
SALAZAR RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the shareholders of Salazar Resources Limited

We have audited the accompanying consolidated financial statements of Salazar Resources Limited, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2017 and December 31, 2016, 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.

Auditor's 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Salazar Resources Limited as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

Vancouver, B.C.
April 28, 2018

"D&H Group LLP"

Chartered Professional Accountants

SALAZAR RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Notes	December 31, 2017 \$	December 31, 2016 \$
ASSETS			
Current assets			
Cash		764,062	1,640,610
Restricted cash	5(a)	719,435	-
Amounts receivable	5(a)	105,810	9,421
GST receivable		15,281	2,026
Prepaid expenses and deposits		<u>71,286</u>	<u>36,701</u>
Total current assets		<u>1,675,874</u>	<u>1,688,758</u>
Non-current assets			
Investment		4,350	4,133
Property, plant and equipment	4	306,389	325,001
Exploration and evaluation assets	5	<u>16,384,564</u>	<u>17,060,454</u>
Total non-current assets		<u>16,695,303</u>	<u>17,389,588</u>
TOTAL ASSETS		<u>18,371,177</u>	<u>19,078,346</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		490,895	257,239
Deferred recovery of exploration costs	5(a)	<u>615,288</u>	<u>-</u>
TOTAL LIABILITIES		<u>1,106,183</u>	<u>257,239</u>
SHAREHOLDERS' EQUITY			
Share capital	6	37,659,558	37,659,558
Share-based payments reserve		5,127,221	5,127,221
Deficit		(25,462,985)	(23,906,655)
Accumulated other comprehensive loss		<u>(58,800)</u>	<u>(59,017)</u>
TOTAL SHAREHOLDERS' EQUITY		<u>17,264,994</u>	<u>18,821,107</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>18,371,177</u>	<u>19,078,346</u>

Commitments - see Note 9.

Events after the Reporting Period - see Note 14.

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2018 and are signed on its behalf by:

/s/ Fredy Salazar
 Fredy Salazar
 Director

/s/ Pablo Acosta
 Pablo Acosta
 Director

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

SALAZAR RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(Expressed in Canadian Dollars)

	Note	Year Ended December 31	
		2017 \$	2016 \$
Expenses			
Accounting and administration	7(b)(ii)	54,305	46,209
Audit		59,041	49,104
Consulting	7(b)(i)	52,745	96,662
Corporate development		54,588	13,373
Depreciation		72,377	67,001
General exploration		368,403	92,262
Interest expense		-	64,371
Legal		280,217	57,512
Office		212,362	153,314
Regulatory		15,274	16,905
Rent		26,607	16,701
Salaries, compensation and benefits	7(a)	727,185	463,428
Share-based compensation	6(d)	-	790,000
Shareholder costs		4,464	4,340
Transfer agent		4,298	8,242
Travel		1,957	7,710
Cost recoveries	5(a)	(388,390)	-
		<u>1,545,433</u>	<u>1,947,134</u>
Loss before other items		<u>(1,545,433)</u>	<u>(1,947,134)</u>
Other items			
Interest income		13,320	4,895
Management fee	5(a)	102,148	-
Foreign exchange		(126,365)	236,473
Other income	7(b)(v)	-	71,943
Reversal of accounts payable and accrued liabilities	10	-	129,027
Forgiveness of debt	6(b)(ii)	-	332,122
		<u>(10,897)</u>	<u>774,460</u>
Net loss for the year		<u>(1,556,330)</u>	<u>(1,172,674)</u>
Other comprehensive income		<u>217</u>	<u>1,740</u>
Comprehensive loss for the year		<u>(1,556,113)</u>	<u>(1,170,934)</u>
Basic and diluted loss per common share		<u>\$(0.01)</u>	<u>\$(0.01)</u>
Weighted average number of common shares outstanding		<u>114,153,606</u>	<u>96,009,788</u>

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

SALAZAR RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Year Ended December 31, 2017					
	Share Capital					
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Investment Valuation \$	Deficit \$	Total Equity \$
Balance at December 31, 2016	114,153,606	37,659,558	5,127,221	(59,017)	(23,906,655)	18,821,107
Unrealized gain on investment	-	-	-	217	-	217
Net loss for the year	-	-	-	-	(1,556,330)	(1,556,330)
Balance at December 31, 2017	114,153,606	37,659,558	5,127,221	(58,800)	(25,462,985)	17,264,994

	Year Ended December 31, 2016					
	Share Capital					
	Number of Shares	Amount \$	Share-Based Payments Reserve \$	Investment Valuation \$	Deficit \$	Total Equity \$
Balance at December 31, 2015	63,497,743	34,652,301	4,337,221	(60,757)	(22,733,981)	16,194,784
Common shares issued for:						
cash - private placement	22,293,398	1,337,604	-	-	-	1,337,604
shares for debt	19,877,615	1,192,657	-	-	-	1,192,657
conversion of promissory notes	8,484,850	509,091	-	-	-	509,091
Share issue costs	-	(32,095)	-	-	-	(32,095)
Share-based compensation	-	-	790,000	-	-	790,000
Unrealized gain on investment	-	-	-	1,740	-	1,740
Net loss for the year	-	-	-	-	(1,172,674)	(1,172,674)
Balance at December 31, 2016	114,153,606	37,659,558	5,127,221	(59,017)	(23,906,655)	18,821,107

