
SALAZAR RESOURCES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2019 AND 2018

(Expressed in Canadian Dollars)



Independent Auditor's Report

To the Shareholders of Salazar Resources Limited

Opinion

We have audited the consolidated financial statements of Salazar Resources Limited (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and December 31, 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3 of the consolidated financial statements, which explains that the consolidated financial statements for the year ended December 31, 2018 have been restated from those on which we originally reported on April 30, 2019. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



D&H Group LLP
Chartered Professional Accountants
10th Floor, 1333 West Broadway
Vancouver, BC V6H 4C1

dhgroup.ca
t 604.731.5881
f 604.731.9923

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carly Bergman.

Vancouver, B.C.
May 12, 2020

"D&H Group LLP"
Chartered Professional Accountants

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

	Notes	December 31, 2019 \$	December 31, 2018 \$ (Restated - Note 3)
ASSETS			
Current assets			
Cash		4,079,065	2,784,301
Restricted cash	6(a)	397,896	153,289
Amounts receivable	6	123,390	242,096
GST receivable		17,806	4,909
Prepaid expenses and deposits		596,151	563,781
Due from joint-venture partner	6(a)	-	670,726
Investments	4	-	2,856,088
Total current assets		<u>5,214,308</u>	<u>7,275,190</u>
Non-current assets			
Property, plant and equipment	5	1,058,319	821,525
Exploration and evaluation assets	6	<u>19,986,463</u>	<u>19,185,349</u>
Total non-current assets		<u>21,044,782</u>	<u>20,006,874</u>
TOTAL ASSETS		<u>26,259,090</u>	<u>27,282,064</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		463,840	1,716,275
Advances from joint-venture partner	6(a)	<u>288,182</u>	-
TOTAL LIABILITIES		<u>752,022</u>	<u>1,716,275</u>
SHAREHOLDERS' EQUITY			
Share capital	7	39,138,461	39,138,461
Share-based payments reserve		5,823,385	5,187,221
Deficit		(25,534,954)	(24,214,591)
Accumulated other comprehensive income		<u>6,080,176</u>	<u>5,454,698</u>
TOTAL SHAREHOLDERS' EQUITY		<u>25,507,068</u>	<u>25,565,789</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>26,259,090</u>	<u>27,282,064</u>

Nature of Operations - see Note 1

Commitments - see Note 10

Events after the Reporting Period - see Note 14

These consolidated financial statements were approved for issue by the Board of Directors on May 12, 2020 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 INCOME (LOSS)
(Expressed in Canadian Dollars)

	Note	Year Ended December 31	
		2019 \$	2018 \$ (Restated - Note 3)
Expenses			
Accounting and administration	8(b)(ii)	55,738	54,828
Audit		139,112	84,103
Consulting	8(b)(i)	187,593	241,779
Corporate development		103,026	16,992
Depreciation		146,721	87,790
Drill rig standby cost		481,190	-
General exploration		87,880	567,479
Legal		37,772	26,415
Office		141,030	175,642
Regulatory		20,043	10,388
Salaries, compensation and benefits	8(a)	455,768	633,584
Share-based compensation	7(d)	516,164	60,000
Shareholder costs		7,799	2,750
Transfer agent		6,658	8,551
Travel		34,893	6,182
Cost recoveries	6(a)	<u>(463,420)</u>	<u>(851,555)</u>
		<u>1,957,967</u>	<u>1,124,928</u>
Loss before other items		<u>(1,957,967)</u>	<u>(1,124,928)</u>
Other items			
Interest income		98,187	40,174
Operator fees	6(b)	123,474	-
Gain on sale of investments	4	367,316	-
Gain on property dispositions	6(b)	99,138	2,526,470
Unrealized loss on investments		-	(191,740)
Recovery of expenses previously recorded		-	43,660
Foreign exchange		<u>(50,511)</u>	<u>13,558</u>
		<u>637,604</u>	<u>2,432,122</u>
Net (loss) income for the year		<u>(1,320,363)</u>	<u>1,307,194</u>
Other comprehensive income			
Change in currency translation of foreign subsidiaries		<u>625,478</u>	<u>5,454,698</u>
Comprehensive (loss) income for the year		<u>(694,885)</u>	<u>6,761,892</u>
Basic and diluted (loss) income per common share		<u>\$(0.01)</u>	<u>\$0.01</u>
Weighted average number of common shares outstanding		<u>126,477,790</u>	<u>121,635,934</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, 2019						
	Share Capital		Share-Based Payments Reserve \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$				
Balance at December 31, 2018	126,477,790	39,138,461	5,187,221	5,454,698	(24,214,591)	25,565,789
Share-based compensation	-	-	516,164	-	-	516,164
Debt settlement:						
- warrants	-	-	120,000	-	-	120,000
Currency translation adjustment	-	-	-	625,478	-	625,478
Net loss for the year	-	-	-	-	(1,320,363)	(1,320,363)
Balance at December 31, 2019	126,477,790	39,138,461	5,823,385	6,080,176	(25,534,954)	25,507,068

