – end of period** | $ | **449,989** | $ | 482,072 |

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

## 1. NATURE OF OPERATIONS AND SETTLEMENT OF ARBITRATION

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 Suite 413 – 595 Burrard Street, P.O. Box 49167, Vancouver, British Columbia, V7X 1J1.

On 14 April 2020, the Tribunal in Corcoesto S.A. v the Kingdom of Spain rendered its award. Corcoesto S.A., the Company's Panamanian subsidiary, had commenced arbitration in 2016 under the Spain-Panama bilateral investment treaty and the UNCITRAL Arbitration Rules (1976). The seat of the arbitration was Paris, France. Following a hearing in April 2018, the Tribunal rejected unanimously the first four of five jurisdictional objections raised by the Kingdom of Spain but upheld, by majority, the fifth jurisdictional objection, finding that Corcoesto S.A. was incorporated at a time when the dispute was foreseeable. The majority concluded on that basis that it had no jurisdiction to decide on the merits of the claims. The dissenting arbitrator opined that the majority's decision erred in both law and fact and that the Tribunal did have jurisdiction and should have decided the merits of the claims. Accordingly, the claims were dismissed and the Tribunal awarded costs of $2,088,643 to be paid by the Company's Panamanian subsidiary, Corcoesto S.A. to the Kingdom of Spain. Because the settlement of arbitration is an adjusting subsequent event, the costs awarded against Corcoesto S.A. have been accrued in these consolidated financial statements. Management's view is that this award of costs relates solely to Corcoesto S.A. and accordingly, the Kingdom of Spain has no recourse against Edgewater Exploration Ltd.

## 2. BASIS OF PREPARATION

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting of International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS.

Other than as stated below, these condensed interim consolidated financial statements follow the same accounting policies and methods of application as the most recent audited consolidated financial statements of the Company.

These condensed consolidated interim financial statements were authorized for issue by the Audit Committee on May 7, 2020.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

## 4. IMPACT OF CORONAVIRUS (COVID-19)

Since March 2020, several measures have been implemented in Canada and the rest of the world in response to the increased impact from novel coronavirus (COVID-19). We continue to operate our business forward at this time. While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact on our future plans, cannot be reasonably estimated at this time and we anticipate this could have an adverse impact on our business, results of operations, financial position and cash flows in 2020.

(Expressed in Canadian Dollars - Unaudited)

## 5. SHARE CAPITAL

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

(b) <u>*Share Purchase Warrants*</u>

A summary of the Company's share purchase warrants as at March 31, 2020 is presented below:

| Exercise price | January 1, 2020 | **March 31, 2020** | Expiry date | Remaining contractual life in years |
|---|---|---|---|---|
| $0.20 | 5,000,000 | **5,000,000** | September 8, 2021 | 1.44 |
| | 5,000,000 | **5,000,000** | | |

## 6. RELATED PARTY TRANSACTIONS

During the period ending March 31, 2020, the Company recovered $nil (2019 - $3,826) in rent from a related company. The rental office sharing arrangement with the related company was terminated during H2 2019.

## 7. 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.

| | | **March 31, 2020** | | December 31, 2019 |
|---|---|---|---|---|
| *Assets by geographic location, at cost* | | | | |
| Canada | | | | |
| Total assets | $ | **969,255** | $ | 941,048 |
| Total liabilities | $ | **39,463** | $ | 36,744 |
| Spain | | | | |
| Total assets | $ | **29,816** | $ | 38,220 |
| Total liabilities | $ | **2,096,389** | $ | 2,095,898 |

The following geographic data denotes net losses (income) based on their country of origin for the three months ended March 31:

| | | **2020** | | 2019 |
|---|---|---|---|---|
| Canada | $ | **(25,485)** | $ | 14,868 |
| Spain | | **10,440** | | 9,247 |
| Loss (income) for the period | $ | **(15,045)** | $ | 24,115 |

## 8. FINANCIAL INSTRUMENTS

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

As at March 31, 2020, the Company had a working capital deficit of $1,136,784 (December 31, 2019 - $1,153,374), as a result of the accrual of the arbitration award costs in the Company's Panamanian subsidiary. Management considers that the Company has sufficient available cash and cash equivalents to be able to continue in operations for at least the next twelve months.

(b) *Credit Risk*

The Company's credit risk is primarily attributable to its cash and GST 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. GST and other receivables consist mainly of refundable value added tax credits.

(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 investments. Deposits including its short-term investments 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.

## 8. 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.

## 9. SUBSEQUENT EVENT

On 14 April 2020, the Tribunal in Corcoesto S.A. v the Kingdom of Spain rendered its award. Corcoesto S.A., the Company's Panamanian subsidiary, had commenced arbitration in 2016 under the Spain-Panama bilateral investment treaty and the UNCITRAL Arbitration Rules (1976). The seat of the arbitration was Paris, France. Following a hearing in April 2018, the Tribunal rejected unanimously the first four of five jurisdictional objections raised by the Kingdom of Spain but upheld, by majority, the fifth jurisdictional objection, finding that Corcoesto S.A. was incorporated at a time when the dispute was foreseeable. The majority concluded on that basis that it had no jurisdiction to decide on the merits of the claims. The dissenting arbitrator opined that the majority's decision erred in both law and fact and that the Tribunal did have jurisdiction and should have decided the merits of the claims. Accordingly, the claims were dismissed and the Tribunal awarded costs of $2,088,643 to be paid by the Company's Panamanian subsidiary, Corcoesto S.A. to the Kingdom of Spain. Because the settlement of arbitration is an adjusting subsequent event, the costs awarded against Corcoesto S.A. have been accrued in these consolidated financial statements. Management's view is that this award of costs relates solely to Corcoesto S.A. and accordingly, the Kingdom of Spain has no recourse against Edgewater Exploration Ltd.