

# **Western Atlas Resources Inc.**

Consolidated Financial Statements  
For the nine months ended September 30, 2018 and  
Year ended December 31, 2017  
*(Expressed in Canadian dollars)*

## **Notice to Reader**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

# WESTERN ATLAS RESOURCES INC.

## Consolidated Statements of Financial Position

(expressed in Canadian dollars)

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 4)	\$ 972,426	\$ 436,923
Prepaid Expenses	145,391	13,158
GST receivable	38,614	21,628
	1,156,431	471,709
<b>Non-current assets</b>		
Exploration & evaluation assets (Note 5)	2,259,391	968,636
<b>Total assets</b>	<b>\$ 3,415,822</b>	<b>\$ 1,440,345</b>
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 521,542	\$ 42,745
	521,542	42,745
<b>Shareholders' equity</b>		
Share capital (Note 6)	3,533,911	1,663,671
Deficit	(639,631)	(266,071)
	2,894,280	1,397,600
<b>Total liabilities and shareholders' equity</b>	<b>\$ 3,415,822</b>	<b>\$ 1,440,345</b>

Going concern (note 1)

These financial statements were approved for issue by the Board of Directors on November 5, 2018.

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

# WESTERN ATLAS RESOURCES INC.

## Consolidated Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
<b>Operating activities</b>				
General and administrative expenses	\$ 40,060	\$ 35,704	\$ 145,124	\$ 77,864
Salaries and benefits (Note 8)	32,747	-	124,747	-
Accounting, audit and advisory services (Note 8)	56,225	45,500	163,875	72,000
Legal fees	-	7,334	180,496	14,738
Insurance	2,894	988	8,825	-
Share-based payments (Note 6)	288,000	-	288,000	-
Foreign exchange loss	397	254	493	442
<b>Net loss from continuing operations for the period</b>	<b>420,323</b>	<b>89,780</b>	<b>911,560</b>	<b>165,044</b>
<b>Non-operation gain</b>				
Break fee on termination of amalgamation agreement	-	-	250,000	-
<b>Comprehensive income (loss) for the period</b>	<b>\$ 420,323</b>	<b>\$ 89,780</b>	<b>\$ 661,560</b>	<b>\$ 165,044</b>

<b>Weighted average Common Shares Outstanding</b>	47,187,919	11,893,941
<b>Loss per Common share - basic and diluted</b>	\$0.01	\$0.06

<b>Weighted average Class A Common Shares</b>		
<b>Outstanding</b>	20,150,000	15,054,384
<b>Loss per Class A Common share - basic and diluted</b>	\$0.00	\$0.01

<b>Weighted average Class B Common Shares</b>		
<b>Outstanding</b>	8,782,630	4,146,444
<b>Loss per Class B Common share - basic and diluted</b>	\$0.01	\$0.04

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

# WESTERN ATLAS RESOURCES INC.

## Consolidated Statements of Changes in Equity

(expressed in Canadian dollars)

	Number of Class A common shares	Share Capital Class A common shares	Number of Class B common shares	Share Capital Class B common shares	Total number of shares issued	Total share capital	Equity Reserves	Equity (deficit)	Total Equity (deficiency)
<b>Balance January 1, 2017</b>	10,050,000	243	150,000	428	10,200,000	\$ 671	\$ -	\$ (822)	\$ (151)
Net income (loss) from continuing operations for the nine months ended September 30, 2017					-	-		(165,044)	(165,044)
Shares issued for cash	10,100,000	303,000	11,360,666	1,274,100	21,460,666	1,577,100			1,577,100
<b>Balance September 30, 2017</b>	20,150,000	\$ 303,243	11,510,666	\$ 1,274,528	31,660,666	\$ 1,577,771	\$ -	\$ (165,866)	\$ 1,411,905
<b>Balance January 1, 2018</b>	20,150,000	303,243	12,083,333	1,360,428	32,233,333	\$ 1,663,671	\$ -	\$ (266,071)	\$ 1,397,600
Net income (loss) from continuing operations for the nine months ended September 30, 2018					-	-		(911,560)	(911,560)
Net income from extraordinary gain					-	-		250,000	250,000
Private Western Atlas shares converted to Public Western Atlas shares at the conversion ratio of 1.2410	(20,150,000)	(303,243)	(12,083,333)	(1,360,428)	(32,233,333)	(1,663,671)			(1,663,671)
Pacific Topaz shares consolidated on a 2:1 basis					40,001,566	1,663,671			1,663,671
Shares issued for cash					6,097,779	(105,527)			(105,527)
Shares issued for services					10,000,000	2,000,000			2,000,000
Share issue costs					281,025	25,292			25,292
Share-based payments						(49,525)			(49,525)
							288,000		288,000
<b>Balance September 30, 2018</b>	-	\$ -	-	\$ -	56,380,370	\$ 3,533,911	\$ 288,000	\$ (927,631)	\$ 2,894,280

