# BLACK DRAGON GOLD CORP.

(formerly Astur Gold Corp.)

**CONSOLIDATED FINANCIAL STATEMENTS**
**(Expressed in Canadian dollars)**

**FOR THE YEAR ENDED**
**DECEMBER 31, 2016**

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Black Dragon Gold Corp. (formerly Astur Gold Corp.)

We have audited the accompanying consolidated financial statements of Black Dragon Gold Corp. (formerly Astur Gold Corp.), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, cash flows, and changes in shareholders' deficiency for the years then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Black Dragon Gold Corp. (formerly Astur Gold Corp.) as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Black Dragon Gold Corp.'s (formerly Astur Gold Corp.) ability to continue as a going concern.

**"DAVIDSON & COMPANY LLP"**

Vancouver, Canada | Chartered Professional Accountants

May 1, 2017

**BLACK DRAGON GOLD CORP.**
(formerly Astur Gold Corp.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)
AS AT

| | Notes | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash and equivalents | | $ 105,834 | $ 110,764 |
| Receivables | 3 | 34,319 | 51,447 |
| Prepaid expenses | | 664 | 706 |
| | | 140,817 | 162,917 |
| **Equipment** | 4 | 981 | 1,341 |
| **Deposits** | | 1,240 | 1,240 |
| **Exploration and evaluation assets** | 5 | - | - |
| | | 2,221 | 2,581 |
| **Total assets** | | $ 143,038 | $ 165,498 |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 6 | $ 1,893,278 | $ 875,285 |
| Interest payable | 7 | 1,794,016 | 1,063,422 |
| Loan facility | 7 | 10,498,919 | 10,094,313 |
| **Total liabilities** | | 14,186,213 | 12,033,020 |
| **Shareholders' deficiency** | | | |
| Share capital | 8 | 13,165,615 | 12,494,553 |
| Reserves | 8 | 4,059,101 | 4,059,101 |
| Deficit | | (31,267,891) | (28,421,176) |
| **Total shareholders’ deficiency** | | (14,043,175) | (11,867,522) |
| **Total liabilities and shareholders’ deficiency** | | $ 143,038 | $ 165,498 |

**Nature and continuance of operations** (Note 1)
**Subsequent events** (Note 16)

These consolidated financial statements were approved for issue by the Board of Directors on May 1, 2017 and are signed on its behalf by:

*/S/ Brian Wesson*
Brian Wesson
Director

*/S/ Clyde Wesson*
Clyde Wesson
Director

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

**BLACK DRAGON GOLD CORP.**
(formerly Astur Gold Corp.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

| | Notes | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|---|
| **EXPENSES** | | | |
| Consulting | | $ 14,459 | $ 14,789 |
| Corporate development | | 5,543 | 8,250 |
| Depreciation | | 360 | 18 |
| Filing fees | | 19,234 | 6,944 |
| Foreign exchange loss (gain) | | (312,018) | 1,819,009 |
| General and administrative | 10 | 184,898 | 115,640 |
| General exploration | | 5,950 | 1,183 |
| Management fees | 10 | 636,039 | 240,000 |
| Professional fees | | 371,273 | 264,305 |
| Rent | | 72,229 | 48,148 |
| Severance provision | 15 | 280,524 | (129,168) |
| Shareholder communication | | 25,599 | 8,544 |
| Share-based compensation | 8 | - | 5,257 |
| Transfer agent | | 11,074 | 4,601 |
| Travel and related | | 398,760 | 16,213 |
| Website design and maintenance | | 2,000 | 4,042 |
| **Loss before other items** | | (1,715,924) | (2,427,775) |
| **OTHER ITEMS** | | | |
| Interest and accretion expense | 7 | (1,130,945) | (1,398,971) |
| Interest income | | 154 | 342 |
| Gain on disposal of equipment | | - | 1,959 |
| | | (1,130,791) | (1,396,670) |
| **Loss and comprehensive loss for the year** | | $ (2,846,715) | $ (3,824,445) |
| **Basic and diluted loss per common share** | | $ (0.07) | $ (0.10) |
| **Weighted average number of common shares outstanding** | | 41,113,521 | 36,780,761 |