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

SALAZAR RESOURCES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Year Ended December 31,	
	2017 \$	2016 \$
Operating activities		
Net loss for the year	(1,556,330)	(1,172,674)
Adjustments for:		
Depreciation	72,377	67,001
Interest expense	-	64,371
Share-based compensation	-	790,000
Foreign exchange	-	(87,709)
Changes in non-cash working capital items:		
Restricted cash	(719,435)	-
Amounts receivable	(96,389)	(7,099)
GST receivable	(13,255)	(1,455)
Prepaid expenses and deposits	(34,585)	29,669
Accounts payable and accrued liabilities	391,839	(757,298)
Deferred recovery of exploration costs	615,288	-
Net cash used in operating activities	<u>(1,340,490)</u>	<u>(1,075,194)</u>
Investing activities		
Exploration and evaluation assets expenditures	(2,952,952)	(1,678,040)
Additions to property, plant and equipment	(91,181)	(94,848)
Sale of royalty interest	3,192,950	3,099,375
Advance payment received	315,125	-
Net cash provided by investing activities	<u>463,942</u>	<u>1,326,487</u>
Financing activities		
Issuance of common shares	-	1,337,604
Share issue costs	-	(32,095)
Advances received	-	168,839
Advances repaid	-	(128,280)
Net cash provided by financing activities	<u>-</u>	<u>1,346,068</u>
Net change in cash	(876,548)	1,597,361
Cash at beginning of year	<u>1,640,610</u>	<u>43,249</u>
Cash at end of year	<u>764,062</u>	<u>1,640,610</u>

Supplemental Cash Flow Information - see Note 12

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

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

1. Nature of Operations

Salazar Resources Limited (the “Company”) was incorporated on July 23, 1987 under the provisions of the Company Act (British Columbia). The Company’s common shares are listed and trade on the TSX Venture Exchange (“TSXV”) under the symbol “SRL”. The Company’s principal office is located at #1305 - 1090 West Georgia Street, Vancouver, British Columbia V6E 3V7 Canada.

The Company is a junior mineral exploration company currently engaged in the acquisition and exploration of mineral properties located in Latin America. On the basis of information to date, the Company has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the exploration and evaluation assets is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. Exploration and evaluation assets represent costs incurred to date, less amounts depreciated and/or written off, and do not necessarily represent present or future values.

The Company’s mineral properties are located in Ecuador and consequently the Company is subject to certain risks, including currency fluctuations and possible political or economic instability which may result in the impairment or loss of mining title or other mineral rights, and mineral exploration and mining activities may be affected in varying degrees by political stability and governmental regulations relating to the mining industry.

The Company’s operations have been primarily funded from equity financings which are dependent upon many external factors and may be difficult to impossible to secure or raise when required. In fiscal 2017 the Company negotiated a number of agreements to provide continued funding for exploration of its exploration and evaluation assets, as described in Note 5. As at December 31, 2017 the Company had working capital of \$569,691 and an accumulated deficit of \$25,462,985. Management considers that the Company has adequate resources to maintain its core operations and, with the financial support of its partner, conduct ongoing exploration programs on its existing exploration and evaluation assets for the next twelve months. However, the Company recognizes that exploration expenditures may change with ongoing results and, as a result, it may be required to obtain additional financing. While the Company has been successful in securing financings in the past there can be no assurance that it will be able to do so in the future.

2. Basis of Preparation

Statement of Compliance

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

Basis of Measurement

The Company’s consolidated financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and financial liabilities to fair value.

Details of the Group

In addition to the Company, the consolidated financial statements include all subsidiaries. Subsidiaries are all corporations over which the Company is able, directly or indirectly, to control financial and operating policies, which is the authority usually connected with holding majority voting rights. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. Inter-company transactions and balances are eliminated upon consolidation. They are de-consolidated from the date that control by the Company ceases.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies

Critical Judgments and Sources of Estimation Uncertainty

The preparation of these consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

- (i) The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management.
- (ii) Management is required to assess the functional currency of each entity of the Company. In concluding that the Canadian dollar is the functional currency 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. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.
- (iii) Management is required to assess impairment in respect of intangible exploration and evaluation assets. The triggering events are defined in IFRS 6. In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

During fiscal 2017 and 2016 management determined that no impairment indicators were present and no impairment charge was required.
- (iv) 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.
- (v) The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's estimate of future profits or losses adjusted for significant non-taxable income and expenses and specific limits to the use of any unused tax loss or credit. The tax rules in the jurisdictions in which the Company operates are also carefully taken into consideration. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, especially when it can be utilized without a time limit, that deferred tax asset is usually recognized in full. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances. Details of these can be found in Note 8.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Estimation Uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Depreciation expense is allocated based on assumed useful life of property, plant and equipment. Should the useful life differ from the initial estimate, an adjustment would be made in the statement of operations.
- (ii) The cost estimates are updated periodically during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities. As at December 31, 2017 and 2016, there were no decommissioning liabilities.
- (iii) The assessment of any impairment of exploration and evaluation assets and property, plant and equipment is dependent upon estimates of the recoverable amounts that take into account factors such as reserves, economic and market conditions and the useful lives of assets. In fiscal 2017 and 2016 management concluded there were no impairment indicators and no impairment charge was required.

Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company is not exposed to significant credit or interest rate risk although cash is held in excess of federally insured limits with a major financial institution. As at December 31, 2017 and 2016 the Company did not have any cash equivalents.

Amounts Receivable

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. Receivables are classified as loans and receivables. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Accounts Payable and Accrued Liabilities

Payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Payables are classified as other financial liabilities initially at fair value and subsequently measured at amortized cost using the effective interest method.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Exploration and Evaluation Assets

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral properties and crediting all proceeds received against the cost of the related properties. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral properties are charged to operations at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they are charged to the results of operations.

Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant and equipment are depreciated annually on a straight-line basis over the estimated useful lives of the assets, at a rate of between 10% and 33% commencing when the related asset is available for use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

The Company compares the carrying value of property, plant and equipment to estimated net recoverable amounts, based on estimated future cash flows, to determine whether there is any indication of impairment whenever events or circumstances warrant.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Impairment of Assets

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the price that would be received to sell an asset in an orderly transaction between market participants. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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, 2017 and 2016 the Company does not have any decommissioning obligations.

Financial Instruments

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. Cash and restricted cash are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity are measured at amortized cost. Amounts receivable are classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. Investment is classified as available-for-sale.

Transaction costs associated with FVTPL are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are measured at amortized cost. Accounts payable and accrued liabilities, and deferred recovery of exploration costs are classified as other financial liabilities.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant Accounting Policies (continued)

Financial liabilities classified as FVTPL are measured at fair value with unrealized gains and losses recognized through comprehensive loss. At December 31, 2017 and 2016 the Company has not classified any financial liabilities as FVTPL.

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 recognized as a deduction from equity, net of any related income tax effects.

Equity Financing

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Units typically comprise a certain number of common shares and share purchase warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the terms of the transaction. The Company has adopted the residual value method with respect to the allocation of proceeds received on sale of units to the underlying common shares and share purchase warrants issued as private placement units. The fair value of the common shares issued in private placements is determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

Share-Based Payment Transactions

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted is recognized as a share-based compensation expense with a corresponding increase in the equity settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized separately on a straight line basis over the period during which the share options vest. The fair value of the share options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Current and Deferred Income Taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity. In this case the income tax is also recognized in other comprehensive loss or directly in equity, respectively.

Current Income 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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Deferred Income Tax

Deferred income tax is recognized, 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, the 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 realized or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, 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 tax 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.

Loss Per Share

Basic loss per share is computed by dividing income available 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 convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method.

Advances from Joint Venture Partner

When acting as operator of a particular project, the Company typically receives funds in advance of performing exploration work. The Company records such advances as a deferred liability until such time as the applicable costs are incurred, at which point these advances are offset against costs.

Foreign Currency Translation

Functional and Presentation Currency

The financial statements of each of the Company's subsidiaries are prepared in the local currency of their home jurisdictions. Consolidation of each subsidiary includes re-measurement from the local currency to the subsidiary's functional currency. Each subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Exchange rates published by the Bank of Canada were used to translate subsidiary financial statements into the consolidated financial statements. Income and expenses for each statement of comprehensive loss presented are translated using the rates prevailing on the transaction dates. All resulting foreign exchange differences are recognized in comprehensive loss.

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3. Significant Accounting Policies (continued)

Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange 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 recognized in comprehensive loss.

Accounting Standards and Interpretations Issued but Not Yet Effective

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

- (i) The completed version of IFRS 9, *Financial Instruments*, was issued in July 2014. The completed standard provides for revised guidance on the classification and measurement of financial assets. It also introduces a new expected credit loss model for calculating impairment for financial assets. The new hedging guidance that was issued in November 2013 is incorporated into this new final standard. This final version of IFRS 9 will be effective for periods beginning on or after January 1, 2018, with early adoption permitted. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (ii) IFRS 15, *Revenue from Contracts with Customers*, outlines the principles for recognizing revenue from contracts with customers. The new standard establishes a new five-step model for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard is effective for annual periods beginning on or after January 1, 2018, and is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. The Company does not expect that the adoption of this standard will have a significant effect on the Company's consolidated financial statements.
- (iii) IFRS 16, *Leases*, specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after January 1, 2019. Management is currently assessing the impact of this new standard on the Company's accounting policies and consolidated financial statement presentation.

