



Cabral Gold

Cabral Gold Inc.

An exploration stage company

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of the Company were prepared by management in accordance with International Financial Reporting Standards, and within the framework of the significant accounting policies in the notes to these financial statements. Management is responsible for the preparation and presentation of the consolidated financial statements and Management Discussion and Analysis (“MD&A”).

A system of accounting and control is maintained in order to provide reasonable assurance that the assets are safeguarded and that transactions are properly recorded and executed in accordance with management’s authorization. The system includes established policies and procedures, the selection and training of qualified persons, and the appropriate delegation of authority and segregation of responsibilities for a corporation of the size of Cabral Gold Inc.

The Board of Directors, based on recommendations from its Audit Committee, reviews and approves the consolidated financial statements and MD&A. The Audit Committee meets with management and the Company’s independent auditors to ensure that management is fulfilling its responsibility to maintain financial controls and systems and to make recommendations to the Board of Directors for approval of all financial information released to the public. The Audit Committee also meets with the independent auditors to discuss the scope and the results of the audit and the audit report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements for the years ended December 31, 2018 and 2017 have been audited on behalf of the shareholders by the Company’s independent auditors, DeVisser Gray LLP, in accordance with Canadian generally accepted auditing standards. The auditor’s report outlines the scope of their audit and their opinion on these consolidated financial statements.

“Alan Carter”

Alan Carter
President and Chief Executive Officer

“Paul Hansed”

Paul Hansed
Chief Financial Officer

April 25, 2019

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cabral Gold Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cabral Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2018 and 2017 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cabral Gold Inc. 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").

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 are independent of Cabral Gold Inc. in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has no source of revenue and is considered to be in the exploration stage. As stated in Note 1, the Company's ability to continue as a going concern is dependent upon its ability to obtain additional funding from loans or equity financings. These matters, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in "Management's Discussion and Analysis" but does not include the consolidated financial statements and our auditor's report thereon.

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, 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 Cabral Gold Inc.'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 Cabral Gold Inc. or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Cabral Gold Inc.'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 Cabral Gold Inc.'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 Cabral Gold Inc.'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 Cabral Gold Inc. 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.

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.

The engagement partner on the audit resulting in this independent auditor's report is G. Cameron Dong.



Chartered Professional Accountants

Vancouver, BC, Canada April 25, 2019

Cabral Gold Inc.

Consolidated statements of financial position

(Expressed in Canadian Dollars)

	Notes	Dec. 31, 2018	Dec. 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,684,630	\$ 3,680,427
Accounts receivable		92,855	66,264
Prepaid expenses		16,336	160,560
Total Current assets		1,793,821	3,907,251
Non-current assets			
Fixed assets	6	968,382	781,418
Mineral properties	7	1,373,387	1,298,113
Total Assets		\$ 4,135,590	\$ 5,986,782
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 197,186	\$ 424,179
Other liabilities and provisions	10	4,053	104,114
Total Current liabilities		201,239	528,293
Long-term liabilities	9	-	25,432
Total liabilities		201,239	553,725
Shareholders' equity			
Share capital	12(a)	8,690,737	7,007,824
Reserves	12(b), 12(c)	1,543,930	1,425,670
Accumulated other comprehensive income		(186,563)	(90,344)
Accumulated deficit		(6,113,753)	(2,910,093)
Total Shareholders' equity		3,934,351	5,433,057
Total Liabilities and Shareholders' equity		\$ 4,135,590	\$ 5,986,782
Nature of operations and going concern (Note 1)			
Subsequent events (Notes 7, 12(c) and 16(b))			
Commitments and contingent liabilities (Notes 7, 10 and 20)			

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

Approved by the Board of Directors

"Derrick Weyrauch"
Derrick Weyrauch, Director

"Charles Oliver"
Charles Oliver, Director

Cabral Gold Inc.**Consolidated statements of loss and comprehensive loss**

(Expressed in Canadian Dollars except number of shares)

	Notes	Year ended	
		Dec. 31, 2018	Dec. 31, 2017
Expenses			
Exploration and development	13	\$ 2,457,946	\$ 383,183
Management	16(a)	339,032	259,232
Office and administrative		312,176	92,777
Professional fees		274,038	616,677
Travel		93,676	53,307
Depreciation	6	66,465	8,267
Stock-based compensation	12(c)	52,380	222,903
Listing expense (other)		21,238	48,598
Listing expense (CGL Transaction)	5	-	791,616
		<u>3,616,951</u>	<u>2,476,560</u>
Other income and expenses			
Foreign exchange expense		4,486	17,872
Penalties and financing charges	9	775	53,966
Other income		-	(25,434)
Interest income		(22,816)	(12,129)
Adjustment to provisions (net)	20	(37,529)	111,878
Gain on disposal of PGM		(49,963)	-
Gain on tax restructuring		(308,244)	-
		<u>3,203,660</u>	<u>2,622,713</u>
Net loss for the year			
		3,203,660	2,622,713
Other comprehensive income and loss			
Unrealised foreign currency translation items		96,219	115,738
		<u>96,219</u>	<u>115,738</u>
Total comprehensive loss for the year			
		\$ 3,299,879	\$ 2,738,451
Loss per share, Basic and diluted			
		\$ 0.10	\$ 0.11
Weighted average shares outstanding, Basic and diluted			
		32,085,980	24,187,385

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

Cabral Gold Inc.