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

**BLACK DRAGON GOLD CORP.**
(formerly Astur Gold Corp.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Loss for the year | $ (2,846,715) | $ (3,824,445) |
| Items not affecting cash: | | |
| Depreciation | 360 | 18 |
| Interest and accretion expense | 1,130,945 | 1,398,971 |
| Gain on disposal of fixed assets | - | (1,959) |
| Share-based compensation | - | 5,257 |
| Unrealized foreign exchange (gain) loss | (248,188) | 1,746,274 |
| Change in non-cash working capital items | | |
| Decrease in receivables | (15,897) | 154,833 |
| Decrease in prepaid expenses | 2 | 12,235 |
| Increase in accounts payable and accrued liabilities | 998,481 | 89,650 |
| Net cash used in operating activities | (981,012) | (419,166) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from loan facility | 305,020 | 314,877 |
| Shares issued for cash, net | 671,062 | - |
| Net cash provided by financing activities | 976,082 | 314,877 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of equipment | - | (1,359) |
| Proceeds from disposal of equipment | - | 12,762 |
| Net cash provided by (used in) investing activities | - | 11,403 |
| **Change in cash during the year** | (4,930) | (92,886) |
| **Cash, beginning of year** | 110,764 | 203,650 |
| **Cash, end of year** | $ 105,834 | $ 110,764 |

**Supplemental disclosure with respect to cash flows** (Note 9)

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

**BLACK DRAGON GOLD CORP.**
(formerly Astur Gold Corp.)
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' DEFICIENCY
(Expressed in Canadian dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Reserves | Deficit | Total |
| **Balance, December 31, 2015** | 36,780,761 | $ 12,494,553 | $ 4,059,101 | $ (28,421,176) | $ (11,867,522) |
| Shares issued for cash, net | 14,222,592 | 671,062 | - | - | 671,062 |
| Loss for the year | - | - | - | (2,846,715) | (2,846,715) |
| **Balance, December 31, 2016** | 51,003,353 | $ 13,165,615 | $ 4,059,101 | $ (31,267,891) | $ (14,043,175) |

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | Number | Amount | Reserves | Deficit | Total |
| **Balance, December 31, 2014** | 36,780,761 | $ 12,494,553 | $ 4,053,844 | $ (24,596,731) | $ (8,048,334) |
| Share-based compensation | - | - | 5,257 | - | 5,257 |
| Loss for the year | - | - | - | (3,824,445) | (3,824,445) |
| **Balance, December 31, 2015** | 36,780,761 | $ 12,494,553 | $ 4,059,101 | $ (28,421,176) | $ (11,867,522) |

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

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Black Dragon Gold Corp. (formerly Astur Gold Corp.) (the "Company") was incorporated under the laws of the Province of British Columbia on August 20, 2007, and is classified as a junior mining issuer with the TSX Venture Exchange ("TSX-V"). The Company's head office address is Suite 545 – 999 Canada Place, Vancouver, British Columbia, V6C 3E1. The registered and records office address is 2080 – 777 Hornby Street, Vancouver, British Columbia, V6Z 1S4.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The consolidated financial statements for the year ended December 31, 2016 do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

These consolidated financial statements for the year ended December 31, 2016 are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and the exercise of management's judgment in applying the Company's accounting policies. Areas involving a high degree of judgment or complexity and areas where assumptions and estimates are significant to the Company's consolidated financial statements are discussed below.

The Company's consolidated financial statements for the year ended December 31, 2016 have been prepared on a historical cost basis except for certain financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Use of estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

*Exploration and evaluation expenditures*

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of expenditures is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

*Share-based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are discussed in Note 8.

### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, including Exploraciones Mineras del Cantabrico S.L. ("EMC"). EMC is a mining company in Asturias, Spain. All inter-company transactions and accounts have been eliminated upon consolidation.

