TETHYAN RESOURCES PLC

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND DECEMBER 31, 2017

(Expressed in Great British Pounds)

KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Tethyan Resources Plc

Opinion

We have audited the consolidated financial statements of Tethyan Resources Plc. ("the Company"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity (deficiency) for the years then ended; and
- notes to the consolidated statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and consolidated 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 "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has not earned revenues, has a working capital deficiency and has incurred net losses in the current and prior year.

As stated in Note 1 in the consolidated financial statement, these events or conditions, along with other matters as set forth in Note 1 in the consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit and remain alert for indication that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' 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 the auditors' report. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 auditors' report to the related disclosures in the 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- 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.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Guy Elliott, CPA, CA.

Vancouver, Canada

April 12, 2019

TETHYAN RESOURCES PLC
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of Great British Pounds)

As at		December 31, 2018		December 31, 2017
Assets				
Current				
Cash and cash equivalents	£	75	£	57
Receivables, deposits and prepayments		95		118
Deferred share issuance costs		26		-
		196		175
Non-Current Assets				
Exploration and evaluation assets (Notes 3(a) and 4)		1,588		-
Equipment		40		43
Total assets	£	1,824	£	218
Liabilities				
Current				
Accounts payable and accrued liabilities	£	462	£	313
Advance on share subscription (Note 5)		175		-
Loan from related party (Note 7)		75		238
		712		551
Non-Current Liabilities				
Derivative liability (Note 5)		264		-
Total liabilities		976		551
Shareholders' equity (deficiency)				
Share capital (Note 5)		4,066		3,933
Share premium (Note 5)		30,097		27,784
Share-based payment reserve (Note 5)		1,639		924
Currency translation reserve		(10)		(50)
Own shares held reserve (Note 5)		(71)		(71)
Deficit		(34,873)		(32,853)
Total shareholders' equity (deficiency)		848		(333)
Total liabilities and shareholders' equity (deficiency)	£	1,824	£	218

Nature of operations and going concern (Note 1)
Commitments (Note 11)
Contingent liabilities (Note 6)
Subsequent events (Notes 4(b) and 5)

On behalf of the Board of Directors

"Richard Warke" Director   *"Jerrold Annett"* Director

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

TETHYAN RESOURCES PLC
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in thousands of Great British Pounds, except per share amount)

		Twelve months ended December 31, 2018		Twelve months ended December 31, 2017
Expenses				
Consulting	£	215	£	293
Depreciation		3		-
Director fees		4		92
Filing and regulatory		34		65
Foreign exchange loss (gain)		(28)		3
Exploration and evaluation expenditure (Note 4)		866		834
Office and administrative		266		194
Professional fees		190		279
Salaries		357		245
Share-based compensation (Note 5)		165		112
Travel		85		130
Loss before other items		2,157		2,247
Other items				
Loss on acquisition of subsidiaries (Note 3 (b))		-		387
Gain on change in fair value of derivative liability (Note 5)		(155)		-
Impairment of receivables		-		56
Finance expense		18		-
		(137)		443
Net loss for the year		2,020		2,690
Exchange difference on translation of foreign subsidiaries		(40)		44
Net comprehensive loss for the year	£	1,980	£	2,734
Loss per share				
Basic and diluted loss per share (£)		(0.05)		(0.10)
Weighted average number of shares outstanding ('000)		39,532		27,152

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

TETHYAN RESOURCES PLC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Great British Pounds)

		Twelve months ended December 31, 2018		Twelve months ended December 31, 2017
Cash flows from (used in) operating activities				
Net loss for the year	£	(2,020)	£	(2,690)
Adjustments for:				
Impairment of receivables		-		56
Gain on change in fair value of derivative liability		(155)		-
Depreciation		3		-
Share-based compensation		165		112
Loss on acquisition of subsidiaries		-		387
Unrelaized foreign exchange loss		27		-
Finance expense		18		-
Finance expnse paid		(4)		-
Changes in non-cash working capital items:				
Amounts receivable, deposits and prepayments		23		(151)
Accounts payable and accrued liabilities		122		5
Net cash used in operating activities		(1,821)		(2,281)
Cash flows from investing activities				
Purchase of equipment		-		(42)
Acquisition of exploration and evaluation assets		(268)		-
Net cash used in investing activities		(268)	-	(42)
Cash flows from financing activities				
Loan from related parties (Note 7)		425		238
Advance on share subscription (Note 5)		175		-
Proceeds from private placement and exercise of stock options, net of share issuance cost (Note 5)		1,507		1,189
Net cash provided by financing activities		2,107		1,427
Change in cash and cash equivalants during the year		18		(896)
Effect of foreign exchange on cash		-		(32)
Cash and cash equivalants, beginning of the year		57		985
Cash and cash equivalants, end of the year	£	75	£	57
Supplementary information				
Non-cash transactions				
Issuance of shares and shares to be issued for acquisition of exploration and evaluation assets	£	1,320	£	-
Shares issued on conversion of loans from related parties		506		-
Warrants exercised in exchange for settlement of interest owed to a related party		9		-

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

TETHYAN RESOURCES PLC

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND DECEMBER 31, 2017
(Expressed in Thousand of Great British Pounds)