Consolidated statements of changes in shareholders' equity

(Expressed in Canadian Dollars)

	Issued common shares	Share capital	Subscription receipts	Reserves, Warrants	Reserves, Stock options	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance at December 31, 2016	22,021,533	\$ 3,050,383.00	\$ 200,000.00	\$ 38,253.00	\$ -	\$ 25,394.00	-\$ 287,380.00	\$ 3,026,650.00
Shares issued for cash	801,000	267,000	(200,000)	-	-	-	-	67,000
Units issued for cash	6,931,335	3,308,323	-	850,474	-	-	-	4,158,797
Shares and warrants issued to acquire Cabral Gold Inc. (Note 5)	1,298,550	619,798	-	204,600	-	-	-	824,398
Share issuance costs	-	(417,680)	-	109,440	-	-	-	(308,240)
Shares issued for services	360,000	180,000	-	-	-	-	-	180,000
Stock options issued	-	-	-	-	222,903	-	-	222,903
Comprehensive loss	-	-	-	-	-	(115,738)	(2,622,713)	(2,738,451)
Balance at December 31, 2017	31,412,418	\$ 7,007,824	\$ -	\$ 1,202,767	\$ 222,903	(\$ 90,344)	(\$ 2,910,093)	\$ 5,433,057
Shares issued for cash	7,450,000	\$ 1,862,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,862,500
Share issuance costs	-	(179,587)	-	65,880	-	-	-	(113,707)
Stock options issued	-	-	-	-	52,380	-	-	52,380
Comprehensive loss	-	-	-	-	-	(96,219)	(3,203,660)	(3,299,879)
Balance at December 31, 2018	38,862,418	\$ 8,690,737	\$ -	\$ 1,268,647	\$ 275,283	(\$ 186,563)	(\$ 6,113,753)	\$ 3,934,351

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

Cabral Gold Inc.**Consolidated statements of cash flows**

(Expressed in Canadian Dollars)

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
OPERATING ACTIVITIES		
Net loss for the year	(\$ 3,203,660)	(\$ 2,622,713)
Adjustments for items not involving cash:		
Depreciation	66,465	8,267
Stock-based compensation	52,380	222,903
Unrealised foreign exchange gain	13,938	(1,868)
Listing expense (CGL Transaction)	-	791,616
Services paid in issuance of shares	-	180,000
Gain on disposal of PGM	(49,963)	-
Gain on tax restructuring	(308,244)	-
	(3,429,084)	(1,421,795)
Net changes in non-cash working capital:		
Increase in accounts receivable	(56,591)	(49,802)
Decrease (increase) in prepaid expenses	144,224	(144,790)
Increase (decrease) in accounts payable	78,671	(234,881)
Decrease in other liabilities and provisions (Note 10)	(46,364)	(301,679)
Cash used in operating activities	(3,309,144)	(2,152,947)
INVESTING ACTIVITIES		
Additions to mineral properties	(124,510)	(281,042)
Additions to fixed assets	(312,713)	(5,349)
Cash acquired in reverse asset acquisition (Note 5)	-	28,131
Cash used in investing activities	(437,223)	(258,260)
FINANCING ACTIVITIES		
Issuance of shares and units for cash	1,862,500	4,225,797
Share issuance costs	(113,707)	(308,240)
Cash provided by financing activities	1,748,793	3,917,557
Effect of change in exchange rate on cash	1,777	(10,669)
Net increase in cash and cash equivalents	(1,995,797)	1,495,681
Cash and cash equivalents, beginning of year	3,680,427	2,184,746
Cash and cash equivalents, end of year	\$ 1,684,630	\$ 3,680,427

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

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

1. NATURE OF OPERATIONS

Cabral Gold Inc. (“Cabral Gold” or the “Company”; formerly San Angelo Oil Limited (“San Angelo”)) was incorporated on February 11, 2014 under the British Columbia Business Corporations Act.

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

Reverse asset acquisition

The Company’s previous principal business activity was the acquisition, exploration and development of conventional oil and natural gas properties in the United States. On October 30, 2017, the Company completed the acquisition of Cabral Gold Ltd. (“CGL”), a private Vancouver-based company holding mineral rights to various gold projects in Brazil. In connection with the acquisition (the “CGL Transaction”), the Company changed its name to Cabral Gold Inc. and changed the focus of its business to the exploration and development of mineral properties with a primary focus on gold properties in Brazil. For accounting purposes, the acquisition of CGL was treated as a reverse asset acquisition as the shareholders of CGL acquired control of the consolidated entity. CGL was considered the acquiring and continuing entity, and Cabral Gold Inc. was the acquired entity.

Acquisition of Magellan Brazil

On April 13, 2016, CGL entered into an agreement with Magellan Minerals Ltd. (“Magellan”) and two of CGL’s founding shareholders pursuant to which:

- Debts of \$500,000 owing by Magellan to the two founding shareholders were settled in exchange for Magellan’s 99.99% equity interest in Magellan Minerais Prospecção Geológica Ltda. (“Magellan Brazil”) in full satisfaction of the debt. The exchange was part of a comprehensive debt settlement between Magellan and its senior management group. The settlement also included debt forgiveness, by management, of \$252,669; and
- The interest in Magellan Brazil was then contributed by the two founders to CGL in exchange for 4,036,034 common shares.

Magellan was the parent company of Magellan Brazil until April 2016.

Magellan Brazil holds 100% of the Cuiú property and several secondary properties. Also, the Company previously held properties through its interest in Poconé Gold Mineração Ltda. (“PGM”) in which Magellan Brazil held a 35% interest until September 2018.

Going concern

The nature of the Company’s operations results in significant expenditures for the acquisition and exploration of mineral properties. To date, the Company has not generated any revenue from mining or other operations as it is considered to be in the exploration stage.

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern, which assumes the Company will be able to realise its assets and settle its liabilities in the normal course of business. For the year ended December 31, 2018, the Company reported a net loss of \$3,203,660 (year ended December 31, 2017: net loss of \$2,622,713) and cash applied to operating activities of \$3,309,144 (year ended December 31, 2017: \$2,152,947), and as at that date had a net working capital balance of \$1,592,582 (December 31, 2017: \$3,378,958) and an accumulated deficit of \$6,113,753 (December 31, 2017: \$2,910,093).