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

# WESTERN ATLAS RESOURCES INC.

## Consolidated Statements of Cash Flows

(expressed in Canadian dollars)

	Nine months ended September 30 2018	Nine months ended September 30 2017
<b>Cash flows provided by (used in):</b>		
<b>Operating activities</b>		
Loss for the period	\$ 661,560	\$ 165,044
Adjustments for non-cash items:		
Common shares issued for services	25,292	-
Share-based payments	288,000	-
Changes in non-cash working capital items:		
Prepaid expenses	(132,233)	(10,874)
GST receivable	(16,986)	(40,126)
Accounts payable and accrued liabilities	478,796	-
<b>Net cash provided by operating activities</b>	<b>(18,691)</b>	<b>(216,044)</b>
<b>Cash flows from investing activities:</b>		
Acquisition of exploration & evaluation assets (Note 6)	(1,290,755)	(869,599)
<b>Net cash used in investing activities</b>	<b>(1,290,755)</b>	<b>(869,599)</b>
<b>Cash flows from financing activities:</b>		
Issuance of share capital	1,894,474	1,577,100
Share issue costs	(49,525)	-
<b>Net cash provided by financing activities</b>	<b>1,844,949</b>	<b>1,577,100</b>
<b>Net increase in cash and cash equivalents during the period</b>	<b>535,503</b>	<b>491,457</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>436,923</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 972,426</b>	<b>\$ 491,457</b>

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

# **WESTERN ATLAS RESOURCES INC.**

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## **1. Nature of operations and going concern**

Western Atlas Resources Inc. (the “Company”) is a company domiciled in Canada. The address of the Company’s registered office is Suite 1700, Park Place, 666 Burrard Street, Vancouver, BC, Canada V6C 2X8. The Company has one wholly owned subsidiary, Western Atlas (Nunavut) Holding Corp, which in turn has one wholly owned subsidiary, 5530 Nunavut Inc., both of which are domiciled in Canada. The consolidated financial statements of the Company for both periods presented comprises the Company and its subsidiaries (together referred to as the “Company” and individually as “Company entities”). The Company and its subsidiaries are primarily involved in the discovery, acquisition and development of mineral deposits in premier mining jurisdictions. The company was incorporated in British Columbia on October 9, 2013 and became active in December 2016.

These financial statements have been prepared on a basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At September 30, 2018, the Company had not achieved profitable operations, had an accumulated deficit of \$639,631 (accumulated deficit at December 31, 2017 - \$266,071) since inception, expects to incur further losses as it develops its business and explores its mineral property interests, and will be required to raise additional financing to maintain its operations, all of which indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether they contain resources that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets is dependent upon, among other things, the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary mining and environmental permits, and upon future profitable production or proceeds from disposition of the mineral property.

The ability of the Company to carry out its planned business objectives and continue as a going concern is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow from its mineral property interests. There can be no assurances that the Company will be able to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations and exploration and development activities which may impact the Company’s ability to maintain its mineral property interest.

The financial statements do not include any adjustments relating to the recorded amounts and classification of assets and liabilities should the Company be unable to continue as a going concern.

## **2. Basis of preparation**

### **(a) Statement of compliance**

The Company applies International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 2. Basis of preparation (continued)

### (a) Statement of compliance (continued)

International Financial Reporting Interpretations Committee (“IFRIC”). These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Accordingly, they do not include all of the information required for full annual financial statements required by IFRS as issued by IASB and interpretations issued by IFRIC.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS’s issued and outstanding as of November 5, 2018, the date the Board of Directors approved the statements. The same accounting policies and methods of computation are followed in these unaudited condensed interim consolidated financial statements as compared with the most recent annual financial statements as at and for the year ended December 31, 2017. Any subsequent changes to IFRS that are given effect in the Company’s annual financial statements for the year ending December 31, 2018 could result in restatement of these unaudited condensed interim consolidated financial statements.