	Share capital	Share premium	Share based payment reserve	Currency translation reserve	Own shares held reserve	Deficit	Total equity
Balance, December 31, 2016	£ 3,910	£ 26,881	£ 812	£ (6)	£ (71)	£ (30,163)	£ 1,363
Shares issued for private placement and exercise of stock options	23	903	-	-	-	-	926
Share-based compensation	-	-	112	-	-	-	112
Net loss for the year	-	-	-	-	-	(2,690)	(2,690)
Foreign currency translation	-	-	-	(44)	-	-	(44)
Balance, December 31, 2017	3,933	27,784	924	(50)	(71)	(32,853)	(333)
Shares issued for private placement, net of issuance costs	67	1,094	-	-	-	-	1,161
Shares issued on acquisition (Note 3(a))	42	728	550	-	-	-	1,320
Shares issued for debt settlement (Note 7)	24	482	-	-	-	-	506
Shares issued on warrants exercised	-	9	-	-	-	-	9
Share-based compensation	-	-	165	-	-	-	165
Net loss for the year	-	-	-	-	-	(2,020)	(2,020)
Foreign currency translation	-	-	-	40	-	-	40
Balance, December 31, 2018	£ 4,066	£ 30,097	£ 1,639	£ (10)	£ (71)	£ (34,873)	£ 848

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

1. NATURE AND CONTINUANCE OF OPERATIONS AND GOING CONCERN

Tethyan Resources plc ("Tethyan" or the "Company") is a public limited company incorporated and domiciled in England. The address of the Company's registered office is 27-28 Eastcastle Street, London W1W 8DH. On August 17, 2017, the Company became a reporting issuer in the province of British Columbia and the Company's ordinary shares commenced trading on the TSX Venture Exchange ("TSX-V") on September 6, 2017.

The Company operations involve acquiring, exploring and evaluating mineral properties in Serbia and the Company has not yet determined whether the properties contain reserves that are economically recoverable.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has not generated any revenues or cash flows from operations. As at December 31, 2018, the Company has a working capital deficiency of £516,000. The Company has incurred negative cash flows from operations and recorded a loss of £2,020,000 for the year ended December 31, 2018 (December 31, 2017 - £2,690,000).

Subsequent to December 31, 2018, the Company raised C$3,316,000 in a non-brokered private placement received C$239,232 upon the exercise of warrants and common share purchase options and, on March 28, 2019 accepted an offer to purchase on a bought deal basis 6,250,000 ordinary shares of the Company at a price of C$0.80 per share for gross proceeds of C$5,000,000 (Note 5). However, the Company expects that it will require additional debt or equity funding in the next year in order to continue its planned exploration and evaluation activities and meet its business objectives. The Company plans to raise the necessary funds primarily through issuance of ordinary shares. The Company's ability to continue on a going concern basis is therefore dependent on its ability to successfully raise financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company. These conditions result in material uncertainties that cast substantial doubt about the Company's ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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 International Financial Reporting Interpretations Committee ("IFRIC"). These consolidated financial statements have been prepared on a historical cost basis, with the exception of financial instruments that are measured at fair value, as explained in the accounting policies and methods of application set out below. These consolidated financial statements were approved for issuance by the Company's Board of Directors on April 12, 2019.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany balances and transactions have been eliminated on consolidation. The principal subsidiaries are:

Entity	Ownership Percentage	Location
Tethyan Resources Jersey Ltd.	100%	Jersey
Tethyan Resources d.o.o.	100%	Serbia
Global Mineral Resources d.o.o.	100%	Serbia
Taor d.o.o.	100%	Serbia
Tethyan Resources Bulgaria EOOD	100%	Bulgaria
Kosovo Resource Company	95%	Kosovo

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company consolidates subsidiaries where it has the ability to exercise control. Control over an investee is defined to exist when the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Particularly, the Company controls investees, if and only if, the Company has all of the following: power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.

Functional and presentation currency

The consolidated financial statements are presented in Great British Pounds Sterling ("£" or "GBP"), which is the Company's functional currency. Reference to "C$" are to Canadian dollars and references to € are to Euros.

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to £ at the foreign exchange rate in effect on that date. Non-monetary assets denominated in foreign currency and carried at fair value are translated at the foreign exchange rate in effect on the statement of financial position date. Foreign exchange differences arising on translation are recognized in profit or loss.

On consolidation, the assets and liabilities of the Group's foreign operations that do not have a GPB functional currency are translated at exchange rates prevailing at the balance sheet date. Income and expense items are translated at the dates of the transactions. Exchange differences arising on translation are recognized in other comprehensive income and in the currency translation reserve within equity. Such translation differences are reclassified to profit and loss in the period in which the operation is disposed of.

Business combinations

For business combinations, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair value at the date of acquisition.

Any excess of the fair value of the consideration over the fair values of the identifiable net assets acquired is recognized as goodwill, which is subsequently tested for impairment rather than amortized. If the cost of the acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognized directly in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in consolidated profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Exploration and Evaluation costs

During 2018, the Company changed its accounting policy with respect to exploration and evaluation costs. The Company's previous policy was, once a legal right to explore a property had been acquired, defined by the Company as ownership of a mining licence, subsequent exploration and evaluation costs were recognized as exploration and evaluation assets pending determination of the technical and commercial feasibility of the project. As summarized below, the Company's will now expense all exploration and evaluation expenditures except for acquisition costs until such time as a development decision has been made by the Board of Directors. As no such exploration and evaluation costs had been capitalized in prior periods, this change in accounting policy did not impact the comparative amounts.