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

Management has estimated that the Company will not have sufficient funds from existing working capital to meet its planned objectives and property obligations beyond May 31, 2019.

The recoverability of the carrying value of mineral properties and deferred expenditures is dependent upon a number of factors including the existence of recoverable reserves, the ability of the Company to obtain financing to maintain properties in good standing and continue exploration and development and the discovery of economically recoverable reserves.

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

In the event the Company is unable to arrange appropriate financing, the carrying value of its assets and liabilities could be subject to material adjustment and the Company may not be able to meet its obligations as they become due in the normal course of business. Furthermore, these conditions indicate the existence of a material uncertainty that raises substantial doubt as to the Company’s ability to continue as a going concern.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of April, 25, 2019, the effective date the Board of Directors approved these financial statements. Any subsequent changes to IFRS after this date could result in changes to the consolidated financial statements as at and for the period ended December 31, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

All amounts are presented in Canadian Dollars unless otherwise indicated. A summary of significant accounting policies is as follows:

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

(a) Basis of measurement

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

(b) Basis of consolidation

These financial statements include the accounts of Cabral Gold Inc. and its subsidiaries and associate as follows:

	Location	Ownership	Functional currency
Cabral Gold Ltd.	Canada	100%	\$
Magellan Minerais Prospecção Geológica Ltda.	Brazil	100%	R\$
Poconé Gold Mineração Ltda.	Brazil	35%	R\$

The Company's interest in Magellan Minerais Prospecção Geológica Ltda. ("Magellan Brazil") is held through its wholly-owned subsidiary, Cabral Gold Ltd.

The Company's interest in Poconé Gold Mineração Ltda. ("PGM") was held through Magellan Brazil. The Company's interest in PGM was disposed of in September 2018.

All intercompany transactions and balances have been eliminated upon consolidation.

Subsidiaries are those entities which Cabral Gold Inc. controls. The Company has control over 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.

Subsidiaries are fully consolidated from the date on which control is obtained by Cabral Gold Inc. and are deconsolidated from the date that control ceases.

(c) Significant estimates and critical judgement

The preparation of the consolidated financial statements in conformity with IFRS requires the use of judgements and estimates that affect the amounts reported and disclosed in the consolidated financial statements and related notes. These judgements and estimates are based on management's knowledge of the relevant facts and circumstances, having regard to previous experience, but actual results may differ materially from the amounts included in the consolidated financial statements. Information about such judgements and estimation is contained in the accounting policies and notes to the consolidated financial statements, and the key areas are summarised below.

Functional currency

Management is required to assess the functional currency of each entity of the Company. In concluding the functional currencies of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. The Company also considered secondary indicators

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

Impairment of mineral properties

Mineral properties are considered for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessment of impairment indicators involves the application of a number of significant judgments over internal and external factors including reserve and resource estimation, future precious metal prices, estimated costs of future production, changes in government legislation and regulations, estimated deferred income taxes, the availability of financing and various other operational factors. If any such indication exists, an estimate of the recoverable amount is undertaken. If the asset's carrying amount exceeds its recoverable amount, an impairment loss is recognised in the statement of loss.

Title to the mineral properties

Although the Company takes steps to verify title to exploration and evaluation assets in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

(d) Investment in associate

Associates are entities over which the Company exercises significant influence, but not control. The financial results of the Company's investments in its associates are included in the Company's results using the equity method. Subsequent to the acquisition date, the Company's share of profits or losses of associates is recognised in the statement of loss and its share of other comprehensive income (loss) of associates is included in the other comprehensive loss.

Dilution gains and losses arising from changes in interests in investments in associates are recognised in the statement of loss.

The Company assesses at each year-end whether there is any objective evidence that its investment in associates is impaired. If so, the carrying value of the Company's share of the underlying net assets of its associate is written down to its net recoverable amount (being the higher of fair value less cost to sell and value in use) and the loss is charged to the statement of loss.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

(e) Foreign currency translation

Functional currency

Items included in the financial statements of the Company's subsidiary and associate are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

Transactions and balances

Foreign currency transactions are translated into the relevant functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of loss.

Subsidiaries

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

- Assets and liabilities are translated at the closing rate at the reporting date
- Income and expenses are translated at average exchange rates for the period
- Equity is translated using historical rates
- All resulting exchange differences are recognised 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 the foreign currency translation reserve (a component of other comprehensive loss). When a foreign operation is sold, such exchange differences are recognised in the statement of loss as part of the gain or loss on sale.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and short term investments, which are readily convertible into cash or which have maturities of three months or less when purchased.

(g) Fixed assets

Fixed assets are recorded at cost. Depreciation of all depreciable fixed assets is provided on a straight-line basis over four years.

Fixed assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indicator is identified, the asset's recoverable amount is calculated and compared to the carrying amount. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management). An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

(h) Mineral properties and exploration and development expenditures

Costs relating to the acquisition and claim maintenance of mineral properties (including option payments and annual fees to maintain the property in good standing) are capitalised and deferred by property until the project to which they relate is sold, abandoned, impaired or placed into production.

The Company expenses all exploration, evaluation and development expenditures until management concludes that a future economic benefit is more likely than not to be realised. In evaluating if expenditures meet this criterion to be capitalised, management considers the following:

- The extent to which reserves or resources, as defined in National Instrument 43-101, have been identified in relation to the property in question;
- The conclusions of National Instrument 43-101 compliant preliminary economic assessment studies, preliminary feasibility studies and/or feasibility studies regarding the property in question;
- The status of environmental permits; and
- The status of mining leases or permits.

Once the Company considers that a future economic benefit is more likely than not of being realised, all subsequent costs directly relating to the advancement of the related area of interest are capitalised.