Year Ended December 31, 2018 (Restated - Note 3)						
	Share Capital		Share-Based Payments Reserve \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Equity \$
	Number of Shares	Amount \$				
Balance at December 31, 2017	114,153,606	37,659,558	5,127,221	(58,800)	(25,462,985)	17,264,994
Impact of adoption of IFRS 9 on January 1, 2018	-	-	-	58,800	(58,800)	-
Common shares issued for:						
- warrants exercised	12,324,184	1,478,903	-	-	-	1,478,903
Share-based compensation	-	-	60,000	-	-	60,000
Currency translation adjustment	-	-	-	5,454,698	-	5,454,698
Net income for the year	-	-	-	-	1,307,194	1,307,194
Balance at December 31, 2018	126,477,790	39,138,461	5,187,221	5,454,698	(24,214,591)	25,565,789

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,	
	2019 \$	2018 \$
Operating activities		
Net income (loss) for the year	(1,320,363)	1,307,194
Adjustments for:		
Depreciation	146,721	162,622
Gain on property dispositions	(99,138)	(2,526,470)
Unrealized loss on investments	-	191,740
Gain on sale of investments	(367,316)	-
Share-based compensation	516,164	60,000
Changes in non-cash working capital items:		
Restricted cash	(125,683)	566,146
Amounts receivable	(80,746)	(136,286)
GST receivable	4,909	10,372
Prepaid expenses and deposits	(86,789)	(492,495)
Accounts payable and accrued liabilities	(865,299)	1,225,380
Due from joint-venture partner	911,891	(670,726)
Deferred recovery of exploration costs	-	(615,288)
Net cash used in operating activities	<u>(1,365,649)</u>	<u>(917,811)</u>
Investing activities		
Exploration and evaluation assets expenditures, net of recoveries	(923,919)	1,519,236
Additions to property, plant and equipment, net of recoveries	(177,109)	(579,024)
Proceeds from sale of investments	3,223,404	-
Proceeds from sale of exploration and evaluation assets	99,138	193,685
Advance payment received	329,750	325,250
Net cash provided by investing activities	<u>2,551,264</u>	<u>1,459,147</u>
Financing activity		
Issuance of share capital	-	1,478,903
Net cash provided by financing activity	<u>-</u>	<u>1,478,903</u>
Effect of exchange rate changes on cash	<u>109,149</u>	<u>-</u>
Net change in cash	1,294,764	2,020,239
Cash at beginning of year	<u>2,784,301</u>	<u>764,062</u>
Cash at end of year	<u>4,079,065</u>	<u>2,784,301</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, 2019 AND 2018
(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” and on the Frankfurt Exchange under the symbol “CCG”. 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 has negotiated a number of agreements to provide continued funding for exploration of its exploration and evaluation assets, as described in Note 6. As at December 31, 2019 the Company had working capital of \$4,462,286 and an accumulated deficit of \$25,534,954. As at December 31, 2019 management considered that the Company had 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.

These consolidated financial statements do not include adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Subsequent to year end there was a global outbreak of a novel coronavirus identified as “COVID-19”. On March 11, 2020 the World Health Organization (“WHO”) declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide, including Ecuador and Canada, have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets. The Company and its strategic partner have temporarily suspended site activities at the Curipamba, Pijili and Santiago projects. Work at these sites will only restart once the COVID-19 situation has stabilized and it is deemed safe to do so by the national and regional authorities of Ecuador who are working closely with the WHO. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any intervention.

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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

2. Basis of Preparation (continued)

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.

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) The determination of a subsidiary's functional currency often requires significant judgment where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation methods used.
- (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 2019 and 2018 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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

- (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 9.

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, 2019 and 2018, 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 2019 and 2018 management concluded there were no impairment indicators and no impairment charge was required.

Correction of Error

During fiscal 2018 the Company determined that there was a change to the underlying transactions and activities of its subsidiaries and, as a result, the Company's subsidiaries changed their functional currency from the Canadian dollar to the United States dollar. During the preparation of the fiscal 2019 consolidated financial statements management found an error in the calculation of the translation of certain of the Company's subsidiaries' assets as at December 31, 2018. The Company determined that exploration and evaluation assets and accumulated and other comprehensive income were understated by \$3,872,505 and, accordingly, the Company has restated exploration and evaluation assets from \$15,312,844 to \$19,185,349, accumulated and other comprehensive income from \$1,582,193 to \$5,454,698 and total assets and total liabilities and shareholders' equity from \$23,409,559 to \$27,282,064 as at December 31, 2018 and comprehensive income from \$2,889,387 to \$6,761,892 for fiscal 2018.