Exploration and evaluation expenditure costs comprise costs associated with the acquisition of mineral rights and mineral exploration, including those incurred through joint operations. Costs incurred prior to obtaining a legal right to explore, including costs incurred pursuant to option or earn in agreements pursuant to which the Company will acquire an exploration license or right if it completes certain milestones and activities, are expensed as exploration and evaluation expenditures. Costs incurred to acquire a legal right to explore a property, defined by the Company as ownership of a mining licence, are recognized as exploration and evaluation assets. All other exploration and evaluation expenditures, including option payments, are expensed until such time as the technical and commercial feasibility of the project has been established and a decision to develop the mineral interest has been made by the Board of Directors. Exploration and evaluation expenditures include such costs as materials used, surveying costs, drilling costs, payments made to

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

contractors, and depreciation on equipment used during the exploration phase. They also include certain administrative costs that are allocated to the extent that those costs can be attributable directly to exploration and evaluation activities.

If an exploration project is deemed successful based on feasibility studies and a development decision has been made by the Board of Directors, the related capitalized expenditures are tested for impairment and then reclassified to development and production assets and amortised over the estimated life of the ore reserves on a unit of production basis. Where a project is abandoned or considered to be no longer economically viable, the related costs are written down to its estimated fair value and the related impairment charge recognized in profit or loss. An exploration property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The recoverability of amounts capitalized as exploration properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete property development, and future profitable production or proceeds from the disposition thereof.

Equipment

Furniture, computers, and field equipment are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets currently estimated to be four years.

Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites. The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks. Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not currently have material rehabilitation requirements.

Impairment testing of non-financial assets

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognised for the amount by which the assets or cash-generating unit’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist and, if applicable, an impairment loss is reversed through profit or loss.

Financial instruments

Amounts receivable are not interest bearing and are recognised initially at their fair value plus transaction costs and subsequently at amortised cost. The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial assets has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the twelve month expected credit losses. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of lifetime expected loss provision.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents include cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. These are recognized initially at fair value and subsequently at amortized cost.

Trade and other payables are not interest bearing and are recognised initially at their fair value less transaction costs and subsequently at amortised cost.

Derivatives are initially recognized at their fair value on the date the derivative contract is entered into and transaction costs are expensed. The Company's derivatives are subsequently re-measured at their fair value at each statement of financial position date with changes in fair value recognized in profit or loss. As the exercise price of certain of the Company's share purchase warrants are in C$, and the functional currency of the Company is the GBR, these warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. Accordingly, these share purchase warrants are classified and accounted for as a derivative liability.

Employee benefits

Short term employee benefits are expensed as the related services are performed. The Company does not have long term or post-retirement benefit plans.

Share-based payments

Directors, senior executives and consultants of the Group have been granted options to subscribe for ordinary shares. All options are equity settled.

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted, at date of grant, and is recognized in profit or loss over the estimated vesting period with a corresponding credit in the share-based payment reserve in equity.

The estimated fair value is determined using the Black-Scholes valuation model considering the effects of the vesting conditions, expected exercise period and the payment of dividends by the Company.

Operating lease payments

Operating lease payments are recognized in profit or loss on a straight line basis over the lease term. Lease incentives are recognized on a straight line basis over the term of the lease.

Share capital

The Company's ordinary shares are classified as equity. Costs directly attributable to the increase of new shares are shown in equity as a deduction from the proceeds.

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 they relate to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which these deductions can be applied. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Use of estimates and judgments

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

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

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments. The following are the Company's critical accounting judgements:

- The Company's assessment of its ability to continue as a going concern requires judgments about whether sufficient financing will be obtained in the near term. See Note 1.
- The determination of a subsidiary's functional currency requires significant judgment where the primary economic environment in which the subsidiary operates may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made are as follows:

- The determination of fair values of share-based compensation and warrants classified as derivative liabilities require assumptions with respect to volatility, expected life and discount rates. Changes in these assumptions impact share-based payment expense and changes in the fair value of derivative liabilities recognized in profit and loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting standards

The Company adopted IFRS 9, *Financial Instruments* (IFRS 9) on January 1, 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”).

IFRS 9 requires financial assets to be classified into three measurement categories on initial recognition: (i) those measured at fair value through profit or loss; (ii) those measured at fair value through other comprehensive income; and (iii) those measured at amortized cost. Measurement and classification of financial assets is dependent on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. For financial liabilities, the standard retains most of the IAS 39 requirements.

IFRS 9 introduces a new three-stage expected credit loss model for calculating impairment for financial assets. IFRS 9 no longer requires a triggering event to have occurred before credit losses are recognized. An entity is required to recognize expected credit losses when financial assets are initially recognized and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of the financial assets.

The Company’s warrant derivative liability is measured at fair value through profit or loss. All the Company’s other financial instruments are classified as financial assets and liabilities measured at amortized cost. As the Company’s cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and payable to related parties were measured at amortized cost prior to adoption of IFRS 9, adoption of IFRS 9 had no impact on the consolidated financial statements.