Capitalised mineral property costs are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If an indicator is identified, the asset's recoverable amount is calculated and compared to the carrying amount. For the purpose of measuring recoverable amounts, assets are grouped into CGUs. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

(i) Decommissioning provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral interest by or on behalf of the Company. Costs for restoration of site damage which is created on an ongoing basis during exploration and evaluation are provided for at their net present values and charged against profits in the period such exploration and evaluation occurs. Discount rates using a risk-free rate that reflects the time value of money are used to calculate the net present value. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. As at December 31, 2018, the Company did not have any decommissioning obligations.

(j) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or

Cabral Gold Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

Years ended December 31, 2018 and December 31, 2017

directly in equity in which case, the income tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(k) Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognised as a deduction from equity, net of any related income tax effects.

(l) Stock-based compensation

The Company grants stock options to certain of its employees, directors and consultants. 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 recognised over the tranche's vesting period based on the number of awards expected to vest. This number is reviewed annually, with any change in

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estimate recognised immediately in compensation expense with a corresponding adjustment to reserves.

Upon exercise of a stock option, consideration paid together with the stock-based compensation amount previously recognised in reserves is recorded as an increase to share capital.

(m) Loss per share

Basic loss per share is computed by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. The computation of diluted loss per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on loss per share. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted loss per share by the treasury stock method.

(n) Accounting standards effective in 2018

IFRS 9 “Financial Instruments” replaced IAS 39 “Financial Instruments: Recognition and Measurement” effective January 1, 2018. The Company’s principal financial assets comprise cash and cash equivalents and accounts receivable. All of these financial assets continue to be classified and measured at amortised cost. The Company’s principal financial liabilities comprise accounts payable and accrued liabilities and other liabilities and provisions. All of these financial liabilities continue to be classified and measured at amortised cost. The Company has no material financial assets subject to the expected credit loss model defined within IFRS 9, except for cash. The level of credit risk that the Group is exposed to has not given rise to material allowances within the expected credit loss model.

4. RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2018, and have not been applied in preparing these consolidated financial statements. Such standards that may have an impact on the Company’s consolidated financial statements once adopted is limited to IFRS 16, ‘Leases’.

The Company has not early adopted this revised standard and is currently assessing the impact, if any, that this revised standard will have on the consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company’s consolidated financial statements.

5. REVERSE ASSET ACQUISITION

On October 30, 2017, the Company completed the acquisition of CGL (the “CGL Transaction”). The CGL Transaction was carried out by way of a three-cornered amalgamation, whereby CGL amalgamated with 1116669 B.C. Ltd., a wholly owned subsidiary of the Company. Concurrently with closing of the CGL Transaction, the Company completed a share consolidation, such that

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every five existing common shares were consolidated into one new common share of the Company. Shareholders of CGL received 0.18 of a post-consolidation common share of the Company for each common share of CGL held by them immediately prior to the completion of the CGL Transaction.

In connection with the closing, the Company issued 29,753,868 common shares to the shareholders of CGL including 6,931,335 common shares relating to the private placement that closed concurrently with the closing of the CGL Transaction (see Note 12(a)). As a result of the exchange, the transaction resulted in a reverse asset acquisition. Accordingly, CGL is considered the continuing entity for accounting and financial reporting purposes and the Company, the continuing public company, being the corporation acquired. As the Company was a public 'shell' company, there was no basis to reliably measure the consideration paid for it by CGL, other than to use the current carrying values of its assets acquired and liabilities assumed.

Accordingly, the purchase price allocation of the acquisition is based on the estimated fair value of the net assets acquired, which was charged to operations as a listing expense as follows.

Cash	\$	28,131
Accounts receivables		4,651
Net assets acquired		32,782
Listing expense		791,616
		<u>824,398</u>
Consideration paid to former San Angelo security holders:		
1,298,550 common shares at estimated value of \$0.4773 per common share		619,798
600,000 warrants at estimated value of \$0.341 per warrant		204,600
	\$	<u>824,398</u>

The agreement was subject to the approval of the TSX Venture Exchange which was received on October 31, 2017.

For comparative purposes, the financial statement continuity presented herein is that of CGL, however, the continuity of issued share capital, prior and subsequent to the date of the acquisition, is that of the Company.

The 126,791,932 issued and outstanding pre-consolidation, pre-CGL Transaction common shares of CGL were adjusted to 22,822,533 post-consolidation common shares reflecting the 0.18 exchange ratio (see Note 12(a)).

M Partners Inc. ("M Partners") acted as financial advisor to CGL in connection with the CGL Transaction. As a result of the completion of the CGL Transaction, the Company paid M Partners a transaction success fee of \$180,000 which was paid through the issuance of 360,000 common shares at a deemed price of \$0.50 each (see Note 12(a)).

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6. FIXED ASSETS

	Land	Buildings	Vehicles	Equipment	Total
Cost:					
December 31, 2017	\$ 765,239	\$ -	\$ 14,562	\$ 12,630	\$ 792,431
Additions	-	67,107	145,927	99,679	312,713
Foreign exchange differences	(43,929)	(4,093)	(9,771)	(5,792)	(63,585)
December 31, 2018	721,310	63,014	150,718	106,517	1,041,559
Accumulated depreciation:					
December 31, 2017	-	-	(5,899)	(5,114)	(11,013)
Depreciation expense	-	(8,749)	(34,646)	(23,070)	(66,465)
Foreign exchange differences	-	534	2,476	1,291	4,301
December 31, 2018	-	(8,215)	(38,069)	(26,893)	(73,177)
Net book value:					
December 31, 2017	765,239	-	8,663	7,516	781,418
December 31, 2018	\$ 721,310	\$ 54,799	\$ 112,649	\$ 79,624	\$ 968,382

	Land	Vehicles	Equipment	Total
Cost:				
December 31, 2016	\$ 833,100	\$ 16,497	\$ 8,249	\$ 857,846
Additions	-	-	5,349	5,349
Foreign exchange differences	(67,861)	(1,935)	(968)	(70,764)
December 31, 2017	765,239	14,562	12,630	792,431
Accumulated depreciation:				
December 31, 2016	-	(2,637)	(1,319)	(3,956)
Depreciation expense	-	(4,069)	(4,198)	(8,267)
Foreign exchange differences	-	807	403	1,210
December 31, 2017	-	(5,899)	(5,114)	(11,013)
Net book value:				
December 31, 2016	833,100	13,860	6,930	853,890
December 31, 2017	\$ 765,239	\$ 8,663	\$ 7,516	\$ 781,418

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Land

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

R\$ 1,000,000 of the R\$ 2,000,000 purchase price was paid in April 2016. The remaining R\$ 1,000,000 was paid in two tranches of R\$ 500,000 on each of February 2, 2017 and July 31, 2017 in accordance with the terms of the agreement (as amended).