### (b) Basis of measurement

The consolidated financial statements of Western Atlas Resources Inc. have been prepared on the historical cost basis.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary, unless otherwise indicated.

### (d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

#### Estimates

Significant areas requiring the use of estimates and assumptions relate to the review of asset carrying values and determination of impairment charges of non-current assets and the determination of mineral reserves. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### Judgements

Critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are the determination of functional currency, and the decision to proceed with development.

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements  
For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 2. Basis of preparation (continued)

### (d) Use of estimates and judgments (continued)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

## 3. Significant accounting policies

### (a) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

Details of the Company's subsidiaries at September 30, 2018 are as follows:

<u>Name</u>	<u>Place of Incorporation</u>	<u>Interest</u>	<u>Principal Activity</u>
Western Atlas (Nunavut) Holding Corp.	British Columbia, Canada	100%	Mineral exploration and evaluation
5530 Nunavut Inc.	Nunavut, Canada	100%	Mineral exploration and evaluation

#### (ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### (b) Foreign currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in the foreign currency are not re-translated.

### (c) Financial instruments

#### (i) Financial assets

The Company initially recognizes loans and receivables and deposits on the date that they



# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Financial assets (continued)

are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each period end and are reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is recognized immediately in profit or loss.

### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company had no financial assets at fair value through profit and loss.

### *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and amounts receivable.

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 3. Significant accounting policies (continued)

### (c) Financial instruments (continued)

#### (i) Financial assets (continued)

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company has no available-for-sale financial assets.

#### (ii) Financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following financial liabilities: accounts payable and accrued liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

#### (d) Share capital

##### *Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Common shares issued for consideration other than cash are valued based on their market value at the date the shares are issued.

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 3. Significant accounting policies (continued)

### (d) Share capital (continued)

#### *Share-based payments*

The Company has a stock-based compensation plan, whereby share purchase options are granted in accordance with the policies of regulatory authorities. The fair value of all share purchase options granted is expensed over their vesting period with a corresponding increase to contributed surplus. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

Share-based compensation arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions. If the fair value of the goods or services received 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.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the assumptions used do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

### (e) Exploration expenditures

The cost of exploration expenditures is expensed as incurred, including those costs incurred before the Company has obtained the legal rights to explore an area of interest.

### (f) Exploration and evaluation assets

The Company defers the cost of acquiring and maintaining its interest in exploration and evaluation assets until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Certain acquisition costs may be written off per policy, even though the project, as a whole is not impaired. Other exploration and development expenditures are expensed as incurred until such time as mineral reserves can be established, after which such costs will be accounted for in the same manner as acquisition costs. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the assets, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its exploration and evaluation assets and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties at least annually, and will recognize impairment in value based upon the current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the assets. Amounts shown for assets represent costs incurred net of any write-downs and recoveries, and are not intended to represent present or future values.

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

### 3. Significant accounting policies (continued)

#### (g) Provision for closure and reclamation

The Company recognizes statutory, contractual or other obligations related to the retirement of its exploration assets and its tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. Management has determined that there was no provision for closure and reclamation as at September 30, 2018.

#### (h) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

#### (i) Recently adopted accounting policies

##### *Financial Instruments*

In July 2014, the IASB completed the final elements of IFRS 9 “Financial Instruments.” The standard supersedes earlier versions of IFRS 9 and completes the IAS 39 “Financial Instruments: Recognition and Measurement.” IFRS 9, as amended, includes a principle-based approach for

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 3. Significant accounting policies (continued)

### (i) Recently adopted accounting policies (continued)

classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard came into effect for annual periods beginning on or after January 1, 2018, with required retrospective application and early adoption permitted. The implementation of IFRS 9 did not have a significant impact on the Company's financial statements.

### (j) New accounting policies

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

#### *Leases*

In January 2016, the IASB issued the complete IFRS 16 "Leases," which replaced IAS 17 "Leases." Under IFRS 16, a single recognition and measurement model will apply for lessees which will require recognition of assets and liabilities for most leases. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The

Company plans to adopt the new standard and is in the process of assessing the impact of the standard on its consolidated financial statements.

## 4. Cash and cash equivalents

Cash and cash equivalents comprise cash balances which are readily converted into cash and short-term deposits with maturities at the time of acquisition of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. As at September 30, 2018 and December 31, 2017, the Company had no cash equivalents.