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4. Property, Plant and Equipment

	Land \$	Drill Rigs and Equipment \$	Total \$
Cost:			
Balance at December 31, 2015	93,299	861,004	954,303
Additions	-	94,848	94,848
Disposal	-	<u>(28,876)</u>	<u>(28,876)</u>
Balance at December 31, 2016	93,299	926,976	1,020,275
Additions	1,475,291	270,371	1,745,662
Cost recoveries (Note 5(a))	<u>(1,462,766)</u>	<u>(191,715)</u>	<u>(1,654,481)</u>
Balance at December 31, 2017	<u>105,824</u>	<u>1,005,632</u>	<u>1,111,456</u>
Accumulated Depreciation and Impairment:			
Balance at December 31, 2015	-	(627,973)	(627,973)
Depreciation	-	(96,177)	(96,177)
Disposal	-	<u>28,876</u>	<u>28,876</u>
Balance at December 31, 2016	-	(695,274)	(695,274)
Depreciation	-	<u>(109,793)</u>	<u>(109,793)</u>
Balance at December 31, 2017	-	<u>(805,067)</u>	<u>(805,067)</u>
Carrying Value:			
Balance at December 31, 2016	<u>93,299</u>	<u>231,702</u>	<u>325,001</u>
Balance at December 31, 2017	<u>105,824</u>	<u>200,565</u>	<u>306,389</u>

See also Note 7(b)(iv).

5. Exploration and Evaluation Assets

	As at December 31, 2017			As at December 31, 2016		
	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$	Acquisition Costs \$	Deferred Exploration Costs \$	Total \$
Ecuador						
Curipamba	1,757,811	13,859,386	15,617,197	1,316,973	15,172,442	16,489,415
Santiago	369,293	228,609	597,902	346,032	225,005	571,037
Other	<u>157,069</u>	<u>12,396</u>	<u>169,465</u>	<u>2</u>	<u>-</u>	<u>2</u>
	<u>2,284,173</u>	<u>14,100,391</u>	<u>16,384,564</u>	<u>1,663,007</u>	<u>15,397,447</u>	<u>17,060,454</u>

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5. Exploration and Evaluation Assets (continued)

	<u>Ecuador</u>			<u>Total \$</u>
	<u>Curipamba \$</u>	<u>Santiago \$</u>	<u>Other \$</u>	
Balance at December 31, 2015	<u>18,170,456</u>	<u>497,945</u>	<u>2</u>	<u>18,668,403</u>
Exploration costs				
Camp supervision and personnel	190,605	-	-	190,605
Camp supplies	278,208	-	-	278,208
Community relations	43,570	-	-	43,570
Depreciation	29,176	-	-	29,176
Drilling	87,166	-	-	87,166
Environmental studies	6,875	-	-	6,875
Exploration site	176,563	3,525	-	180,088
Geological	-	42,291	-	42,291
Legal	22,250	-	-	22,250
Road maintenance	15,303	-	-	15,303
Supplies	108,434	-	-	108,434
Travel and mobilization	11,584	-	-	11,584
Vehicles	41,277	-	-	41,277
	<u>1,011,011</u>	<u>45,816</u>	<u>2</u>	<u>1,056,827</u>
Acquisition costs				
Property / concession payments	407,323	27,276	-	434,599
Sale of royalty interest	<u>(3,099,375)</u>	<u>-</u>	<u>-</u>	<u>(3,099,375)</u>
Balance at December 31, 2016	<u>16,489,415</u>	<u>571,037</u>	<u>2</u>	<u>17,060,454</u>
Exploration costs				
Assay analysis	63,981	-	-	63,981
Camp supervision and personnel	1,177,540	-	-	1,177,540
Camp supplies	795,554	-	-	795,554
Community relations	413,401	-	-	413,401
Depreciation	37,416	-	-	37,416
Drilling and related costs	98,271	-	-	98,271
Environmental studies	15,061	-	-	15,061
Exploration site	179,710	3,604	-	183,314
Geological	212,687	-	-	212,687
Geophysics	177,711	-	-	177,711
Legal	29,264	-	12,396	41,660
Road maintenance	86,550	-	-	86,550
Vehicles	56,961	-	-	56,961
	<u>3,344,107</u>	<u>3,604</u>	<u>12,396</u>	<u>3,360,107</u>
Acquisition costs				
Property / concession payments	440,838	23,261	157,067	621,166
Cost recoveries	<u>(1,149,088)</u>	<u>-</u>	<u>-</u>	<u>(1,149,088)</u>
Sale of royalty interest	<u>(3,192,950)</u>	<u>-</u>	<u>-</u>	<u>(3,192,950)</u>
Advance payment	<u>(315,125)</u>	<u>-</u>	<u>-</u>	<u>(315,125)</u>
Balance at December 31, 2017	<u>15,617,197</u>	<u>597,902</u>	<u>169,465</u>	<u>16,384,564</u>

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5. Exploration and Evaluation Assets (continued)

The Company holds interests in the following properties in Ecuador:

(a) Curipamba Project

The Company owns a 100% interest in seven concessions located in the provinces of Bolivar and Los Rios, Ecuador.