### Equipment

Equipment is recorded at cost less accumulated depreciation. Depreciation is provided annually over the estimated useful life using the following methods:

| | |
|---|---|
| Furniture and fixtures | 20% declining balance |
| Office equipment | 30% declining balance |
| Tools and machinery | 20% declining balance |
| Vehicle | 30% declining balance |

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Exploration and evaluation assets

Upon acquiring the legal right to explore an exploration and evaluation asset, costs related to the acquisition, exploration and evaluation are capitalized by property. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and evaluation, and future production or proceeds from the disposition thereof.

The Company considers its exploration and evaluation asset as a "qualifying asset" as defined by IAS 23, *Borrowing Costs.* Borrowing costs include interest expense under the effective interest rate method, but exclude standby and commitment fees, and are capitalized in proportion to the extent that the borrowed funds and subsequent related expenditures are capitalized to the exploration and evaluation asset.

### Impairment of tangible and intangible assets

Management evaluates non-current assets at least annually for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount.

### Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

### Decommissioning provisions

The Company recognizes the fair value of a liability for a decommissioning provision in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company does not have any decommissioning provisions.

**2. SIGNIFICANT ACCOUNTING POLICIES** (cont'd…)

**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 period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded by providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 statement of financial position date.

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.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. 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.

**Loss per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years.

**Share-based compensation**

Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the date of grant and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

### Foreign currency translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the financial position reporting date. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

### Financial instruments

<u>Financial assets</u>

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through other comprehensive income (loss).

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash and equivalents at fair value through profit and loss. The Company's receivables and deposits are classified as loans and receivables.

(Expressed in Canadian dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

**Financial instruments** (cont'd…)

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Other financial liabilities:* This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities, interest payable and loan facility are classified as other financial liabilities.

**Accounting standards and interpretations issued but not yet applied**

As at the date of these financial statements, the following standards have not been applied in these financial statements:

(i) IFRS 9 – New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.
(ii) IFRS 15 - New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2017.
(iii) IFRS 16 – Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019.

Management is currently assessing the impact of these new standards on the Company's accounting policies and financial statement presentation.

## 3. RECEIVABLES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Foreign value-added tax | $ 15,529 | $ 44,833 |
| GST receivable | 18,790 | 2,849 |
| Other | - | 3,765 |
| Total | $ 34,319 | $ 51,447 |

(Expressed in Canadian dollars)

## 4. EQUIPMENT

| | Office equipment | Vehicle | Total |
|---|---|---|---|
| **Cost** | | | |
| **Balance, December 31, 2014** | $ 13,161 | $ 11,897 | $ 25,058 |
| Additions | 1,359 | - | 1,359 |
| Disposals | (13,161) | (11,897) | (25,058) |
| **Balance, December 31, 2015 and 2016** | $ 1,359 | $ - | $ 1,359 |
| **Accumulated depreciation** | | | |
| **Balance, December 31, 2014** | $ 8,949 | $ 5,306 | $ 14,255 |
| Depreciation for the year | 18 | - | 18 |
| Disposals during the period | (8,949) | (5,306) | (14,255) |
| **Balance, December 31, 2015** | $ 18 | $ - | $ 18 |
| Depreciation for the year | 360 | - | 360 |
| **Balance, December 31, 2015** | $ 378 | $ - | $ 378 |
| **Carrying amounts** | | | |
| As at December 31, 2015 | $ 1,341 | $ - | $ 1,341 |
| **As at December 31, 2016** | **$ 981** | **$ -** | **$ 981** |

## 5. EXPLORATION AND EVALUATION ASSETS

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Acquisition costs | $ 5,536,947 | $ 5,536,947 |
| Exploration and evaluation costs | 8,872,546 | 8,872,546 |
| Impairment | (14,409,493) | (14,409,493) |
| Total exploration and evaluation assets | $ - | $ - |

(Expressed in Canadian dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

### Salave Gold Property

In April 2010, the Company completed the acquisition of a 100% interest in the Salave property located in the province of Asturias, Spain. The Salave property is comprised of several mineral concessions and an investigation permit. There is contingent consideration of €20,000,000 due to the vendor for the acquisition of the Salave property if certain permits are received to operate an open pit mine.