New accounting standards and pronouncements

The following IFRS Standards and Interpretations, which were issued but not yet effective have not been applied in the consolidated financial statements.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, *Leases* (IFRS 16). IFRS 16 is effective for the Company on January 1, 2019. IFRS 16 eliminates the current dual model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. The Company will utilize the modified retrospective approach on transition, under which comparative figures are not restated and expects to utilize practical expedients available under IFRS 16 related to short term and low value leases.

The Company estimates that effective January 1, 2019, it will recognize right-of-use assets and corresponding lease liabilities in the range of £50,000 to £65,000 in its Consolidated Statement of Financial Position, with no restatement of comparative periods’ results. The Company is in the process of finalizing its IFRS 16 transition impact calculations, lease accounting procedures and policies, expecting to be complete during the first quarter of 2019. Upon adoption of this new accounting standard, lease payments will no longer be recognized as an expense in office and administration expenses. Instead interest on lease obligations will be presented as finance expense and depreciation expenses on the right of use assets will be recognized.

IFRIC 23 – Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 (“Interpretation 23”) – *Uncertainty over Income Tax Treatments*. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Interpretation 23 is applicable for the Company on January 1, 2019. The Company does not expect it to have a material impact on the consolidated financial statements.

3. ACQUISITION OF SUBSIDIARIES

a) Taor d.o.o Acquisition

On June 29, 2018, the Company acquired all of the issued and outstanding shares of a Serbian company, Taor d.o.o. (“Taor”) (the “Transaction”). Taor holds two exploration licenses totaling approximately 100 square kilometres situated adjacent to the Suva Ruda license (note 4(a). Pursuant to the agreement, the Company:

- Issued 7,000,000 ordinary shares of the Company and paid €125,000 in cash on closing of the Transaction (completed) valued at £0.11 per share, being the trading prices of the Company’s ordinary shares on the closing date;
- Paid €125,000 in cash three months after the closing of the Transaction (completed); and
- Will issue 5,000,000 ordinary shares of the Company on the 12 month anniversary of closing of the Transaction, which shares will be subject to a lock-up period of twelve months following their issue during which these shares may not be transferred. Subsequent to December 31, 2018, the Company issues the 5,000,000 ordinary shares to the vendor.

The Transaction was accounted for as an asset acquisition. The fair value of the consideration paid was determined and allocated as follows

Fair value of consideration		(000's)
Cash paid (€250,000)	£	221
Shares issued (7,000,000 x £0.11)		770
Shares to be issued (5,000,000 x £0.11)		550
Transaction cost incurred		47
Total consideration	£	1,588
Assigned to:		
Exploration and avaluation assets acquired	£	1,588

b) Tethyan Resources Serbia d.o.o Acquisition

On February 24, 2017 and April 3, 2017, the Company acquired the issued and outstanding shares of Tethyan Resources Serbia d.o.o and Global Mineral Resources d.o.o, respectively. These companies were incorporated in Serbia by Fabian Baker, the Company’s then Chief Executive Officer who was the nominated owner of these entities, in order to establish a corporate presence in Serbia to explore opportunities within the region and ensure permits were applied for on a timely basis. Prior to the acquisition, the Company had provided funding to Tethyan Resources Serbia d.o.o and Global Mineral Resources d.o.o to finance the exploration activities on behalf of the Company. On acquisition, the Company expensed these advances, net of cash and certain tangible assets acquired, resulting in a loss on acquisition of £387,000 for the year ended December 31, 2017.

4. EXPLORATION AND EVALUATION EXPENDITURES

During the year ended December 31, 2018, exploration and evaluation expenditures consisted of the following**:**

(in 000s)		**Suva Ruda**		**Gokanica**		**Other**		**Total**
Drilling	£	278	£	-	£	-	£	278
Drilling consumables and other		48		-		80		128
Geochemistry		7		-		-		7
Geological reports		41		-		-		41
Geological samples		117		-		-		117
Geological work		140		-		-		140
Geophysics		51		-		-		51
Licenses		102		-		-		102
Surveying		2		-		-		2
	£	**786**	**£**	**-**	**£**	**80**	**£**	**866**

4. EXPLORATION AND EVALUATION EXPENDITURES (continued)

During the year ended December 31, 2017, exploration and evaluation expenditures consisted of the following**:**

(in 000s)	Suva Ruda	Gokanica	Other	Total
Geological work	£ 247	£ 123	£ 24	£ 394
Geological samples	58	-	-	58
Geological equipment	1	-	-	1
Geophysics	4	-	-	4
Geochemistry	190	-	-	190
Geological reports	2	-	-	2
Licenses	183	-	2	185
	£ 685	**£ 123**	**£ 26**	**£ 834**

(a) Suva Ruda

In October 2016, Tethyan signed an option agreement with Deep Research d.o.o ("Deep Research"), a private Serbian company, that gives Tethyan the sole and exclusive right to acquire (the "Option") a license over the Suva Ruda Project in Serbia (the "License"). The License is located in Southern Serbia near the town of Raska, 170 km directly south of Belgrade and within the Raska Ore district. The License comprises one exploration permit with a surface area of 87 km^2. Under the terms of the option agreement, Tethyan is entitled to purchase 100% of the License for a cash payment of €6 million, plus an amount equal to a percentage of the eventual capital cost ("CAPEX") of building the mine (details set out below), at any time during the total duration of the License and any future extensions of the License (a minimum of 7 years from the date of the option agreement).