On April 5, 2016 the Company entered into a letter agreement to sell a 2% net smelter royalty (“NSR”) in its Curipamba Project for US \$4,750,000. On July 18, 2016 the Company and RCF VI SRL LLC (“RCF SRL”), an affiliate of Resources Capital Fund VI L.P., entered into a royalty agreement whereby the Company sold to RCF SRL an initial 1% NSR for \$3,099,375 (US \$2,375,000). On April 19, 2017 the Company closed on the sale of the remaining 1% NSR for a further \$3,192,950 (US \$2,375,000).

On September 14, 2017 the Company entered into a definitive option agreement (the “Curipamba Option”) whereby Adventus Zinc Corporation (“Adventus”) may earn a 75% interest in the Company’s Curipamba Project by funding costs on the Curipamba Project of US \$25,000,000 over the next five years, including the completion of a feasibility study on the El Domo deposit, subject to certain exceptions. A feasibility study is expected to be completed within three years, after which Adventus is required to fund 100% of the development and construction expenditures to commercial production.

Adventus will provide the Company with non-refundable advance payments of US \$250,000 per year until achievement of commercial production, to a maximum cumulative total of US \$1,500,000. On October 13, 2017 the Company closed on the Curipamba Option and an initial advance of \$315,125 (US \$250,000) was received. The advances are to be paid preferentially to Adventus upon start of commercial production.

Adventus has also agreed to pay the Company a 10% management fee on certain expenditures for the duration of the Curipamba Option, with a prescribed minimum annual amount of US \$350,000 on each anniversary date. During fiscal 2017 the Company earned \$102,148 (US \$81,425) in management fees which remained outstanding as at December 31, 2017 and was included in amounts receivable.

During fiscal 2017 Adventus has funded a total of \$3,191,959 of which \$1,654,481 was applied against property, plant and equipment, \$1,149,088 against exploration and evaluation assets and \$388,390 against expenses and, as at December 31, 2017, a balance of \$615,288 remained as a deferred amount.

Funding by Adventus is segregated in separate bank accounts and payments are disbursed as approved by Adventus.

(b) Santiago Concession

The Company holds a 100% interest in a concession (the “Santiago Concession”) located in the province of Loja, Ecuador. The Santiago Concession is subject to a 1.5% net smelter return royalty (“NSR”). The Company may re-purchase half of the 1% NSR upon payment of US \$850,000.

(c) Exploration Alliance

On September 13, 2017, as amended December 21, 2017, the Company and Adventus signed an exploration alliance memorandum of understanding (the “MOU”) to jointly explore in Ecuador (the “Alliance”). Under the MOU the venture would be owned 80% by Adventus and 20% by the Company, with the Company operating the Alliance and Adventus funding all activities incurred on behalf of the Alliance up to a construction decision.

During fiscal 2017 the Company incurred \$178,120 on general exploration activities pursuant to the Alliance, which has been fully funded by Adventus and recorded as a recovery of expenses.

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5. Exploration and Evaluation Assets (continued)

On February 19, 2018 the Company, Adventus and Minera Dos Gemas M2G S.A. (“Dos Gemas”) entered into the definitive exploration alliance agreement (the “Exploration Alliance Agreement”) to formalize the terms of the MOU. Dos Gemas is owned 80% by Adventus and 20% by the Company. As operator of the Alliance the Company will be paid a 10% operator’s fee on all expenditures incurred, subject to an annual maximum fee of US \$200,000 on costs pertaining to surface rights acquisitions.

See also Note 14(b).

(d) Other

(i) The Macara Project comprises two concessions as follows:

- ▶ On November 6, 2017 the Company entered into an option agreement with Edgar Orlando Torres Cunalata (“Torres”) whereby the Company was granted an option (the “Macara Option”) to acquire a 100% interest in one concession (the “Macara Concession”) located in the province of Loja, Ecuador. Pursuant to the terms of the Macara Option the Company has agreed to make cash payments totalling US \$600,000 (the “Option Proceeds”), as follows:

- US \$100,000 on signing (paid);
- US \$50,000 on November 6, 2018;
- US \$50,000 on November 6, 2019;
- US \$200,000 on the earlier of a NI43-101 resource calculation or November 6, 2021; and
- US \$200,000 on the earlier of a preliminary economics assessment of November 21, 2024.

The Company is also required to incur US \$142,000 minimum exploration expenditures on the Macara Concession over two years. Torres also retains a 0.5% NSR, which may be purchased by the Company for US \$1,000,000 at any time.

Torres has entered into a participation agreement with an employee of the Company and the son of the Company’s President to share the Option Proceeds equally.

As at December 31, 2017 the Company has paid \$127,150 (US \$100,000) for the initial option payment and \$2,241 for concession payments on the Macara Concession.

- ▶ In July 2017 the Company was awarded a concession (the “Bonanza Concession”) located in the provinces of Loja and Tacamoros, Ecuador. As at December 31, 2017 the Company has incurred \$8,235 on the Bonanza Concession.

(ii) In August 2017 the Company was awarded three concessions (the “Pijili Project”), located in the province of Azuay, Ecuador. As at December 31, 2017 the Company has incurred \$19,441 on the Pijili Project. See also Note 14(b).