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, 2019 and 2018 the Company did not have any cash equivalents.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

Amounts Receivable

Receivables are recognized initially at fair value and classified as amortized cost. Receivables are subsequently measured at amortized cost using the effective interest method, less expected credit losses. At each reporting date, the Company records a credit losses at an amount equal to the lifetime expected credit losses using a present value and probability-weighted model.

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 amortized cost initially at fair value and are subsequently measured at amortized cost using the effective interest method.

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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

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.

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, 2019 and 2018 the Company does not have any decommissioning obligations.

Financial Instruments

The Company classifies its financial assets and financial liabilities in the following measurement categories: (i) those to be measured subsequently at FVTPL; (ii) those to be measured subsequently at fair value through other comprehensive income (FVOCI); and (iii) those to be measured at amortized cost. The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortized cost unless they are designated as those to be measured subsequently at FVTPL (irrevocable election at the time of recognition). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss. Financial assets and financial liabilities with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through profit and loss or other comprehensive income (irrevocable election at the time of recognition). For financial liabilities measured subsequently at FVTPL, changes in fair value due to credit risk are recorded in other comprehensive income.

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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

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.

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.

Income (Loss) Per Share

Basic income (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 income (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 income (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

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Company's entities' functional currencies are the Canadian dollar and the United States dollar. The consolidated financial statements are presented in Canadian dollars which is the Company's presentation currency.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

The Company's active subsidiaries have the United States dollar as the functional currency. Assets, liabilities and transactions are therefore translated into Canadian dollars using the report date closing exchange rate. Income and expenses are translated into Canadian dollars at the average exchange rate over the reporting period. Exchange differences are presented in other comprehensive income and recognized in the accumulated other comprehensive income.

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 income.

Adoption of New Accounting Standards

Effective January 1, 2019 the Company adopted IFRS 16 - *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases* ("IAS 17") and its associated interpretative guidance. IFRS 16 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 ("Short-term Leases") 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.

The Company has leases which are considered to be Short-term Leases and, as allowed by IFRS16, has determined not to recognize these leases as assets and liabilities. There was no significant impact on the Company's consolidated financial statements upon the adoption of this new standard.

4. Investments

As at December 31, 2018 the Company held 43,500 Batero Gold Corp. common shares (the "Batero Shares") and 3,804,348 Adventus Mining Corporation common shares (the "Adventus Shares"). The Adventus Shares were received from the disposition of the Santiago Concession and Pijili Project, as described in Note 6(b).

During fiscal 2019 the Company sold the Adventus Shares and the Batero Shares for total proceeds of \$3,223,404 and recognized a gain on sale of \$367,316. As of December 31, 2019 the Company did not hold any investments.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

5. Property, Plant and Equipment

	Land	Drill Rigs and Equipment	Total
	\$	\$	\$
Cost:			
Balance at December 31, 2017	105,824	1,005,632	1,111,456
Additions	332,553	670,357	1,002,910
Cost recoveries (Note 6(a))	(300,221)	(123,665)	(423,886)
Foreign exchange movement	11,144	50,174	61,318
	<u>149,300</u>	<u>1,602,498</u>	<u>1,751,798</u>
Balance at December 31, 2018	149,300	1,602,498	1,751,798
Additions	2,842,082	596,987	3,439,069
Disposal	-	(29,190)	(29,190)
Cost recoveries (Note 6(a))	(2,718,288)	(543,672)	(3,261,960)
Foreign exchange movement	(8,331)	623,116	614,785
	<u>264,763</u>	<u>2,249,739</u>	<u>2,514,502</u>
Balance at December 31, 2019	264,763	2,249,739	2,514,502
Accumulated Depreciation:			
Balance at December 31, 2017	-	(805,067)	(805,067)
Depreciation	-	(125,206)	(125,206)
	<u>-</u>	<u>(930,273)</u>	<u>(930,273)</u>
Balance at December 31, 2018	-	(930,273)	(930,273)
Depreciation	-	(146,721)	(146,721)
Disposal	-	17,887	17,887
Foreign exchange movement	-	(397,076)	(397,076)
	<u>-</u>	<u>(1,456,183)</u>	<u>(1,456,183)</u>
Balance at December 31, 2019	-	(1,456,183)	(1,456,183)
Carrying Value:			
Balance at December 31, 2018	<u>149,300</u>	<u>672,225</u>	<u>821,525</u>
Balance at December 31, 2019	<u>264,763</u>	<u>793,556</u>	<u>1,058,319</u>