The Salave property is also subject to a pre-existing lease termination agreement which calls for five cash payments of US$5,000,000 each with the first payment due when certain permits to construct and operate an open pit mine are received, the second on commencement of commercial production and the remaining three payments based on certain production levels with the final payment due after 800,000 ounces have been produced. Pursuant to the lease termination amending agreement, at the option of the Company and subject to regulatory approval, any of these payments can be satisfied in whole by the issuance of common shares of the Company.

After 800,000 ounces of gold have been produced, the Salave property is also subject to a 5% net smelter return royalty ("NSR"), half of which can be purchased by the Company for a cash payment of US $5,000,000.

During 2005, the regional government of Asturias, Spain halted open-pit project development of the Salave property due to the introduction of certain zoning legislation and the rejection of a specific authorization for mining of the property. Immediately thereafter, a legal proceeding was commenced by EMC and the former owners of EMC against the government seeking the reversal of the decision to halt open-pit project development. This legal proceeding was not successful and, accordingly, the Company`s development plans for the Salave property changed from an open pit to an underground operation. The consequence of this development plan is that the contingent consideration will not be payable.

During the fourth quarter of fiscal 2014, the Company received a negative decision on the Amended Environmental Impact Assessment from the Commission for Environmental Affairs of the Principality of Asturias for the Company's current development proposal of the Salave property. As a result of this decision, the Company impaired all of its acquisition costs and exploration and evaluation costs for the year ended December 31, 2014.

During April 2015, the Company filed a lawsuit before the Asturias Court of Justice challenging the decision to reject approval of a proposed underground mine operation for the Salave project. The initial legal action sought to challenge this ruling. In conjunction with this legal action, the Company filed a statement of claim (the "Claim") against the Ministry of Economy and Employment of the Principality of Asturias (the "Ministry") in November 2015. The Claim sought to recover Euro 8.59 million of expenditures incurred on the Salave property since 2010 when the Company acquired the property.

During fiscal 2016, the Company's claim was rejected by the Asturias Court of Justice. While the Company initially filed an appeal, current management rescinded this appeal and intends to work closely with the Spanish government to develop a feasibility study that meets the requirements of the Spanish government.

## 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Accounts payables | $ 526,464 | $ 316,874 |
| Accrued liabilities | 396,725 | 300,580 |
| Due to related parties (Note 10) | 970,089 | 257,831 |
| Total | $ 1,893,278 | $ 875,285 |

(Expressed in Canadian dollars)

## 7. LOAN FACILITY

| | | 2016 | | 2015 |
|---|---|---|---|---|
| Loan facility borrowings, beginning of year | $ | 10,472,288 | $ | 8,496,254 |
| Loan facility borrowings made during the year | | 305,020 | | 314,877 |
| Foreign exchange | | (278,389) | | 1,661,157 |
| Loan facility borrowings, end of year | $ | 10,498,919 | $ | 10,472,288 |
| Loan transaction costs, beginning of year | $ | (377,975) | $ | (1,120,892) |
| Loan transaction costs accreted during the year | | 377,975 | | 742,917 |
| Loan transaction costs, end of year | $ | - | $ | (377,975) |
| Loan facility balance, end of year | $ | 10,498,919 | $ | 10,094,313 |

In June 2013, the Company closed an agreement for a $10,000,000 loan facility ("Facility") to be provided by RMB Australia Holdings Limited ("RMB"), the lender. On August 8, 2013, the Facility was amended to convert all amounts owing and future borrowings from Canadian dollars to US dollars. Previously drawn Canadian dollar amounts were converted to their US dollar equivalents. The total value of the loan facility available to the Company was converted to US$10,000,000. As of December 31, 2016, US$7,796,816 (2015 - US$7,566,682) had been drawn.