## 5. Exploration & evaluation assets

Title to exploration and evaluation properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristics of many such assets. The Company has investigated title to all of its mineral properties, and to the best of its knowledge, title to all such assets is in good standing.

At September 30, 2018 the Company has acquired by staking the mineral rights to properties in Nunavut, Canada.

### (a) Meadowbank Project

Western Atlas Resources project in Meadowbank is comprised of approximately 58,000 hectares of mineral claims divided in three areas, namely Area A, Area B and Area C. Area A (10,046

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 5. Exploration & evaluation assets (continued)

### (a) Meadowbank Project (continued)

hectares), is located along Agnico Eagle's mining blocks which hosts the PDF deposit (also part of the Meadowbank gold mine) and the Amaruq gold deposit; Area B (39,127 hectares), is located along trend of Agnico Eagle's Vault, Portage and Goose deposits, and North of the Aura Silver's Greyhound gold target (currently optioned to Agnico Eagle); and Area C (8,671 hectares), is located South of the Greyhound gold target.

### (b) Committee Bay Project

Western Atlas Resources project in Committee Bay is comprised of 114,000 hectares of mineral claims divided into three areas, namely Area A, Area B and Area C, measuring approximately 20,000, 57,000 and 37,000 hectares respectively. The mining claims are located along the Committee Bay Greenstone Belt where Auryn Resources owns a total of 380,000 hectares.

At September 30, 2018 the following costs are capitalized as exploration and evaluation assets:

	Nine months ended		
	December 31, 2017	September 30, 2018	September 30, 2018
43-101 Technical Report	\$ 74,318	\$ 30,592	\$ 104,910
Field supplies and expenses	137,496	490,415	627,911
Geological services	95,289	112,283	207,572
GeoPhysical surveys	168,008	437,890	605,898
Laboratory analysis	8,295	39,835	48,130
Recording and staking fees	381,916	-	381,916
Technical and geological consulting	76,303	70,886	147,189
Travel	27,011	108,854	135,865
	<u>\$ 968,636</u>	<u>\$ 1,290,755</u>	<u>\$ 2,259,391</u>

## 6. Share capital

### (a) Authorized:

Unlimited number of common voting shares without par value.

### (b) Issued during the nine months ended September 30, 2018:

During the nine months ended September 30, 2018 the Company completed a reverse takeover with Pacific Topaz Resources Ltd. Pursuant to the Amalgamation, Pacific consolidated its shares on a 2:1 basis and completed a non-brokered private placement of 10,000,000 subscription receipts at a post-consolidation price of \$0.20 per subscription receipt ("Subscription Receipts") for aggregate gross proceeds of \$2,000,000 (the "Financing"). 5,892,500 of the Subscription Receipts were exchanged for Resulting Issuer shares issued on a flow-through basis, and 4,107,500 of the Subscription Receipts were exchanged for 4,107,500 non-flow-through units comprised of 4,107,500 post-consolidated shares and 2,053,750 post-consolidated warrants. Upon completion of the Amalgamation, former Western Atlas shareholders were issued an aggregate of 40,001,566 post-consolidated shares at a price of \$0.125 per share, representing an exchange ratio of 1.2410.

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 6. Share capital (continued)

(b) Issued during the nine months ended September 30, 2018: (continued)

Due to the successful closing of the reverse takeover on June 18, 2018 and following the contracts signed with Western Atlas on April 9, 2017 and April 21, 2017, Davisa Consulting and Susan Rubin were owed a success fee of \$50,000 and 31,025 shares respectively. Davisa Consulting has agreed to the payment of 250,000 common shares of Western Atlas (at a deemed value of \$0.20), to be issued in lieu of the \$50,000 success fee. These 281,025 shares were issued on August 27, 2018.

(c) Issued and outstanding during the year ended December 31, 2017:

The Company had 20,150,000 Class A common shares and 12,083,333 Class B commons shares issued and outstanding at December 31, 2017. During 2017, 10,100,000 Class A commons shares were issued at \$0.03, 8,600,000 Class B shares were issued at \$0.10 and 3,333,333 Class B shares were issued at \$0.15.

(d) Stock Option Plan

On March 7, 2018, the Company approved a Stock Option Plan, and on March 16, 2018 granted 2,700,000 stock options in accordance with the terms of the Company's Stock Option Plan to directors, officers, employees and consultants of the Company. These options were adjusted at the Amalgamation exchange ratio of 1.2410.