The decision whether or not to exercise the Option during this period is at the sole discretion of the Company. However, at the time of exercise, the Company must be in compliance with certain work and payment milestones including:

1. Complete a minimum of 2,000 meters of drilling before December 28, 2016 (completed);
2. Complete a minimum of 5,000 meters of drilling before December 28, 2018 (completed);
3. Complete a preliminary economic assessment on or before the sixth anniversary date from the date of the option agreement;
4. Complete a feasibility study on or before the seventh anniversary date from the date of the option agreement;
5. Use reasonable efforts to apply for mining permits before the expiration of the licence;
6. Make the following payments to shareholders of Deep Research:
   i) €0.1 million on or before March 31, 2017 (paid)
   ii) €0.1 million on or before September 30, 2017 (paid)
   iii) €0.1 million on or before September 30, 2018 (paid); and
   iv) €0.1 million on September 30, 2019.

The amount payable by Tethyan with respect to CAPEX post exercise of the option to acquire the License will be calculated as follows:

1. 4% of CAPEX up to €200 million;
2. 2% of CAPEX between €200 – 500 million;
3. 1% of CAPEX in excess of €500 million.

Exploration and evaluation expenditures included in the table above for the 2018 year include expenditures on the Suva Ruda property under option and the properties acquired in the Taor d.o.o acquisition.

4. EXPLORATION AND EVALUATION EXPENDITURES (continued)

(b) Gokcanica

In May 2016, the Company executed a Joint Venture and Earn-in Agreement (the "Earn-in Agreement") with Rockstone Group LLC ("RSG") pursuant to which Tethyan could acquire up to an 80% interest in the Gokcanica project licenses in Southern Serbia ("the Gokcanica Permits). On execution of the agreement, the Company paid €0.01 million in cash and issued 194,444 common shares in connection with this agreement.

The Gokcanica Permits consist of two adjoining permits with a combined area of 110km² located in southern Serbia, 5 km to the north of the town of Josaniska Banja.

In order to earn an 80% interest in the Gokcanica project licences, the Company was required to complete the following:

(a) Stage 1:
In order to earn a 51% interest in the Gokcanica project licences, the Company was required to commit a minimum expenditure of USD$500,000 on an exploration program that would include a drilling of a minimum of 1,000 meters of either reverse circulation and/or diamond drilling within 2 years of entering into the Earn-in Agreement. This could include, but is not restricted to, mapping, trenching, rock-chip sampling, soil sampling, remote sensing, geophysics as well as other relevant items such as logistics and administration.

(b) Stage 2:
In order to earn a 70% interest in the Gokcanica project licences, in addition to the drilling commitment outlined above, the Company was required to complete a Pre-Feasibility Study ("PFS") within 5 years of entering into the Earn-in Agreement.

(c) Stage 3:
In order to earn an 80% interest in the Gokcanica Permits, in addition to the drilling commitment and PFS, the Company was required to complete a Bankable Feasibility Study ("BFS") within the time-frame of the exploration permits, their renewals or conversion to a mining permit.

As at December 31, 2018, the Company had not met the Stage 1 expenditure requirements and on January 14, 2019, the Company terminated the option agreement.

5. SHARE CAPITAL

Authorized capital

As at December 31, 2018, the Company's authorized share capital consists of 539,259,061 voting ordinary shares (December 31, 2017: 39,259,061) with a par value of £0.006 (0.6p) each, an unlimited number of Class A Deferred shares with a par value of £0.009 (0.9p) each and an unlimited number of Class B Deferred shares with a par value of £0.005 (0.5p) each.

The Class A and B Deferred Shares do not have any voting rights and holders are not entitled to receive dividends nor any other form of distribution other than a maximum of £0.009 (0.9p) per Class A Deferred share and £0.005 (0.5p) per Class B Deferred share on a return of capital on a winding up of the Company (provided the Company has sufficient cash after the holders of the Ordinary Shares have been paid an aggregate amount of the paid up capital thereon being 0.6 pence per share plus £10,000,000 for each Ordinary Share).

Issued capital

The total issued and outstanding shares and the changes for the years ended December 31, 2018 and 2017 are as follows:

	Ordinary shares		Class A deferred shares		Class B deferred shares		Total Share capital	Share premium
(£ - '000)	Number	£	Number	£	Number	£	£	£
Balance, December 31, 2016	24,326,690	145	368,716,729	3,318	89,193,163	447	3,910	26,881
Shares issued for cash in private placement	3,703,704	22	-	-	-	-	22	902
Shares issued for cash on exercise of options	16,667	1	-	-	-	-	1	1
Balance, December 31, 2017	28,047,061	168	368,716,729	3,318	89,193,163	447	3,933	27,784
Shares issued for cash in private placements, net of issuance costs	11,213,500	67	-	-	-	-	67	1,124
Shares issued for acquisition (note 3(a))	7,000,000	42	-	-	-	-	42	728
Shares issued for loan conversion	4,050,000	24	-	-	-	-	24	482
Shares issued for exercise of warrants	45,051	-					-	9
Balance, December 31, 2018	50,355,612	301	368,716,729	3,318	89,193,163	447	4,066	30,127

During the year ended December 31, 2017, the Company issued 3,703,704 ordinary shares at £0.27 per share (private placement) for net proceeds of £924,000 and 16,667 common shares on exercise of options for proceeds of £2,400.