(iii) The Company owns a 100% interest in two concessions (the “Ruminahui Project”) located in the province of Pichincha, Ecuador. In prior years the Company has only made partial payments on these concessions. The Company can make applications to reduce the acreage of its concession holdings but, to date, no formal request has been made. In addition, no payment requests have been made by the Ecuador authorities for the unpaid amounts and the concessions have not been cancelled.

During fiscal 2015 the Company recorded an impairment charge of \$610,893 to reduce the carrying value of the Ruminahui Project to a nominal amount of \$1. During fiscal 2017 the Company made total payments of \$91,816 in respect of past concession payments, which have been recorded as part of general exploration expense

(e) See also Note 9.

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6. Share Capital

(a) *Authorized Share Capital*

The Company's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

(b) *Equity Financings*

No financings were completed during fiscal 2017.

During fiscal 2016 the Company:

- (i) completed a non-brokered private placement financing of 22,293,398 units, at a price of \$0.06 per unit for \$1,337,604. Each unit consisted of one common share of the Company and a one-half of one share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.12 per share, expiring April 27, 2018. RCF VI purchased \$1,033,774 of the private placement;
- (ii) negotiated debt settlements with both insiders and non-insiders of the Company in regards to accrued and unpaid compensation pursuant to which \$332,122 of debt was forgiven and \$336,008 was settled by the issuance of 5,600,132 common shares of the Company at a price of \$0.06 per share. Directors and a private company controlled by a director of the Company negotiated debt settlements by the issuance of 4,214,999 common shares of the Company; and
- (iii) issued a total of 22,762,333 units of the Company, on the same terms as the private placement units, in settlement of advances, promissory notes and accrued interest payable totalling \$1,365,740. A director and a private corporations controlled by family members and directors of the Company settled advances and accrued interest payable by the issuance of 14,277,483 common shares of the Company.

The Company incurred \$32,095 of share issue costs relating to the private placement and debt settlements.

(c) *Warrants*

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2017 and 2016 and the changes for the years ended on those dates is as follows:

	2017		2016	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	22,527,863	0.12	5,602,030	0.18
Issued	-	-	22,527,863	0.12
Expired	-	-	<u>(5,602,030)</u>	0.18
Balance, end of year	<u>22,527,863</u>	0.12	<u>22,527,863</u>	0.12

The following table summarizes information about the number of common shares reserved pursuant to the Company's warrants outstanding and exercisable at December 31, 2017:

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6. Share Capital (continued)

Number	Exercise Price \$	Expiry Date
18,285,440	0.12	April 27, 2018
<u>4,242,423</u>	0.12	July 18, 2018
<u>22,527,863</u>		

See also Note 14(a).

(d) *Share Option Plan*

The Company has established a rolling share option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The minimum exercise price of the options is set at the Company's closing share price on the day before the grant date, less allowable discounts in accordance with the policies of the TSXV. Options granted may be subject to vesting provisions as determined by the Board of Directors and have a maximum term of five years.

No share options were granted during fiscal 2017. During fiscal 2016 the Company granted share options to purchase 7,900,000 common shares and recorded compensation expense of \$790,000.

The fair value of share options granted during fiscal 2016 is estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.07%; estimated volatility of 108%; expected life of 5 years; expected dividend yield of 0%; estimated forfeiture rate of 0%.

The weighted average fair value of all share options granted, using the Black-Scholes option pricing model, during fiscal 2016 was \$0.10 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's share options.

A summary of the Company's share options at December 31, 2017 and 2016 and the changes for the years ended on those dates, is as follows:

	<u>2017</u>		<u>2016</u>	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	7,900,000	0.14	-	-
Granted	-	-	7,900,000	0.14
Expired	<u>(1,200,000)</u>	0.14	<u> </u>	<u> </u>
Balance, end of year	<u>6,700,000</u>	0.14	<u>7,900,000</u>	0.14

The following table summarizes information about the share options outstanding and exercisable at December 31, 2017:

Number	Exercise Price \$	Expiry Date
<u>6,700,000</u>	0.14	December 1, 2021

See also Note 14(a).

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7. Related Party Disclosures

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. Certain of these entities transacted with the Company during the reporting period.

(a) *Compensation of Key Management Personnel*

During fiscal 2017 and 2016 the following amounts were incurred with respect to the President and the Chief Financial Officer (“CFO”) of the Company:

	2017 \$	2016 \$
Salaries	209,488	164,879
Bonus	44,616	-
Health benefits	7,468	4,482
Share-based compensation	-	220,000
	<u>261,572</u>	<u>389,361</u>

(b) *Other Related Party Transactions*

(i) During fiscal 2017 and 2016 the following amounts were incurred with respect non-executive directors of the Company:

	2017 \$	2016 \$
Consulting	50,307	64,510
Share-based compensation	-	310,000
	<u>50,307</u>	<u>374,510</u>

(ii) During fiscal 2017 the Company incurred a total of \$54,305 (2016 - \$46,209) to Chase Management Ltd. (“Chase”), a private corporation owned by a director of the Company, for accounting and administration services provided by Chase personnel, excluding the director. As at December 31, 2017, \$4,391 (2016 - \$4,699) remained unpaid and has been included in accounts payable and accrued liabilities.