Also, as part of the Amalgamation, the Company incorporated the options of Pacific Topaz Resources on a 2:1 basis.

On August 27, 2018, the Company announced that pursuant to the Company's Stock Option Plan, a total of 900,000 incentive stock options were granted to its Directors. Each Director (excluding the CEO), was granted 300,000 options. The stock options are exercisable at a price of C\$0.20 per share for a period of 5 years, subject to regulatory approval.

The continuity of share purchase options at September 30, 2018 is as follows:

Exercise Price	Expiry Date	Acquired from			Expired	September 30, 2018
		December 31, 2017	Pacific Topaz Ltd.	Grant		
\$0.20	15-Mar-21	-	42,500	-	-	42,500
\$0.32	1-Sep-26	-	562,500	-	-	562,500
\$0.12	20-Mar-20	-	-	3,350,700	-	3,350,700
\$0.20	4-Jul-23	-	-	900,000	-	900,000
		-	605,000	4,250,700	-	4,855,700

As at September 30, 2018 there were 4,855,700 vested options with a weighted average exercise price of \$0.16. The weighted average remaining contractual life of the vested options is 2.86 years.

During the nine months ended September 30, 2018, the Company granted a total of 4,250,700 stock options with a total fair value of \$288,000, which was recognized as share-based payment

# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 6. Share capital (continued)

### (d) Stock Option Plan (continued)

expense during the nine months ended September 30, 2018. The share-based payments were derived from the vesting of grants which have been estimated using the Black-Scholes option pricing model based on the following weighted-average assumptions:

Expected life	4 - 5 years
Expected volatility	60.23% - 60.95%
Expected dividend yield	Nil
Risk-free interest rate	1.93% - 2.22%
Fair value per option	\$0.06 - \$0.11
Expected forfeitures	Nil

## 7. Supplemental cash flow information

- (a) The Company made no cash outlays in respect of interest or income taxes for the nine months ended September 30, 2018 or the year ended December 31, 2017.
- (b) As at September 30, 2018 the Company had \$384,179 and at December 31, 2017 \$12,745 in accounts payable and accrued liabilities which were related to the exploration of the mineral properties.
- (c) During the nine months ended September 30, 2018, 281,028 shares were issued for services rendered. During the year ended December 31, 2017 no shares were issued for services rendered.

## 8. Related party transactions

At September 30, 2018 the Company had \$6,079 and at December 31, 2017 the Company had nil payable to the officers of the Company related to reimbursement of expenses paid on behalf of the Company. Amounts payable to related parties are non-interest bearing and without specific terms of repayment.

During the nine months ended September 30, 2018, the Company paid \$173,792 for management, general business and financial advisory services and salaries (nine months ended September 30, 2017 – \$35,000) to an officer of the Company and a company controlled by an officer of the Company.

## 9. Segmented Information

The Company operates in one reportable operating segment in one country, being the current exploration of mineral resource properties in Canada.

## 10. Financial risk management

Overview

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



# WESTERN ATLAS RESOURCES INC.

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## 10. Financial risk management (continued)

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors approves and monitors the risk management processes.

### Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is on its cash and cash equivalents, and amounts receivable.

The carrying amounts of cash and cash equivalents, and amounts receivable represents the maximum credit exposure.

### Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company currently has adequate liquidity to fund its accounts payable and accrued liabilities.

### Market risk

Market risk consists of foreign exchange risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

### Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents, short term investments, restricted investments and loan payable and has determined that there is no material exposure related to interest rate risk.

### Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company has an exposure to US dollars ("USD") that are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. The Company does not hedge its foreign exchange risk.

The Company has no financial instruments held in foreign currencies.

# **WESTERN ATLAS RESOURCES INC.**

Notes to the Consolidated Financial Statements

For the nine months ended September 30, 2018 and the year ended December 31, 2017

## **10. Financial risk management (continued)**

Valuation of financial instruments

All financial instruments measured at fair value are categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;
- Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability; and
- Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The carrying values of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short period to maturity of these instruments.

## **11. Capital management**

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholders' equity comprising of share capital, share purchase warrants, contributed surplus and deficit. The basis for the Company's capital structure is dependent on the Company's expected business growth and changes in business environment.

In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold excess cash in interest bearing bank accounts and money market funds. The Company is not subject to externally imposed capital requirements.

There have been no changes made to the capital management policy during the year.

## **12. Comparative figures**

Certain comparative figures have been reclassified to conform to the financial statement presentation for the current period.