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

As at December 31, 2019				
	Acquisition Costs \$	Deferred Exploration Costs \$	Foreign Exchange Movement \$	Total \$
Ecuador				
Curipamba	-	12,654,628	6,139,015	18,793,643
Other	<u>506,969</u>	<u>696,909</u>	<u>(11,058)</u>	<u>1,192,820</u>
	<u>506,969</u>	<u>13,351,537</u>	<u>6,127,957</u>	<u>19,986,463</u>
As at December 31, 2018				
	Acquisition Costs \$	Deferred Exploration Costs \$	Foreign Exchange Movement \$	Total \$
Ecuador				
Curipamba (restated - Note 3)	-	13,466,439	5,357,483	18,823,922
Exploration Alliance	-	83,336	9,190	92,526
Other	<u>229,798</u>	<u>12,396</u>	<u>26,707</u>	<u>268,901</u>
	<u>229,798</u>	<u>13,562,171</u>	<u>5,393,380</u>	<u>19,185,349</u>

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

	Curipamba \$	Exploration Alliance \$	Other \$	Total \$
Balance at December 31, 2017	<u>15,617,197</u>	<u>617,344</u>	<u>150,023</u>	<u>16,384,564</u>
Exploration costs				
Assay analysis	-	37,738	-	37,738
Camp supplies	-	17,516	-	17,516
Camp supervision and personnel	-	85,987	-	85,987
Community relations	1,093,008	-	-	1,093,008
Depreciation	37,416	-	-	37,416
Drilling and related costs	6,410,637	-	-	6,410,637
Exploration site	17,685	71,164	-	88,849
Geological	-	544,007	-	544,007
Legal	-	23,859	-	23,859
Permits	-	7,344	-	7,344
Salaries	-	100,099	-	100,099
Travel	-	20,801	-	20,801
	<u>7,558,746</u>	<u>908,515</u>	<u>-</u>	<u>8,467,261</u>
Acquisition costs				
Property / concession payments	<u>259,251</u>	<u>114,614</u>	<u>92,171</u>	<u>466,036</u>
Other				
Cost recoveries	(7,807,987)	(816,447)	-	(8,624,434)
Management fees	(662,265)	(29,998)	-	(692,263)
Drilling services	(1,173,253)	-	-	(1,173,253)
Sale of interest	-	(710,692)	-	(710,692)
Advance payment	(325,250)	-	-	(325,250)
Foreign exchange movement (restated - Note 3)	<u>5,357,483</u>	<u>9,190</u>	<u>26,707</u>	<u>5,393,380</u>
	<u>(4,611,272)</u>	<u>(1,547,947)</u>	<u>26,707</u>	<u>(6,132,512)</u>
Balance at December 31, 2018	<u>18,823,922</u>	<u>92,526</u>	<u>268,901</u>	<u>19,185,349</u>
Exploration costs				
Assay analysis	251,626	123,336	67,916	442,878
Camp supervision and personnel	319,051	44,371	369,243	732,665
Camp supplies	308,021	25,712	44,718	378,451
Community relations	829,094	-	8,125	837,219
Environmental studies	61,424	12,792	19,531	93,747
Equipment maintenance	386,092	11,293	20,727	418,112
Exploration site	642,557	76,359	80,864	799,780
Geological	617,882	43,388	1,189	662,459
Geophysics	-	1,143,935	-	1,143,935
Legal	69,683	-	11,227	80,910
Permits	160,595	-	-	160,595
Salaries	2,016,387	265,980	584	2,282,951
Supplies	200,689	-	23,550	224,239
Travel	418,757	83,155	36,839	538,751
	<u>6,281,858</u>	<u>1,830,321</u>	<u>684,513</u>	<u>8,796,692</u>
Acquisition costs				
Property / concession payments	<u>191,761</u>	<u>104,000</u>	<u>277,171</u>	<u>572,932</u>
Other				
Cost recoveries	(6,489,350)	(2,024,310)	-	(8,513,660)
Management fees	(464,380)	-	-	(464,380)
Advance payment	(331,700)	-	-	(331,700)
Foreign exchange movement	<u>781,532</u>	<u>(2,537)</u>	<u>(37,765)</u>	<u>741,230</u>
	<u>(6,503,898)</u>	<u>(2,026,847)</u>	<u>(37,765)</u>	<u>(8,568,510)</u>
Balance at December 31, 2019	<u>18,793,643</u>	<u>-</u>	<u>1,192,820</u>	<u>19,986,463</u>

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. 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 (the “Curipamba Project”) located in the provinces of Bolivar and Los Rios, Ecuador. The Curipamba Project is subject to a 2% net smelter return royalty (“NSR”).