On April 24, 2018, the Company completed a non-brokered private placement of 5,213,500 units at a price of C$0.25 per unit for gross proceeds of C$1,303,375 (£725,000). Each unit was comprised of one ordinary share and one-half of one share purchase warrant of the Company. Each whole warrant is exercisable into one ordinary share of the Company at an exercise price of C$0.35 per share for a period of three years from the closing of the private placement. The Company recognized the initial fair value of the 2,606,750 warrants issued as part of this placement of £157,000 as a derivative liability. The Company paid finders' fees of C$23,550 (£13,000) and issued 94,200 finders' warrants, exercisable at C$0.35 per share for a period of three years. The finders' warrants were recognized as a derivative liability at their fair value of £6,000.

On June 29, 2018, the Company issued 4,050,000 ordinary shares in connection with units issued on settlement of loans from related parties (note 7).

On August 17, 2018, the Company closed a non-brokered private placement for gross proceeds of C$1,500,000 (£870,000). The private placement consisted of 6,000,000 units at a price of C$0.25 per unit. Each unit was comprised of one ordinary share and one-half of one transferable share purchase warrant of the Company. Each whole warrant is exercisable into one ordinary share of the Company at an exercise price of C$0.35 per share for a period of three years from the closing date of the private placement. Dr. Mike Andrews, a director of the Company, purchased 908,000 units and invested C$277,000 (£166,000). The Company recognized the initial fair value of the 3,000,000 warrants issued as part of this placement of £165,000 as a derivative liability.

5. SHARE CAPITAL (continued)

Issued capital (continued)

Under the private placement, the Company paid finders' fees of C$76,380 (£46,000) and issued 305,520 finders' warrants, exercisable at C$0.35 per share for a period of three years. The finders' warrants were recognized as a derivative liability at their initial fair value of £17,000.

On January 31, 2019, the Company closed a non-brokered private placement of 16,580,000 units at a price of C$0.20 per unit, for aggregate gross proceeds of C$3,316,000 (£1,923,000). In connection with the placement, the Company issued 700,000 finders' units. Each unit was comprised of one ordinary share and one transferable share purchase warrant of the Company. Each warrant is exercisable into one ordinary share of the Company at an exercise price of C$0.25 per share for a period of five years from the closing date of the private placement. All securities issued in connection with the private placement are subject to a statutory hold period expiring on May 31, 2019. As part of the private placement, Augusta Investments Inc. ("Augusta") subscribed for 11,500,000 units, representing approximately 16% of the issued and outstanding ordinary shares of the Company. Subject to the terms of an investor rights agreement between Augusta and the Company, Augusta has been granted certain rights including anti-dilution rights, allowing it to maintain its equity ownership interest in the Company.

During the year ended December 31, 2018, Augusta advanced C$300,000 (£175,000) to the Company without interest in anticipation of the non-brokered private placement detailed above. The advance was settled through the issuance of the units above.

Subsequent to December 31, 2018, the Company issued the 5,000,000 ordinary shares required for the Taor Acquisition (note 3(a)).

Subsequent to December 31, 2018, 243,520 common share purchase warrants with a weighted average exercise price of C$0.35 were exercised and 580,000 common share purchase options with a weighted average exercise price of C$0.27 were exercised for total proceeds to the Company of C$239,232.

On March 28, 2019, the Company accepted an offer to purchase 6,250,000 ordinary shares of the Company at a price of C$0.80 per common share, for aggregate gross proceeds of C$5,000,000. This placement is expected to close by April 17, 2019 and is subject to customary conditions precedent for bought deal financing arrangements.

Share options

Details of the number of ordinary share options outstanding and the weighted average exercise price (WAEP) are as follows:

	Number	WAEP[1]	Remaining weighted average Contractual life
Balance, December 31, 2016	**1,850,000**	**0.25**	**2.08**
Issued	1,120,000	0.18	4.93
Exercised	(16,667)	0.14	
Expired	(333,333)	0.29	
Balance, December 31, 2017	**2,620,000**	**0.21**	**3.51**
Issued	2,386,666	0.16	3.29
Expired	(526,666)	0.19	
Cancelled	(800,000)	0.30	
Balance, December 31, 2018	**3,680,000**	**0.16**	**3.22**

1. Options with exercise prices in C$ have been converted at the year-end exchange rate for presentation purposes in the table above

The Company granted a total of 2,386,666 new stock options to certain directors, consultants and employees of the Company, exercisable at a weighted average strike price of price of C$0.27 per share.

The Company issued 1,120,000 options issued during the year ended December 31, 2017 with an exercise price of C$0.30 per share.

5. SHARE CAPITAL (continued)

As at December 31, 2018, the total number of share options outstanding was as follows:

Exercise Period	Number	WAEP[1]
Exercisable until 2021	500,000	0.14
Exercisable until 2021	1,675,000	C$0.25
Exercisable until 2022	853,333	C$0.30
Exercisable until 2023	651,667	C$0.30
	3,680,000	

All of these options are fully vested.