7. MINERAL PROPERTIES

Year ended December 31, 2018				
	Jan. 1, 2018	Additions	Foreign exchange	Dec. 31, 2018
Cuiú Cuiú	\$ 1,254,589	\$ 124,058	(\$ 55,962)	\$ 1,322,685
Bom Jardim	41,189	8,075	(3,073)	46,191
Other	2,335	2,377	(201)	4,511
	\$ 1,298,113	\$ 134,510	(\$ 59,236)	\$ 1,373,387

Year ended December 31, 2017				
	Jan. 1, 2017	Additions	Foreign exchange	Dec. 31, 2017
Cuiú Cuiú	\$ 1,114,321	\$ 204,825	(\$ 64,557)	\$ 1,254,589
Bom Jardim	44,866	-	(3,677)	41,189
Other	2,544	-	(209)	2,335
	\$ 1,161,731	\$ 204,825	(\$ 68,443)	\$ 1,298,113

The Company's primary mineral property is Cuiú Cuiú.

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

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

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

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The Company is required to make statutory claim maintenance expenditures to the Brazilian authorities each year to maintain its properties in good standing.

Cuiú Cuiú

Surface access agreement, garimpiero condominium

On February 19, 2006, Magellan Brazil entered into a surface access agreement with the holders of the traditional surface rights over the Cuiú Cuiú property. The owners are organised into a 'condominium' (which is similar to a cooperative, but with fewer rights) comprising minority stakeholders and majority stakeholders.

The February 19, 2006 agreement has since been amended and extended several times the most recent of which was on March 29, 2017. The current terms of the agreement require Magellan Brazil to pay R\$ 5,000 per year (equivalent of \$1,758 as at December 31, 2018) to each of the 21 majority stakeholders and R\$ 2,500 per year (\$879) to each of the 60 minority stakeholders.

Payments totalling approximately \$90,000 are due to the garimpieros (both majority and minority stakeholders) in April and May 2019 in connection with the surface access fee in respect of the year ended March 2020.

The agreement specifies that in the event that an economically viable gold resource is identified, Magellan Brazil will make an additional payment to the holders of the traditional surface rights based on the amount of gold defined (as measured in accordance with Australasian Joint Ore Reserves Committee definitions) as follows:

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

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

Outstanding amounts due in respect of previous years

The 2014 and 2015 payments of approximately R\$ 225,000 each were due on or before May 16, 2014 and May 16, 2015, respectively, pursuant to a December 2010 amendment. These amounts and an uncontracted amount in respect of the period ended May 2016 were unpaid as at December 31, 2016.

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The March 2017 amendment also set out charges in respect of inflation adjustments and interest charges relating to the delay in payment of annual fees since 2014. Total charges amount to R\$ 1,268,079 in respect of the four years ended March 2018 which was to be paid as follows:

- R\$ 751,383 was to be paid on or before March 30, 2017 (this amount, subject to minor late adjustments and an amount still owing to one majority and two minority stakeholders as at April, 25, 2019, was paid in full in April 2017)
- The remaining R\$ 516,696 was paid in full in July 2017 with the exception of nominal amounts still owing to one majority and two minority stakeholders as at April, 25, 2019).

Sandstorm NSR

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

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

Magellan NSR

A 0.5% royalty on the Cuiú Cuiú property was granted by Magellan Brazil to Magellan in April 2016. The Magellan NSR is subordinate to the Sandstorm NSR.

8. POCONÉ

The Company was a party to two sets of agreements with third parties pursuant to which mineral properties in the Poconé region of the state of Mato Grosso were to be identified, explored and developed. The first agreement was entered into between Magellan and ECI Exploration & Mining Inc. (“ECI”) on October 17, 2011 effective December 2009 pursuant to which ECI and Magellan would share equally in the rights and responsibilities associated with the identification, exploration and development of mineral properties (the “ECI Venture”). The second set of agreements was between Magellan, ECI and Brasil Central Engenharia Ltda. (“Brasil Central”) pursuant to which Magellan, ECI, and Brasil Central would seek to identify, explore and develop mineral properties through a newly incorporated entity, PGM. Magellan Brazil held a 35% interest in PGM through September 26, 2018.

Magellan’s rights and responsibilities associated with both the ECI Venture and PGM were transferred to CGL prior to the date of closing of the Magellan Brazil transaction pursuant to an agreement dated April 15, 2016 between CGL, Magellan and ECI. None of the purchase price consideration relating to the 2016 Magellan Brazil transaction was attributed to the Poconé properties.

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Virtually no exploration activity was undertaken on any of the Poconé properties since 2012, however, claim maintenance charges continued to be incurred and certain of these charges were restructured (see Note 9). In addition, the Company has historically incurred various other charges and realised proceeds on the liquidation of certain assets relating to both the ECI Venture and PGM.