On September 14, 2017, as amended September 19, 2019, the Company entered into a definitive option agreement (the “Curipamba Option”) whereby Adventus Mining Corporation (“Adventus”) may earn (the “Earn-In”) 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 was required to be completed no later than October 5, 2021, after which Adventus is required to fund 100% of the development and construction expenditures to commercial production. Due to the COVID-19 outbreak, as described in Note 1, the feasibility study earn-in requirement of October 5, 2021 will be delayed by the number of days that site activities have been shutdown, starting from March 17, 2020.

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. As at December 31, 2019 the Company has received total advance payments of US \$750,000.

Upon achievement of commercial production, Adventus will receive 95% of the dividends from the Curipamba Project until its aggregate investment, including the US \$25,000,000, has been recouped minus the approximate Company carrying value of US \$18,200,000 when the Curipamba Option was signed, after which dividends will be shared on a pro-rata basis according to their respective ownership. In certain circumstances where project development is delayed post earn-in, Adventus’ ownership position could be diluted.

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 by each anniversary date. During fiscal 2019 the Company earned \$464,380 (2018 - \$662,265) in management fees and as at December 31, 2019 \$119,980 (2018 - \$231,131) remained outstanding and was included in amounts receivable.

During fiscal 2019 Adventus funded a total of \$10,214,730 for costs incurred by the Company, of which \$3,261,960 was applied against property, plant and equipment, \$6,489,350 against exploration and evaluation assets and \$463,420 as an expense recovery. As at December 31, 2019 a balance of \$288,182 remained as advances from the joint-venture partner and \$397,896 remained in restricted cash.

During fiscal 2018 Adventus funded a total of \$10,918,946 for costs incurred by the Company, of which \$423,886 was applied against property, plant and equipment, \$9,643,505 against exploration and evaluation assets and \$851,555 as an expense recovery. As at December 31, 2018, a balance of \$670,726 was due from the joint-venture partner and \$153,289 remained in restricted cash.

Adventus has notified the Company that in addition to costs incurred by the Company and funded by Adventus that a total of US \$2,135,363 (2018 - US \$725,859) of project related costs have been incurred directly by Adventus. As at December 31, 2019 a total of US \$18,951,173 (2018 - US \$10,074,012) had been incurred towards the Earn In.

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

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

Drilling services required by Adventus's exploration program as part of Adventus's Earn-In are being provided by a subsidiary of the Company. As drilling services to third parties are not in the Company's ordinary activities and the drilling services have been contracted with Adventus in which both the Company and Adventus share in the risks and benefits that result from the drilling services Adventus is not considered a customer and the drilling services are not in the scope of IFRS 15 - *Revenue from Contracts with Customers*. In accordance with IFRS 6 - *Exploration for and Evaluation of Mineral Resources* the Company recognizes all amounts received from drilling services against the carrying amount of the Curipamba exploration and evaluation asset.

(b) ***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.

Dos Gemas

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. During fiscal 2019 the Company earned \$8,740 (2018 - \$29,998) in operator fees and as at December 31, 2019 \$1,050 (2018 - \$10,965) remained outstanding and was included in amounts receivable.

During fiscal 2018 Adventus assumed control of Dos Gemas and, as such, the Company derecognized the assets and liabilities of Dos Gemas from the consolidated financial statements. The remaining 20% investment retained in Dos Gemas was recognized at fair value when control was assumed by Adventus and the Company subsequently accounted for its investment using the equity method. The Company's share of losses exceeds its interest in Dos Gemas and, as such, the Company has discontinued recognizing its share of any further losses as there are no legal or constructive obligations.

Pijili Project

In August 2017 the Company was awarded three concessions (the "Pijili Project"), located in the province of Azuay, Ecuador. On March 28, 2018 the Company, Adventus and Dos Gemas entered into a letter agreement whereby the Company agreed to transfer the Pijili Project to Dos Gemas under the Alliance upon completion by Adventus of the following considerations:

- (i) on July 17, 2018 the Company received 2,536,232 Adventus common shares at an ascribed value of \$2,028,986, of which \$426 was applied against evaluation and exploration assets on costs capitalized and the remaining \$2,028,560 as a gain on property disposition in fiscal 2018;
- (ii) Adventus was also required to fully fund a US \$1,000,000 exploration budget on the Pijili Project by September 28, 2020. Adventus fulfilled this funding commitment in fiscal 2018; and
- (iii) payment of US \$150,000 cash, of which \$129,320 (US \$100,000) was received by the Company as at December 31, 2018 and the remaining \$66,385 (US \$50,000) was received in August 2019. During fiscal 2018 the Company applied the \$129,320 received, as to \$60,168 against exploration and evaluation assets on costs capitalized and the remaining \$69,152 as a gain on property disposition. During fiscal 2019 the Company recorded the \$66,385 as gain on property disposition and an application to legally transfer the Pijili Project to Dos Gemas has been made.