The following weighted average assumptions were used for the Black-Scholes valuation of the stock options granted:

	Year ended December 31, 2018	Year ended December 31, 2017
Risk-free interest rate	1.05%	1.28%
Expected life of options (in years)	5.0	5.0
Volatility	75%	75%
Fair value of options granted	C$0.11	C$0.18
Forfeiture rate and dividend rate	-	-

During the year ended December 31, 2018, the Company recorded a share-based compensation expense of £165,000 (2017: £112,000) in connection with the options granted.

Subsequent to December 31, 2018, the Company issued 3,700,000 ordinary share purchase options with a weighted average exercise price of C$0.51 per share exercisable until 2024.

Own Shares Held Reserve

As at December 31, 2018 and December 31, 2017, there were 222,222 shares outstanding which are beneficially owned by the Company and have not been cancelled. The carrying value of these shares of $71,000 is included in Own Shares Held Reserve in shareholders' equity.

Share Warrants

As at December 31, 2018, the following warrants to purchase ordinary shares were issued and outstanding:

Exercise period	Number	WAEP
Exercisable until December 12, 2019	390,250	0.13
Exercisable until April 24, 2021	2,700,950	C$0.35
Exercisable until June 29, 2021	1,979,949	C$0.35
Exercisable until August 17, 2021	3,305,520	C$0.35
	8,376,669	

5. SHARE CAPITAL (continued)

As the exercise price of certain of the Company's share purchase warrants is fixed in C$, and the functional currency of the Company is the GBP, these warrants are considered a derivative as a variable amount of cash in the Company's functional currency will be received on exercise. Accordingly, these share purchase warrants are classified and accounted for as a derivative liability. A continuity of the derivative liability is as follows:

		(in '000)
Balance as at December 31, 2017	£	-
Fair value of warrants issued in connection with April 24, 2018 issue of units		157
Fair value of agents warrants issued in connection with April 24, 2018 issue of units		6
Fair value of warrants issued in connection with August 17, 2018 issue of units		165
Fair value of agents warrants issued in connection with August 17, 2018 issue of units		17
Fair value of warrants issued in connection with units issued on debt settlements (note 7)		75
Exercise of warrants		(1)
Change in fair value		(155)
Balance as at December 31, 2018	**£**	**264**

The following parameters were used to fair value the warrants at various dates:

	December 31, 2018	**August 17, 2018**	**June 29, 2018**	**April 24, 2018**
Risk-free interest rate	1.05%	1.05%	1.05%	1.05%
Expected life of warrants (in years)	2.5	3.0	3.0	3.0
Annualized volatility	75%	75%	75%	75%
Share price	C$0.20	C$0.24	C$0.20	C$0.26
Exercise price	C$0.35	C$0.35	C$0.35	C$0.35
Fair value of warrants issueds granted	C$0.06	C$0.09	C$0.09	C$0.11
Forfeiture rate and dividend rate	-			-

6. CONTINGENT LIABILITIES

Contingent deferred consideration, estimated at £120,000 related to the Company's acquisition of the Larchland Group during the year ended March 31, 2005 becomes payable to the vendors if either of the following events occur:

(a) the Company discovering a proven deposit of at least three million ounces of gold or gold equivalent at the Pu Sam Cap operation in Vietnam and such deposit having been proven to be capable of extraction by bulk-mining methods; or
(b) a bona fide takeover offer having been made for all of the issued share capital of the Company which values the Company at no less than £133,333,333.

If either of the above events occur, any liability would be settled by further payment in the form of a share issue equal to the lesser of:

(a) 925,926 Consideration Shares each issued at the market value at the date of issue; or
(b) such number of Consideration Shares as will be equal to 7.5% of the number of Ordinary Shares issued and outstanding at the market value at the issue date.

As the likelihood of these events occurring is presently considered remote, the deferred consideration has not been recognised as a liability.

7. RELATED PARTIES

Key management personnel compensation

Key management personnel include directors and officers of the Company, with compensation consisting of the following:

('000)	Year ended December 31, 2018	Year ended December 31, 2017
P Mullens	4	100
R. Vukcevic	55	-
C Goss	-	9
F Baker	103	68
D Fohlen	-	64
S Thacker	-	11
Martyn Keats	-	36
Share-based compensation	132	70
	294	358

Related party transactions

On January 12, 2018, Dr. Michael Andrews, a director of the Company, loaned the Company £350,000 (the "Loan"). The Loan was non-interest bearing and was to mature on the earlier of 6 months from the date of the loan or 5 days following the date on which the Company raised in excess of £1,000,000 by way of an equity or debt financing with a third party. On June 29, 2018, the Company settled the loan in consideration for 2,450,000 units of the Company. Each unit was comprised of one ordinary share and one-half of one share purchase warrant of the Company. Each whole warrant is exercisable into one ordinary share of the Company at an exercise price of C$0.35 per share for a period of three years from June 29, 2018.