The Facility is for a maximum three-year term at LIBOR plus 6% per annum. The Facility is subject to an arrangement fee of 4.5% of the Facility amount, less any work fees paid to the arranger in cash, payable upon execution of the Facility. Both were paid during the year ended December 31, 2013. The repayment of principal, originally due June 2016, has been extended to May 28, 2017. The Company has the right to prepay the Facility at any time, subject to certain break fees to compensate for lost interest to RMB. RMB also has the ability to cancel any undrawn amounts at any time with 10 days' notice. The Facility is secured by a general security agreement, a pledge over the shares of EMC, bank accounts, mining concession and investigation permit as well as a guarantee provided by the Company.

Under the terms of the Facility, on June 5, 2013, the Company issued 5,000,000 warrants entitling RMB to purchase 5,000,000 common shares of the Company for 36 months at an exercise price of $0.62 until June 5, 2016. RMB also has the right, upon choosing to exercise its warrants, to have the Company apply the warrant proceeds as a prepayment of the Facility and subject to related prepayment terms. The warrants were given a value of $1,017,659 using the Black-Scholes pricing model and applying the following assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.15% |
| Expected life of warrants | 3 years |
| Expected annualized volatility | 95.76% |
| Expected dividend rate | Nil |

For the year ended December 31, 2016, the Company recorded $740,686 (2015 - $643,770) in interest expense from Facility borrowings.

The Facility also charges a 1.5% commitment fee on the undrawn balance of the loan. As of December 31, 2016, the Company has paid or accrued $12,284 (2015 - $12,284) in interest expense from the commitment fee. The Company was not charged a commitment fee from March 31, 2015 to December 31, 2015 or for the year ended December 31, 2016.

(Expressed in Canadian dollars)

## 7. LOAN FACILITY (cont'd…)

Interest, including the commitment fee is payable quarterly. The Company has not made any payments since June 2015 and has accrued these amounts as owing. Total interest payable as at December 31, 2016 is $1,794,016 (2015 - $1,063,422).

The negative decision of the Amended Environmental Impact Assessment (Note 5) is a review event whereby RMB can discontinue the Facility and demand repayment. In March 2015, RMB agreed to extend the review event period and provide funding for certain approved activities. Due to the uncertainty involving the extension, the Company has decided to treat the Facility as a current item.

During the year ended December 31, 2016, Lionsbridge, RMB and the Company entered into an option agreement, under which RMB has granted the Company the option (the "Option") to repay the secured debt facility owed by the Company to RMB in consideration for: (1) a cash payment of US$3,050,000; (2) a 2% net smelter returns royalty on the first 800,000 ounces of gold produced from the Company's Salave Project (the "NSR") and; (3) U.S $6,000,000 if, over a three year period, the Company enters into any sale, merger or joint venture involving the Salave Project where the Salave Project is valued in excess of US$10,000,000. The NSR may be repurchased by the Company at any time until the earlier of (a) receipt of primary environmental approvals for the Salave Project or (b) December 31, 2017 for a cash payment of US$3.0 million. Under the Option Agreement, RMB granted Lionsbridge the exclusive right until September 6, 2016 (the "Exclusivity Period"), as extended to May 28, 2017, to arrange the necessary financing to exercise the Option.

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Interest expense from borrowings | $ 740,686 | $ 643,770 |
| Interest expense from commitment fee | 12,284 | 12,284 |
| Accretion of loan transaction costs | 377,975 | 742,917 |
| Interest and accretion expense (total) | $ 1,130,945 | $ 1,398,971 |

## 8. SHAREHOLDERS' EQUITY

*Authorized:*

Unlimited number of common shares without par value.

**Issued**

During August 2016, the Company issued 10,282,592 units for gross proceeds of $514,130 in conjunction with a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of $0.07 per share, expiring August 12, 2018. If, during the warrant term, the closing price of the Company's common shares is at least $0.20 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. A cash finder's fee of $37,500 was paid to Lionsbridge Pty Ltd., a company controlled by the Company's CEO. In addition, the Company paid cash issuance costs of $21,608.