During fiscal 2019 the Company earned \$46,254 (2018 - \$25,330) in operator fees and as at December 31, 2019, \$1,767 (2018 - \$25,330) remained outstanding and was included in amounts receivable.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

Santiago Concession

The Company held a 100% interest in a concession (the “Santiago Concession”) located in the province of Loja, Ecuador. On May 22, 2018 the Company, Adventus and Dos Gemas entered into an agreement whereby the Company agreed to transfer the Santiago Project to Dos Gemas under the Alliance upon completion of the following considerations:

- (i) on July 17, 2018 the Company received 1,268,116 Adventus common shares at an ascribed value of \$1,014,492, of which \$585,734 was applied against exploration and evaluation assets on costs capitalized and the remaining \$428,758 as a gain on property disposition in fiscal 2018;
- (ii) Adventus was also required to fully fund a US \$500,000 exploration budget on the Santiago Project by May 22, 2020. Adventus fulfilled this funding commitment in March 2019; and
- (iii) payment of US \$75,000 in cash to the Company, of which \$64,365 (US \$50,000) was received during fiscal 2018 and the remaining \$32,753 (US \$25,000) was received in July 2019. During fiscal 2018 the Company applied the \$64,365 against exploration and evaluation assets on costs capitalized. During fiscal 2019 the Company recorded the \$32,753 received as gain on property disposition and completed the official transfer of the Santiago Project to Dos Gemas.

During fiscal 2019 the Company earned \$68,480 (2018 - \$nil) in operator fees and other services. As at December 31, 2019, \$543 remained outstanding and was included in amounts receivable.

The Santiago Project is subject to a 1.5% net smelter royalty that can be bought out for US \$1,000,000, as well as a 4% net profits interest royalty that is in favour of INV Metals Inc.

(c) **Other**

Macara Project

The Macara Project comprises two concessions as follows:

- (i) On November 6, 2017 the Company entered into an option agreement with an Ecuadorian individual (the “Macara Vendor”) 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. The Macara Vendor is currently an employee of the Company however, at the time the Macara Vendor acquired the Macara concessions they were at arm’s length to the Company. 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 (paid);
 - US \$50,000 on November 6, 2019 (paid);
 - 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.

The Macara Vendor also retains a 0.5% NSR, which may be purchased by the Company for US \$1,000,000 at any time.

The Macara Vendor 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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets (continued)

As at December 31, 2019 the Company has paid at total of \$258,734 (US \$200,000) for the option payments on the Macara Concession.

- (ii) 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, 2019 the Company has incurred \$703,088 (2018 - \$19,006) of costs on the Bonanza Concession.

Ruminahui Project

The Company owns a 100% interest in two concessions (the “Ruminahui Project”) located in the province of Pichincha, Ecuador. In prior years the Company only made partial payments on these concessions. 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 due to certain tenure maintenance matters. During fiscal 2019 the Company has made payments totalling \$103,557 (2018 - \$28,514) for concession payments. These payments have been recorded as part of exploration and evaluation assets.

Los Osos Concession

On March 21, 2019 the Company entered into an option agreement with an Ecuadorian individual (the “Los Osos Vendor”), whereby the Company has been granted the option to acquire up to a 100% interest in one mineral concession (“Los Osos Concession”) located in the Province of El Oro, Ecuador. The Los Osos Vendor is currently an employee of the Company however, at the time the Los Osos Vendor acquired the Los Osos concession they were at arm’s length to the Company. Pursuant to the terms of the agreement the Company may earn the following interests by payments of:

Interest	Amount US \$
15%, on March 21, 2019	35,000 (paid)
15%, on March 21, 2020	35,000 (paid subsequent to December 31, 2019)
20%, on March 21, 2021	50,000
25%, on March 21, 2022	65,000
25%, on March 21, 2023	<u>65,000</u>
	<u>250,000</u>

The Los Osos Vendor also retains a 1% NSR, which may be purchased by the Company for US \$1,000,000 at any time.

During fiscal 2019 the Company paid \$46,438 (US \$35,000) for the option payment on the Los Osos Concession.

- (d) See also Note 10.

7. 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 conducted during fiscal 2019 or fiscal 2018.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

7. **Share Capital** (continued)

(c) *Warrants*

On February 16, 2019 the Company issued share purchase warrants to Arlington Group Asset Management Limited to purchase 1,000,000 common shares at an exercise price of \$0.12 per share, expiring February 16, 2024, for settlement of debt of \$120,000 for services previously provided.