On September 26, 2018, an agreement was entered into pursuant to which the shares of PGM held by both Magellan Brazil and the Brazilian subsidiary of ECI were transferred to Brasil Central in exchange for Brasil Central taking over the debts of PGM and making nominal cash payments. A gain of \$49,963 was recognised by the Company in connection with the termination of Magellan Brazil's share of certain PGM liabilities that had been previously recognised in Magellan Brazil's books of account.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Dec. 31, 2018	Dec. 31, 2017
Canada, professional fees	\$ 60,131	\$ 39,466
Brazil, payroll and related costs	54,016	-
Brazil, third party permitting studies	18,638	-
Brazil, employee litigation settlement	11,711	-
Brazil, freight and travel	11,365	-
Brazil, Cuiú Cuiú condominium liability (see Note 5)	7,277	7,840
Due to officers and directors (see Note 13(b))	8,870	4,298
Brazil, taxes (not restructured)	-	327,425
Brazil, restructured claim maintenance	-	34,211
Cuiú Cuiú resource update	-	29,458
Brazil, other	9,018	-
Canada, other	16,160	6,913
	197,186	449,611
Less long-term (restructured Brazil claim maintenance)	-	(25,432)
	\$ 197,186	\$ 424,179

Restructuring of Brazilian tax liabilities

During the fourth quarter of 2014 and the first quarter of 2016, Magellan Brazil restructured certain unpaid taxes due to various federal and state taxation and administrative bodies in Brazil; these amounts related to unpaid social taxes and withholding taxes in respect of fiscal years prior to the closing of the Magellan Brazil transaction in 2016. The payment plan, including application of discounts, was entered into pursuant to a general program offered by these bodies. The restructured liabilities were typically being repaid over 60 months. Monthly repayments were increased to reflect inflation pursuant to indices published each month.

In November 2017, Magellan Brazil entered into further restructuring programs with applicable federal and state taxation and administrative bodies in Brazil pursuant to which further discounts were granted to existing liabilities in return for payments being made sooner than as agreed in the aforementioned initial restructuring arrangements. The programs were also applied to certain

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unpaid tax balances of the Company that had not been previously restructured. The new arrangements resulted in the termination of the previous restructuring agreements, the application of further discounts, the offsetting of historical tax losses of Magellan Brazil against tax liabilities otherwise due and the payment of deposits.

The new arrangements were finalised with respect to \$280,798 of tax liabilities on February 26, 2018. Arrangements in respect of the remaining tax liabilities were finalised in the third quarter of 2018 resulting in the realisation of a gain in this quarter of \$41,327. The total gain resulting from tax restructuring realised in 2018 amounted to \$308,244. As at December 31, 2018, Magellan Brazil had no restructured or overdue tax liabilities outstanding.

Restructuring of Brazilian claim maintenance liabilities

PGM and the Brazilian subsidiary of ECI entered into restructuring agreements in connection with claim maintenance liabilities (the latter in respect of the ECI Venture). Such restructured liabilities were typically being repaid over 60 months with monthly repayments increased to reflect inflation pursuant to published indices.

The restructured claim maintenance liabilities associated with PGM were eliminated in the third quarter of 2018 in connection with the disposal of PGM (see Note 8).

The restructured claim maintenance liabilities associated with ECI Venture were paid off in full in the fourth quarter of 2018.

10. OTHER LIABILITIES AND PROVISIONS

Various legal, tax and regulatory matters are outstanding from time to time due to the nature of the Company's operations. The balance of Other liabilities and provisions as at December 31, 2018 is comprised of a provision of approximately \$4,000 representing management's best estimate of expenditures required to settle present contingent obligations relating to such matters. The ultimate outcome or actual cost of settlement may vary materially from management estimates due to the inherent uncertainty regarding the Company's estimates (see Note 20).

11. INCOME TAXES

A reconciliation of income taxes at the statutory rate is as follows:

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	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Net loss before income taxes	(\$ 3,203,660)	(\$ 2,622,713)
Statutory tax rate	30.69%	26.89%
Expected income tax recovery	(983,300)	(705,248)
Effect of deductible/non-deductible items for income tax purposes	(4,675)	199,683
Unrecognised benefit of non-capital losses	987,975	505,565
Deferred income tax expense	-	-

The Company's deductible temporary differences and unused tax losses consist of the following amounts:

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Non-capital losses	\$ 19,033,595	\$ 16,927,643
Mineral properties	(1,373,387)	(1,298,113)
Fixed assets	(968,382)	(781,418)
Share issue costs	317,862	309,520
	\$ 17,009,688	\$ 15,157,632

The Company has non-capital losses of approximately \$3,950,000 in its Canadian operations and \$15,050,000 in its Brazilian operations for income tax purposes which are available to reduce future taxable income.

12. SHAREHOLDERS' EQUITY

(a) Share capital

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

November 2018 private placement

On November 28, 2018, the Company closed a private placement financing pursuant to which a total of 7,450,000 common shares were issued at a price of \$0.25 per share, for gross proceeds of \$1,862,500.

Officers and directors of the Company subscribed for a total of 1,310,000 common shares for gross proceeds of \$327,500.

Total finder's fees paid to third parties in connection with the financing amounted to \$91,500, equivalent to 6% of the applicable proceeds raised. In addition, 366,000 share purchase warrants were issued to finders, equivalent to up to 6% of the number of applicable common shares (see Note

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12(b)). Each such warrant entitles the holder to purchase one common share of the Company at a purchase price of \$0.25 for a period of 24 months following closing of the private placement.

Shares issued for services (December 2017)

On December 15, 2017, the Company paid M Partners a transaction success fee of \$180,000 in connection with the closing of the CGL Transaction. The fee was paid through the issuance of 360,000 common shares at a deemed price of \$0.50 each (see Note 5). M Partners acted as financial advisor to CGL in connection with the CGL Transaction.