(Expressed in Canadian dollars)

## 8. SHAREHOLDERS' EQUITY (cont'd…)

**Issued** (cont'd…)

During December 2016, the Company issued 3,940,000 units for gross proceeds of $216,700 in conjunction with the closing of two tranches of a non-brokered private placement. Each unit is comprised of one common share and one share purchase warrant. Each warrant enables the holder to acquire one common share with an exercise price of $0.11 per share, expiring between December 6 and December 22, 2018. If, during the warrant term, the closing price of the Company's common shares is at least $0.22 for a period of twenty consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof all holders of warrants, and in such case, the warrants will expire on the earlier of the 30th day after the date on which the news release or written notice is disseminated by the Company, and the original expiry date. The Company paid a finder's fee of $660.

The Company did not issue any common shares during the year ended December 31, 2015.

**Warrants**

A summary of the number of common shares reserved pursuant to the Company's warrants outstanding as at December 31, 2015 and 2016 is as follows:

| | Number | Exercise Price and Weighted Average Exercise Price | Expiry date |
|---|---|---|---|
| Balance, December 31, 2014 | 6,137,536 | $ 0.67 | |
| Expired March 15, 2015 | (778,286) | 0.90 | March 15, 2015 |
| Expired March 18, 2015 | (359,250) | 0.90 | March 18, 2015 |
| Balance, December 31, 2015 | 5,000,000 | $ 0.62 | June 5, 2016 |
| Expired June 5, 2016 | (5,000,000) | 0.62 | June 5, 2016 |
| Issued August 12, 2016 | 10,282,592 | 0.07 | August 12, 2018 |
| Issued December 6, 2016 | 1,410,000 | 0.11 | December 6, 2018 |
| Issued December 7, 2016 | 900,000 | 0.11 | December 7, 2018 |
| Issued December 22, 2016 | 1,630,000 | 0.11 | December 22, 2018 |
| Balance, December 31, 2016 | 14,222,592 | $ 0.08 | |

The Company did not issue any warrants during the year ended December 31, 2015.

(Expressed in Canadian dollars)

## 8. SHAREHOLDERS' EQUITY (cont'd…)

### Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors. The Company did not issue any options during the years ended December 31, 2015 or 2016.

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Outstanding, December 31, 2014 | 3,437,000 | $ | 0.56 |
| Expired / forfeited | (102,000) | | 1.25 |
| Outstanding, December 31, 2015 | 3,335,000 | | 0.54 |
| Expired / forfeited | (1,470,000) | | 0.72 |
| Outstanding, December 31, 2016 | 1,865,000 | $ | 0.40 |
| Stock options exercisable, December 31, 2016 | 1,865,000 | $ | 0.40 |

As at December 31, 2016, the following incentive stock options are outstanding:

| Number of Options | Exercise Price | Expiry Date |
|---|---|---|
| 1,865,000 | 0.40 | June 2, 2017 |

The weighted-average remaining life of stock options outstanding as of December 31, 2016 is 0.42 years (2015 – 1.66 years).

### Share-based compensation

During the year ended December 31, 2016, the Company recognized $Nil (2015 - $5,257) of share-based compensation expense.

(Expressed in Canadian dollars)

## 9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Cash paid during the year for income taxes and interest | $ - | $ - |

## 10. RELATED PARTY TRANSACTIONS

The Company considers personnel with the authority and responsibility for planning, directing and controlling the activities of the Company to be key management personnel.

a) *Transactions with key management personnel*

The following amounts were incurred with respect to the President and Chief Executive Officer, a Director, the Chief Operating Officer and the Chief Financial Officer of the Company:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Management fees | $ 636,039 | $ 240,000 |
| Severance | 195,900 | - |
| Administrative fees | 43,500 | 30,000 |
| | $ 875,939 | $ 27,000 |

b) *Transactions with other related parties*

The following amounts were incurred with respect to other former directors and a spouse of the former President and Chief Executive Officer of the Company:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Share-based compensation | $ - | $ 5,257 |

There is $970,089 (2015 - $257,831) in accounts payable and accrued liabilities at December 31, 2016 that is due to directors, a former director, officers and companies controlled by directors or officers or a former director or officer of the Company.