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at December 31, 2019 and 2018 and the changes for the years ended on those dates is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Number</u>	<u>Weighted Average Exercise Price \$</u>	<u>Number</u>	<u>Weighted Average Exercise Price \$</u>
Balance, beginning of year	-	-	22,527,863	0.12
Issued	1,000,000	0.12	-	-
Exercised	-	-	(12,324,184)	0.12
Expired	-	-	(10,203,679)	0.12
Balance, end of year	<u>1,000,000</u>	<u>0.12</u>	<u>-</u>	<u>-</u>

As at December 31, 2019 warrants to purchase 1,000,000 common shares at an exercise price of \$0.12 per share, expiring February 16, 2024, were outstanding.

(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.

During fiscal 2019 the Company granted share options to purchase 5,472,000 (2018 - 600,000) common shares and recorded compensation expense of \$516,164 (2018 - \$60,000). The fair value of share options granted and vested is estimated using the Black-Scholes option pricing model using the following assumptions:

	<u>2019</u>	<u>2018</u>
Risk-free interest rate	1.79% - 1.89%	1.86%
Estimated volatility	100%	113%
Expected life	5 years	3 years
Expected dividend yield	0%	0%
Estimated forfeiture rate	0%	0%

The weighted average measurement date fair value of all share options recognized during fiscal 2019 was \$0.10 (2018 - \$0.10) per share 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.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

7. Share Capital (continued)

A summary of the Company's share options at December 31, 2019 and 2018 and the changes for the years ended on those dates, is as follows:

	2019		2018	
	Number of Options Outstanding	Weighted Average Exercise Price \$	Number of Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	7,175,000	0.14	6,700,000	0.14
Granted	5,472,000	0.13	600,000	0.14
Expired / cancelled	<u>(675,000)</u>	0.14	<u>(125,000)</u>	0.14
Balance, end of year	<u>11,972,000</u>	0.14	<u>7,175,000</u>	0.14

The following table summarizes information about the share options outstanding and exercisable at December 31, 2019:

Number Outstanding	Number Exercisable	Exercise Price \$	Expiry Date
5,925,000	5,925,000	0.14	December 1, 2021
600,000	600,000	0.14	January 15, 2022
1,000,000	250,000	0.12	January 25, 2024
<u>4,447,000</u>	<u>4,447,000</u>	0.135	February 14, 2024
<u>11,972,000</u>	<u>11,222,000</u>		

See also Note 14.

8. 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 2019 and 2018 the following amounts were incurred with respect to the President and the Chief Financial Officer ("CFO") of the Company:

	2019 \$	2018 \$
Salaries and fees	200,803	175,688
Health benefits	6,939	7,604
Share-based compensation	<u>150,000</u>	<u>-</u>
	<u>357,742</u>	<u>183,292</u>

As at December 31, 2019 \$nil (2018 - \$125,348) remained unpaid and has been included in accounts payable and accrued liabilities.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

8. Related Party Disclosures (continued)

(b) *Other Related Party Transactions*

(i) During fiscal 2019 and 2018 the following amounts were incurred with respect non-executive directors of the Company:

	2019 \$	2018 \$
Consulting	208,161	118,959
Share-based compensation	<u>168,964</u>	<u>60,000</u>
	<u>377,125</u>	<u>178,959</u>

As at December 31, 2019 \$18,918 (2018 - \$nil) remained unpaid and has been included in accounts payable and accrued liabilities.

(ii) During fiscal 2019 the Company incurred a total of \$55,738 (2018 - \$54,827) 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, 2019 \$nil (2018 - \$4,775) remained unpaid and has been included in accounts payable and accrued liabilities.

During fiscal 2019 the Company also recorded \$15,000 for share-based compensation for share options granted to Chase.

(iii) During fiscal 2019 the Company incurred \$279,967 (2018 - \$249,793) for equipment rental services and \$162,601 (2018 - \$124,926) for professional services provided by a private corporation controlled by the President and the CFO of the Company. As at December 31, 2019 \$57,982 (2018 - \$139,263) remained unpaid and has been included in accounts payable and accrued liabilities.

(iv) During fiscal 2019 the Company incurred \$31,047 (2018 - \$26,440) for storage rental provided by a private corporation controlled by the son of the President of the Company.

(v) During fiscal 2019 the Company incurred \$10,699 for environmental studies provided by a private corporation owned by the CFO of the Company;

(vi) See also Note 6(c).

(c) Certain of the expenses incurred by the Company with related parties and remuneration paid to Company personnel have been recovered from Adventus. See Note 6.