October 2017 private placement

On October 30, 2017, the Company closed a series of private placement financings pursuant to which a total of 6,931,335 units (the "Units") were issued at an effective price of \$0.60 per Unit, for gross proceeds of \$4,158,797. Each Unit was comprised of one common share of the Company, one-half of one class A warrant and one-half of one class B warrant. Each whole class A warrant entitles the holder to purchase one common share of the Company at a price of \$0.75 until October 30, 2018, and each whole class B warrant entitles the holder to purchase one common share at a price of \$0.90 until October 30, 2019.

Officers and directors of the Company subscribed for a total of 208,242 Units for gross proceeds of \$124,945.

Total finders' fees paid to third parties in connection with the financing amounted to \$256,130. In addition, 400,878 share purchase warrants were issued to finders. Each such warrant entitles the holder to acquire one Unit at an exercise price of \$0.60 until October 30, 2019.

The financing was undertaken in conjunction with the CGL Transaction.

Exchange of CGL shares (October 2017)

On October 30, 2017, the Company issued 22,822,533 in exchange for the 126,791,932 pre-consolidation, pre-CGL Transaction common shares of CGL outstanding as at this date reflecting the 0.18 exchange ratio (see Note 5). All references to share capital, common shares, share purchase warrants, stock options and per share amounts in these consolidated financial statements and the accompanying notes for periods prior to the CGL Transaction have been restated to reflect this exchange ratio.

Acquisition of San Angelo (October 2017)

On October 30, 2017, the Company issued 1,298,550 common shares to acquire San Angelo (see Note 5).

January 12, 2017 private placement

On January 12, 2017, the Company closed a private placement financing pursuant to which 801,000 common shares were issued at a price of \$0.333 per common share, for gross proceeds of \$267,000

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(including \$200,000 received prior to 2017). No finder's fees or similar fees were paid or compensation warrants issued in connection with this financing.

Escrowed shares

Under the policies of the TSX-V, an aggregate of 13,305,342 common shares exchanged for CGL shares in connection with the CGL Transaction were placed in escrow to be released over a 36-month period commencing in October 2017; 10% were released on October 31, 2017 and 15% will be released every six months thereafter through October 31, 2020. The number of common shares held in escrow as at December 31, 2018 was 8,016,952.

(b) Share purchase warrants

A continuity of the Company's share purchase warrants is as follows:

	Expiration	Number of warrants	Weighted average exercise price
December 31, 2016		264,826	0.33
Issued:			
October 2017 private placement:			
Class A warrants	30-Oct-18	3,465,664	0.75
Class B warrants	30-Oct-19	3,465,664	0.90
Finder warrants (1)	30-Oct-19	400,878	0.60
Pre-Transaction San Angelo warrants	26-May-21	600,000	0.25
December 31, 2017		8,197,032	0.76
Issued:			
Finder warrants (Dec. 2018 private placement)	28-Nov-20	366,000	0.25
Expired	30-Oct-18	(3,465,664)	0.75
December 31, 2018		5,097,368	0.72

(1) Relates to units not common shares (see Note 12(a))

The fair value of the finder warrants issued in 2018 in connection with the November 2018 private placement were estimated as at the date of issuance using the Black-Scholes option-pricing model applying the following assumptions:

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	Nov. 28, 2018
	(\$0.25)
Dividends	-
Expected volatility (average)	146%
Risk-free interest rate	1.40%
Expected life (months)	24
Expected rate of forfeiture	0.0%

The Company had the following share purchase warrants outstanding as at December 31, 2018:

Expiry date		Exercise price	Number of warrants
Finder warrants (Dec. 2016 private placement)	Oct. 30, 2019	0.333	264,826
Class B warrants (Oct. 2017 private placement)	Oct. 30, 2019	0.90	3,465,664
Finder warrants (Oct. 2017 private placement; (1))	Oct. 30, 2019	0.60	400,878
Pre-Transaction San Angelo warrants	May 26, 2021	0.25	600,000
Finder warrants (Dec. 2018 private placement)	Nov. 28, 2020	0.25	366,000
		0.72	5,097,368

(1) Relates to units not common shares (see Note 12(a))

The weighted average remaining life of outstanding share purchase warrants as at December 31, 2018 was 13 months (December 31, 2017: 18 months).

(c) Stock options

A continuity of the Company's stock options is as follows:

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	Expiration	Number of options	Weighted average exercise price
December 31, 2016		-	-
Issued:			
December 6, 2017	5-Dec-20	297,000	0.35
February 15, 2017	14-Feb-20	936,000	0.33
December 31, 2017		1,233,000	0.33
Issued:			
June 20, 2018	19-Jun-23	450,000	0.23
December 31, 2018		1,683,000	0.31

The weighted average remaining life of outstanding stock options as at December 31, 2018 was 26 months (December 31, 2017: 28 months).

Stock-based compensation totalled \$52,380 in the year ended December 31, 2018 (year ended December 31, 2017: \$222,903).

All stock options granted in 2018 will vest in five equal tranches over 24 months including an initial tranche vesting on the date of issuance.

The fair values of the stock options granted in 2017 and 2018 were estimated as at the date of issuance using the Black-Scholes option-pricing model applying the following assumptions:

	June 20, 2018 (\$0.23)	Feb. 15, 2017 (\$0.33)	Dec. 6, 2017 (\$0.35)
Dividends	-	-	-
Expected volatility (average)	112% - 120%	91%	89%
Risk-free interest rate	1.12% - 1.85%	1.15%	1.35%
Expected life (months)	48 - 60	36	36
Expected rate of forfeiture	0% - 5%	5.0%	0.0%

In January 2019, the Company granted 1,694,672 stock options to various employees, directors and consultants pursuant to the Company's stock option plan. The stock options have an exercise price of \$0.25 per common share, are exercisable until January 22, 2024 and are subject to vesting over 24 months.