On November 15, 2017, Southern Arc Minerals Inc. ("Southern Arc"), a company with 2 directors in common with the Company, advanced C$400,000 to the Company pursuant to a convertible debenture financing. The convertible debenture bore interest annually at a rate of LIBOR plus 4% and had a maturity date of May 15, 2018. The convertible debenture was convertible at the option of Southern Arc, into securities of the Company at a share price determined by the share price of the Company's next equity financing subject to Southern Arc not owning more than 29.99% of the total issued and outstanding number of ordinary shares of the Company on completion of the financing and that the conversion price could not be less than the market price of the Company's shares on that date. The value of the conversion feature was not considered material at the date of issuance. The Company settled its C$400,000 convertible debenture in consideration for 1,600,000 units of the Company on completion of the transaction described in Note 3(a)). Each unit was comprised of one ordinary share and one-half of one share purchase warrant of the Company. Each whole warrant is to be exercisable into one ordinary share of the Company at an exercise price of C$0.35 per share for a period of three years. During 2018, Southern Arc exercised 45,051 of the warrants it received in exchange for settlement of accrued interest of £9,000 owing to Southern Arc related to the loan.

On December 30, 2018, Southern Arc loaned an additional C$125,000 to the Company. This loan included a financing expense of 5%. As at December 31, 2018, the balance of this loan including financing expense was £75,000. This amount was paid on January 31, 2019.

During the years ended December 31, 2018 and 2017, the Company engaged the services of J. Proust & Associates Inc., a company controlled by a director of both the Company and Southern Arc which owned 19.84% of the Company's shares as at December 31, 2018. During the year ended December 31, 2018, in addition to the amounts described in the key management personnel compensation table above, the Company incurred £115,000 (2017 - £78,076) in fees charged by J. Proust & Associates Inc. for finance, accounting and administrative services. As at December 31, 2018, a balance of £8,601 remains payable to J. Proust & Associates Inc.

As described in Note 3(b), the Company acquired two subsidiaries from the Company's then Chief Executive Officer for no consideration during the year ended December 31, 2017.

The above transactions are recorded at the consideration established and agreed to by the related parties.

8. INCOME TAXES

Tax expense for the periods differs from that resulting from applying the standard rate of corporation tax in the United Kingdom to net loss before tax are as follows:

('000)		Year ended December 31, 2018		Year ended December 31, 2017
Income (loss) before income tax	£	(2,020)	£	(2,690)
Current tax rate		19%		19%
		(384)		(511)
Effects of:				
Non-deductible expenses		2		85
Difference in tax rates		122		141
Losses for which no tax benefit has been recognized		260		285
Income tax expense	£	-	£	-

Deferred income tax assets have not been recognized for the following temporary differences:

('000)		December 31, 2018		December 31, 2017
Cumulative tax losses	£	7,963	£	6,834
Current tax rate		19%		19%
Unrecognized deferred tax asset at end of the year	£	1,513	£	1,298

Due to the relatively unsettled legal and tax codes in Serbia, the above unrecognized losses do not include losses of Serbian subsidiaries. The above deferred tax assets have not been recognized in these financial statements due to the uncertainty of timing future taxable income against which they can be recovered. These losses expire in years ranging from 2035 to 2037.

9. FINANCIAL INSTRUMENTS

The nature of the Company's operations exposes the Company to liquidity risk and market risk, which may have a material effect on cash flows, profit or loss and comprehensive income (loss).

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and to monitor market conditions and the Company's activities. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and policies.

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. All of the Company's financial liabilities are classified as current. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. See also Note 1.

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to credit risk consist primarily of cash and accounts receivable. The maximum exposure to credit risk is equal to the carrying value of the financial assets. Credit risk is managed by ensuring that surplus funds are deposited only with well-established financial institutions of high-quality credit standing. The Company assess the collectability and fair value of this receivable at each reporting period. The Company's maximum exposure to credit risk is limited to its cash and cash equivalents and trade and other receivables.

9. FINANCIAL INSTRUMENTS (continued)

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. The Company is currently exposed to interest rate risk to the extent that the cash and cash and cash equivalents maintained at the financial institutions are subject to a floating rate of interest. The interest rate risk on the Company's cash and cash equivalents is not considered significant. The Company is exposed to foreign exchange risk to the extent that financial instruments are not denominated in the functional currency of the Company or its subsidiaries. Such exposure relates primarily to financial assets and liabilities denominated in Canadian dollars, US dollars and Euros. As at December 31, 2018, the Company held financial assets of £Nil, £1,000 and £3,000 in Canadian dollars, US dollars and Euro respectively and financial liabilities of £63,000, £Nil and £Nil respectively. A 10% change is exchange rate would change net loss by £6,000.

Fair value

IFRS requires disclosure about fair value measurements for financial instruments and liquidity risk using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three-level hierarchy is as follows:

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

The derivative liability is measured at fair value using Level 2 inputs. The carrying values of the Company's cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and the loan from related party approximate their fair values due to their short term to maturity.

10. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and development of unproven mineral properties, and to maintain a flexible capital structure. The Company considers items included in shareholders' equity as capital, which consists of shares issued to its parent company and deficit. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or return capital to its shareholder.

The Company currently does not earn any revenue and has relied on existing cash balances, related party loans and equity financing to fund its operations. The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management in the year ended December 31, 2018.

11. COMMITMENTS

As at December 31, 2018, the Company had the following undiscounted contractual operating lease obligations:

Years ending December 31		**(in '000)**
2019	£	34
2020		12
2021		11
2022		11
2023 and beyond		18
	£	**86**