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

9. Income Taxes

Deferred income tax assets and liabilities of the Company as at December 31, 2019 and 2018, are as follows:

	2019 \$	2018 \$
Deferred income tax assets (liabilities):		
Losses available for future periods	2,282,800	1,836,000
Financing costs	1,700	3,500
Difference between book value and income tax costs of:		
- exploration and evaluation assets	4,717,000	4,873,000
- property, plant and equipment	<u>717,000</u>	<u>411,300</u>
	7,718,500	7,123,800
Unrecognized deferred tax asset	<u>(7,718,500)</u>	<u>(7,123,800)</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 2019 and 2018 as follows:

	2019 \$	2018 \$
Income (loss) before income taxes	(1,320,363)	1,307,194
Statutory tax rate	<u>27.0%</u>	<u>27.0%</u>
Expected income tax expense (recovery)	(356,500)	352,900
Foreign income tax rate differences	29,000	10,700
Other	146,100	(3,700)
Change in unrecognized deductible temporary differences	<u>181,400</u>	<u>(359,900)</u>
Actual income tax expense (recovery)	<u>-</u>	<u>-</u>

As at December 31, 2019 the Company has approximately \$7,797,600 (2018 - \$5,703,700) of non-capital losses carried forward, and unclaimed deductions of \$2,074,200 (2018 - \$2,071,200) for Canadian tax purposes available to offset future income. The non-capital losses expire from 2027 to 2039. The Company also has non-capital losses of approximately \$806,300 (2018 - \$1,345,600) for Ecuadorian 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.

10. 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, 2019, the Company's commitment is as follows:

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

10. Commitments (continued)

	US \$
Fiscal 2020	32,149
Fiscal 2021	<u>2,670,384</u>
	<u>2,702,533</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 2020 is approximately US \$1,500,000.

11. Financial Instruments and Risk Management

Categories of Financial Assets and Financial Liabilities

Financial instruments are classified into one of the following categories: FVTPL; FVOCI and amortized cost. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	December 31, 2019 \$	December 31, 2018 \$
Cash	FVTPL	4,079,065	2,784,301
Restricted cash	FVTPL	397,896	153,289
Amounts receivable	Amortized cost	123,390	242,096
Due from joint-venture partner	Amortized cost	-	670,726
Investments	FVTPL	-	2,856,088
Accounts payable and accrued liabilities	Amortized cost	(463,840)	(1,716,275)
Advances from joint-venture partner	Amortized cost	(288,182)	-

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.

The recorded amounts for amounts receivable, accounts payable and accrued liabilities and advances from joint venture partner approximate their fair value due to their short-term nature. The Company's cash, restricted cash and investments 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:

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

11. Financial Instruments and Risk Management (continued)

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, 2019				
	Less than 3 Months \$	3 - 12 Months \$	1 - 5 Years \$	Over 5 Years \$	Total \$
Cash	4,079,065	-	-	-	4,079,065
Restricted cash	397,896	-	-	-	397,896
Amounts receivable	123,390	-	-	-	123,390
Accounts payable and accrued liabilities	(463,840)	-	-	-	(463,840)
Advances from joint-venture partner	(288,182)	-	-	-	(288,182)

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.

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, 2019, 1 Canadian Dollar was equal to 0.77 US Dollar.

Balances are as follows:

	US \$	CDN \$ Equivalent
Cash	125,895	163,500
Restricted cash	304,691	397,896
Amounts receivable	94,486	122,709
Advances from joint-venture partner	(220,677)	(288,182)
Accounts payable and accrued liabilities	(303,352)	(393,964)
	<u>1,043</u>	<u>1,959</u>

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

11. Financial Instruments and Risk Management (continued)

Based on the net exposures as of December 31, 2019 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 loss being approximately \$500 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 2019 and 2018 non-cash activities were conducted by the Company as follows:

	2019 \$	2018 \$
Operating activity		
Accounts payable and accrued liabilities	(120,000)	-
Investing activities		
Investments	-	(3,043,478)
Proceeds from sale of exploration and evaluation assets	-	3,043,478
	-	-
Financing activity		
Issuance of warrants on debt settlement	120,000	-

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, 2019		
	Corporate Canada \$	Mineral Operations Ecuador \$	Total \$
Current assets	5,214,308	-	5,214,308
Property, plant and equipment	-	1,058,319	1,058,319
Exploration and evaluation assets	-	19,986,463	19,986,463
	5,214,308	21,044,782	26,259,090

SALAZAR RESOURCES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(Expressed in Canadian Dollars)

13. Segmented Information (continued)

	December 31, 2018		
	Corporate Canada \$	Mineral Operations Ecuador \$	Total \$
Current assets	5,722,349	1,552,841	7,275,190
Property, plant and equipment	-	821,525	821,525
Exploration and evaluation assets (Restated - Note 3)	-	19,185,349	19,185,349
	<u>5,722,349</u>	<u>21,559,715</u>	<u>27,282,064</u>

14. Events after the Reporting Period

Subsequent to December 31, 2019 share options were exercised to purchase 200,000 common shares for proceeds of \$24,000.

See also Note 6(c).