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13. EXPLORATION AND DEVELOPMENT

Year ended December 31, 2018				
	Cuiú Cuiú	Poconé	Local administration	Total
Consulting, third parties	\$ 775,831	\$ -	\$ -	\$ 775,831
Payroll	675,643	-	48,105	723,748
Field costs	500,222	-	-	500,222
Freight and travel	222,337	-	23,406	245,743
Office and logistics	-	-	147,260	147,260
Assay	50,918	-	-	50,918
Other (1)	6,104	8,120	-	14,224
	\$ 2,231,055	\$ 8,120	\$ 218,771	\$ 2,457,946

Year ended December 31, 2017				
	Cuiú Cuiú	Poconé	Local administration	Total
Payroll	\$ 152,480	\$ -	\$ -	\$ 152,480
Office and logistics	-	-	85,001	85,001
Consulting, third parties	66,121	-	-	66,121
Field costs	43,245	-	-	43,245
Freight and travel	3,576	-	14,635	18,211
Other (1)	814	17,311	-	18,125
	\$ 266,236	\$ 17,311	\$ 99,636	\$ 383,183

(1) Presented net of asset rental revenues and proceeds on disposal of assets relating to the ECI Venture and PGM Venture (see Note 8)

14. SALARY AND WAGES

Total payroll, consulting and related costs incurred in the year ended December 31, 2018 amounted to \$1,105,301 (year ended December 31, 2017: \$446,795).

15. SEGMENTED INFORMATION

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

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	Canada	Brazil	Total
Non-current assets:			
December 31, 2018	\$ 1,336	\$ 2,340,433	\$ 2,341,769
December 31, 2017	3,186	2,076,345	2,079,531
Net loss:			
Year ended December 31, 2018	1,079,091	2,124,569	3,203,660
Year ended December 31, 2017	\$ 2,112,786	\$ 509,927	\$ 2,622,713

16. RELATED PARTY TRANSACTIONS

(a) Management compensation

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Management:		
Employment and consulting remuneration	\$ 292,500	\$ 239,584
Payroll related costs	18,532	19,648
Stock-based compensation	52,380	-
Consulting fees (1)	28,000	-
	<u>391,412</u>	<u>259,232</u>
Directors (excluding management):		
Stock-based compensation	-	189,828
Advisory fees (2)	-	46,875
	<u>-</u>	<u>236,703</u>
	<u>\$ 391,412</u>	<u>\$ 495,935</u>

(1) Consulting fees relate to \$28,000 paid to a company controlled by an individual who joined the Company's Board of Directors as Executive Chairman in May 2018 in respect of advisory services provided during the period February through April 2018, inclusive

(2) Advisory fees were previously paid to a director who was based in and actively involved in activities in Brazil. This fee arrangement was terminated effective October 1, 2017

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

(b) Balances due to related parties

As at December 31, 2018, the Company owed a total of \$8,870 to management in connection with unreimbursed expenditures incurred on behalf of the Company. This liability was settled in full in the first quarter of 2019.

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(c) Other related party issues

See Note 1 regarding the acquisition by the Company of Magellan Brazil through the restructuring of balances due by Magellan to the founding shareholders of Cabral.

Also, see Note 12(a) regarding the participation by directors and members of management in recent private placements.

17. CAPITAL MANAGEMENT

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

- To safeguard its ability to continue as a going concern
- To have sufficient capital to be able to meet its strategic objectives including the continued exploration and development of its existing mineral projects and the identification of additional projects.

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

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

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

18. FINANCIAL INSTRUMENTS

(a) Carrying value and fair value

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

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

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

Cash and cash equivalents, accounts receivable and prepaid expenses are classified as amortised cost. Amortised cost approximates fair market value due to the short-term nature of the balances.

Accounts payable and accrued liabilities and other liabilities and provisions are classified as other financial liabilities and are recorded in the financial statements at amortised cost. The fair value of

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accounts payable and accrued liabilities may be less than the carrying value as a result of the Company's credit and liquidity risk.

(b) Financial risks

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

Foreign exchange risk

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

The Company held the following foreign currency denominated balances as at December 31, 2018 and December 31, 2017:

	December 31, 2018		December 31, 2017	
	R\$	US\$	R\$	US\$
Cash and cash equivalents	568,251	49,394	382,321	20,126
Receivables and prepaid expenses	24,140	-	11,833	-
Accounts payable and accrued liabilities	(387,188)	(21,742)	(1,167,307)	-
	205,203	27,652	(773,153)	20,126
Equivalent in Canadian dollars	72,129	37,723	(292,794)	25,249

Based on the balances held as at December 31, 2018, a 10% decrease in the \$ per R\$ and \$ per US\$ exchange rates on this date would have resulted in an increase in the net loss for the year then ended of approximately \$10,985.

Liquidity risk

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

Credit risk

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and receivables. The carrying value of the

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Company's financial assets recorded in the consolidated financial statements represents its maximum exposure to credit risk.

All accounts receivable balances are collectable and no valuation allowance or provision was applied or required as at December 31, 2018.

Interest rate risk

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

The Company's restructured claim maintenance liabilities in Brazil were subject to charges which were calculated based on the domestic rate of inflation in Brazil and related indices published by the Brazilian authorities. The Company did not have any restructured claim maintenance liabilities as at December 31, 2018 and no such liabilities arose subsequent thereto through April 25, 2019.

Other than the Company's restructured claim maintenance liabilities in Brazil, it did not have any interest bearing liabilities outstanding as at December 31, 2018.

19. SUPPLEMENTARY CASH FLOW INFORMATION

The consolidated statements of cash flows exclude the following items that do not require the use of cash:

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Share issuance costs paid in warrants	\$ 65,880	\$ 109,440

20. CONTINGENT LIABILITY

The Company is subject to litigation in the counties where it operates. As at December 31, 2018 and April, 25, 2019, there were several cases outstanding which had not been settled or where final judgement had not been rendered. Management is vigorously defending against those claims and has assessed the likelihood of loss related to the outstanding litigation and has recorded a provision of approximately \$4,000 with regard to all outstanding litigation and related exposures.