(iii) During fiscal 2017 the Company incurred \$312,418 (2016 - \$42,564) for geological services provided by private corporations controlled by the President and the Chief Financial Officer of the Company. As at December 31, 2017, \$86,109 (2016 - \$42,564) remained unpaid and has been included in accounts payable and accrued liabilities.

(iv) During fiscal 2017 the Company purchased a vehicle for \$75,630 from a private company controlled by the CFO of the Company.

(v) During fiscal 2016 the Company rented one of its drill rigs to a private Ecuadorian company, the shareholders of which include an employee of the Company and the son of the Company’s President, for \$71,943 which was recorded as other income.

(vi) See also Note 5(d)(i).

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8. Income Taxes

Deferred income tax assets and liabilities of the Company as at December 31, 2017 and 2016, are as follows:

	2017 \$	2016 \$
Deferred income tax assets (liabilities):		
Losses available for future periods	3,268,200	2,843,300
Financing costs	7,100	16,400
Difference between book value and income tax costs of:		
- exploration and evaluation assets	2,427,800	1,626,000
- property, plant and equipment	<u>414,000</u>	<u>-</u>
	6,117,100	4,485,700
Unrecognized deferred tax asset	<u>(6,117,100)</u>	<u>(4,485,700)</u>
Net deferred tax asset	<u>-</u>	<u>-</u>

The recovery of income taxes shown in the consolidated statements of operations differs from the amounts obtained by employing substantively enacted statutory rates to the loss before provision for income taxes for fiscal 2017 and 2016 as follows:

	2017 \$	2016 \$
Loss before income taxes	(1,556,330)	(1,172,674)
Statutory tax rate	<u>26.0%</u>	<u>26.0%</u>
Expected income tax recovery	(404,600)	(304,900)
Foreign income tax rate differences	26,300	29,000
Other	(9,300)	191,600
Change in deductible temporary differences	<u>387,600</u>	<u>84,300</u>
Actual income tax recovery	<u>-</u>	<u>-</u>

As at December 31, 2017 the Company has approximately \$9,920,500 (2016 - \$9,108,500) of non-capital losses carried forward, and unclaimed deductions of \$2,074,900 (2016 - \$2,130,863) for Canadian tax purposes available to offset future income. The non-capital losses expire from 2026 to 2037. The Company also has non-capital losses of approximately \$1,532,200 (2016 - \$930,800) for Ecuadorian tax purposes and approximately \$765,400 (2016 - \$819,100) for Colombian tax purposes.

Deferred income tax benefits which may arise as a result of these losses have not been recognized in the consolidated financial statements as their realization is unlikely.

9. Commitments

The Company is obligated to fulfill certain investment obligations on its mineral concessions in Ecuador pursuant to the following rules:

- (a) When applying for new concessions via the public tender process in Ecuador, the Company, either directly or under option agreement, presented its investment offers for each concession. The investment offer represents the total amount that is required to be spent in order to maintain possession of the concession area at the end of the four-year investment period required by the Government of Ecuador. Accordingly, should the Company wish to retain possession of all the concession areas it holds as at December 31, 2017, the Company's commitment is as follows:

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9. Commitments (continued)

	US \$
Fiscal 2018	23,850
Fiscal 2019	23,850
Fiscal 2020	47,650
Fiscal 2021	<u>7,907,421</u>
	<u>8,002,771</u>

- (b) Concessions in Ecuador that were not acquired via the public tender process require the Company to submit an annual expenditure plan to the Government of Ecuador outlining the minimum amount of committed expenditures for the upcoming year. The total obligation of the Company for these concession areas for the fiscal 2018 is approximately US \$994,200.

10. Reversal of Amounts Previously Recorded

During fiscal 2016 the Company reviewed its accounts payable and accrued liabilities. The Company had identified \$129,027 for amounts previously recorded or accrued for which no requests for payments have been made by the creditors and, in the opinion of Company management, will never be paid. Accordingly, the Company has determined to reverse the amounts.

11. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following five categories: fair value through profit or loss (“FVTPL”); held-to-maturity investments; loans and receivables; available-for-sale and other financial liabilities. The carrying values of the Company’s financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2017 \$	December 31, 2016 \$
Cash	FVTPL	764,062	1,640,610
Restricted cash	FVTPL	719,435	-
Amounts receivable	Loans and receivables	105,810	9,421
Investment	Available-for-sale	4,350	4,133
Accounts payable and accrued liabilities	Other financial liabilities	(490,895)	(257,239)
Deferred recovery of exploration costs	Other financial liabilities	(615,288)	-

The Company’s financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

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11. Financial Instruments and Risk Management (continued)