(Expressed in Canadian dollars)

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Fair value*

The inputs used in making fair value measurements are classified within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The carrying value of receivables and accounts payable and accrued liabilities and loan facility approximated their fair value because of the short-term nature of these instruments. Cash is measured at fair value using Level 1 inputs. The carrying value of deposits also approximates its fair value.

Financial instruments measured at fair value on the consolidated statements of financial position are summarized in levels of fair value hierarchy as follows:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and equivalents | $ 105,834 | $ - | $ - | $ 105,834 |

The Company has exposure to the following risks from its use of financial instruments:

*Credit risk*

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's cash is held at large financial institutions and it believes it has no significant credit risk.

*Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at December 31, 2016, the Company had current assets of $140,817 to settle current liabilities of $14,186,213 which either have contractual maturities of less than 30 days and are subject to normal trade terms or are due on demand.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors, such as interest rates and foreign exchange rates.

*a) Interest rate risk*
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

In June 2013, the Company closed a loan facility agreement with RMB Australia Holdings Ltd. (see Note 7). Borrowings made against this loan facility agreement are subject to interest at LIBOR plus 6% per annum. The LIBOR is derived from a filtered average of several world banks' interbank deposit rates for larger loans with maturities between overnight and one full year and is subject to change and therefore subject to interest rate risk. Based on the Company's loan facility balance at December 31, 2016, a 1% change in LIBOR would result in an $104,989 change in annual interest expense.

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

*b) Foreign currency risk*

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in Spain by using Euros converted from its Canadian bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk. Based on the Company's Euro denominated financial instruments at December 31, 2016, a 10% change in exchange rates between the Canadian dollar and the Euro would result in a $34,102 change in foreign exchange gain or loss.

In August 2013, the Company's loan facility agreement with RMB Australia Holdings Ltd. was amended so that all borrowings and repayments will be made in US dollars (see Note 7). Based on the Company's US dollar loan facility balance at December 31, 2016, a 10% change in exchange rates between the Canadian dollar and the US dollar would result in a $1,229,293 change in foreign exchange gain or loss.

## 12. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity and a loan facility agreement (see Note 7). The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its business and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing, selling assets, and incurring debt. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, high liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year. The Company will need to raise additional capital by obtaining equity financing, selling assets and incurring debt to develop its business.

## 13. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration of exploration and evaluation assets located in Spain. Geographic information is as follows:

| | Deposits | Equipment | Exploration and Evaluation Assets | Total |
|---|---|---|---|---|
| **December 31, 2016** | | | | |
| Canada | $ 1,240 | $ 981 | $ - | $ 2,221 |
| Spain | - | - | - | - |
| | $ 1,240 | $ 981 | $ - | $ 2,221 |
| **December 31, 2015** | | | | |
| Canada | $ 1,240 | $ 1,341 | $ - | $ 2,581 |
| Spain | - | - | - | - |
| | $ 1,240 | $ 1,341 | $ - | $ 2,581 |

(Expressed in Canadian dollars)

## 14. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

| | Year Ended December 31, 2016 | Year Ended December 31, 2015 |
|---|---|---|
| Loss for the year | $ (2,846,715) | $ (3,824,445) |
| Expected income tax recovery | $ (741,000) | $ (994,000) |
| Change in statutory, foreign tax, foreign exchange rates and other | 637,000 | (406,000) |
| Share issuance costs | (16,000) | - |
| Non-deductible expenditures and non-taxable income | (42,000) | 234,000 |
| Adjustment to prior year tax provision versus statutory tax returns | 154,000 | 89,000 |
| Change in unrecognized deductible temporary differences | 8,000 | 1,077,000 |
| Total income tax expense (recovery) | $ - | $ - |

The significant components of the Company's temporary differences and tax losses that have not been recognized on the consolidated statements of financial position are as follows:

| Temporary Differences | 2016 | Expiry Date Range | 2015 |
|---|---|---|---|
| Exploration and evaluation assets | $ 17,923,000 | No expiry date | $ 19,010,000 |
| Share issue costs and other | 325,000 | 2036 to 2037 | 467,000 |
| Non-capital losses available for future period | 14,105,000 | 2027 to 2035 | 10,712,000 |

Tax attributes are subject to review and potential adjustment by tax authorities.