The recorded amounts for amounts receivable, accounts payable and accrued liabilities and due to joint venture partner, approximate their fair value due to their short-term nature. The Company's cash, restricted cash and investment under the fair value hierarchy are measured using Level 1 inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. Management believes that the credit risk concentration with respect to financial instruments included in cash and amounts receivable is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual Maturity Analysis at December 31, 2017					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	764,062	-	-	-	764,062
Restricted cash	719,435	-	-	-	719,435
Amounts receivable	105,810	-	-	-	105,810
Investment	-	-	4,350	-	4,350
Accounts payable and accrued liabilities	(490,895)	-	-	-	(490,895)
Deferred recovery of exploration costs	(615,288)	-	-	-	(615,288)
Contractual Maturity Analysis at December 31, 2016					
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	1,640,610	-	-	-	1,640,610
Amounts receivable	9,421	-	-	-	9,421
Investment	-	-	4,133	-	4,133
Accounts payable and accrued liabilities	(257,239)	-	-	-	(257,239)

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that the cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant.

(b) Foreign Currency Risk

The Company's significant subsidiary is located in Ecuador which has adopted the US Dollar as its currency.

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11. Financial Instruments and Risk Management (continued)

The Company also maintains cash deposits in US Dollars with its Canadian bank. As such, the fluctuation of the Canadian Dollar in relation to the US Dollar will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At December 31, 2017, 1 Canadian Dollar was equal to 0.80 US Dollar.

Balances are as follows:

	US \$	CDN \$ Equivalent
Cash	603,643	754,554
Restricted cash	573,252	719,435
Amounts receivable	84,344	105,810
Accounts payable and accrued liabilities	(224,963)	(281,203)
Deferred recovery of exploration costs	<u>(490,465)</u>	<u>(615,288)</u>
	<u>545,811</u>	<u>683,308</u>

Based on the net exposures as of December 31, 2017 and assuming that all other variables remain constant, a 10% fluctuation on the Canadian Dollar against the US Dollar would result in the Company's net income being approximately \$70,000 higher (or lower).

Capital Management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain development of the business. The Company defines capital that it manages as share capital and cash. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

12. Supplemental Cash Flow Information

During fiscal 2017 and 2016 non-cash activities were conducted by the Company as follows:

	2017 \$	2016 \$
Operating activities		
Accounts payable and accrued liabilities	158,183	(215,790)
Accrued interest payable	<u>-</u>	<u>(190,763)</u>
	<u>158,183</u>	<u>(406,553)</u>
Investing activity		
Changes to exploration and evaluation assets	<u>(158,183)</u>	<u>215,790</u>
Financing activities		
Issuance of share capital	-	1,701,748
Advances repaid	<u>-</u>	<u>(1,510,985)</u>
	<u>-</u>	<u>190,763</u>

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13. Segmented Information

The Company operates in one reportable segment, the exploration and development of unproven exploration and evaluation assets. The Company's exploration and evaluation assets are located in Ecuador and its corporate assets are located in Canada.

	December 31, 2017		
	Corporate Canada \$	Mineral Operations Ecuador \$	Total \$
Current assets	706,923	968,951	1,675,874
Investment	4,350	-	4,350
Property, plant and equipment	-	306,389	306,389
Exploration and evaluation assets	-	16,384,564	16,384,564
	<u>711,273</u>	<u>17,659,904</u>	<u>18,371,177</u>
	December 31, 2016		
	Corporate Canada \$	Mineral Operations Ecuador \$	Total \$
Current assets	1,523,898	164,860	1,688,758
Investment	4,133	-	4,133
Property, plant and equipment	-	325,001	325,001
Exploration and evaluation assets	-	17,060,454	17,060,454
	<u>1,528,031</u>	<u>17,550,315</u>	<u>19,078,346</u>

14. Events after the Reporting Period

- (a) Subsequent to December 31, 2017 the Company:
- (i) granted share options to a director of the Company to purchase 600,000 common shares at an exercise price of \$0.14 per share for a period of four years; and
 - (ii) issued 8,081,758 common shares on the exercise of warrants, at \$0.12 per share, for proceeds of \$969,811. The remaining 10,203,682 warrants expired on April 27, 2018.
- (b) On March 28, 2018 the Company, Adventus and Dos Gemas entered into a letter agreement whereby the Company has agreed to transfer the Pijili Project to Dos Gemas under the Exploration Alliance upon completion by Adventus of the following considerations:
- (i) payment of US \$150,000 cash, of which US \$100,000 was paid and the remaining US \$50,000 is due upon official transfer of the Pijili Project to the Exploration Alliance;
 - (ii) 2,333,333 common shares of Adventus (the "Consideration Shares") on the earlier of: (a) Adventus completing a financing of at least \$3,000,000; (b) Adventus completing a merger or acquisition transaction involving its common shares; or (c) March 1, 2019. If the value of the Consideration Shares is below \$2,300,000, Adventus will issue additional common shares to make up the value, to a maximum of 500,000 common shares; and
 - (iii) Adventus is also required to fully fund a US \$1,000,000 exploration budget on the Pijili Project by September 28, 2020.
- (c) See also Notes 5(c) and (d)(i).