## 15. SEVERANCE PROVISION

During 2014, the Company recorded an accrual for a severance payment that a former employee had claimed and was seeking to collect through a legal action. The Company did not acknowledge any debt to the former employee and successfully defended the legal action and accordingly, in 2015, the accrual was reversed.

During the year ended December 31, 2016, services agreements between the Company and a former director and a former officer of, and consultants to, the Company, were terminated in conjunction with the various agreements' change of control provisions. As a result, the Company recorded severance expense totaling $280,524.

## 16. SUBSEQUENT EVENTS

a) Private Placement

During February 2017, the Company has arranged a private placement for maximum proceeds of $11-million through the issuance of a maximum of 200 million units. Each unit is priced at $0.055 per unit and is composed of one common share of the Company and one warrant. Each warrant entitles the holder to acquire one additional common share of the company at a price of $0.11 per common share for a period of 24 months. If, during this 24-month period, the volume-weighted average price of the Company's common shares is at least $0.22 for a period of seven consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof to all holders of the warrants, and, in such case, the warrants will expire on the earlier of: (i) the 30th day after the date on which the news release or written notice is provided by the Company; and (ii) the original expiry date. Proceeds from the private placement will be used for payment of the RMB debt settlement, general working capital and to advance the Company's property. A finder's fee may be payable in connection with the private placement. The units issued in connection with the private placement are subject to TSX Venture Exchange approval and will also be subject to a statutory four-month hold period. In regard to the private placement, the Company has closed on a small portion through the issuance of 765,000 units for total proceeds of $42,075, which units will be subject to a hold period expiring on July 29, 2017 (as to 400,000 units), and July 30, 2017 (as to 365,000 units).

b) Convertible Debentures

During April 2017, the Company issued convertible debentures totaling $251,000. The debentures bear interest at a rate of 15% per annum, payable at maturity. The debentures will mature and be repayable on or before April 18, 2019. The debentures are convertible into common shares in the Company at a conversion price of $0.055 per common share until April 18, 2018, and $0.10 per common share thereafter until April 18, 2019. Each $1,000 in principal amount of debentures also includes 18,181 common share purchase warrants. Each warrant entitles the holder to acquire one additional common share of the company at a price of $0.11 per common share for a period of 24 months. If, during this 24-month period, the volume-weighted average price of the Company's common shares is at least $0.22 for a period of seven consecutive trading days, the Company may, at its option, accelerate the expiry date of the warrants by issuing a news release or giving written notice thereof to all holders of the warrants, and, in such case, the warrants will expire on the earlier of: (i) the 30th day after the date on which the news release or written notice is provided by the Company; and (ii) the original expiry date. In connection with the issuance of the debentures, the holder thereof will be granted a right to nominate a member for election to the Company's board of directors at any meeting of shareholders where directors are to be elected, provided such nominee is acceptable to regulatory authorities, for so long as the debentures are outstanding.

Pursuant to a service agreement dated July 11, 2016, and previously approved by the TSX Venture Exchange, Lionsbridge Capital Pty. Ltd., a company owned and controlled by Brian S. Wesson, chief executive officer, B. Clyde Wesson, chief operating officer, and Amelia Wesson, vice-president, will be receiving a finder's fee of 570,454 shares in connection with the closing of the debentures.

c) During February 2017, the Company granted stock options to its directors, officers, consultants and employees enabling the holders to acquire up to 2,430,000 common shares of the Company with an exercise price of $0.055 per share, expiring February 22, 2019.