



NEWPORT

EXPLORATION LTD.

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

JULY 31, 2017



KPMG LLP
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Newport Exploration Ltd.

We have audited the accompanying financial statements of Newport Exploration Ltd., which comprise the statement of financial position as at July 31, 2017, the statements of net income and other comprehensive net income, cash flows and changes in shareholders' equity for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Newport Exploration Ltd. as at July 31, 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Comparative information

The financial statements of Newport Exploration Ltd. as at and for the year ended July 31, 2016 were audited by another auditor who expressed an unmodified audit opinion on those financial statements on November 10, 2016.

KPMG LLP (signed)

Chartered Professional Accountants

October 17, 2017
Vancouver, Canada

NEWPORT EXPLORATION LTD.
STATEMENTS OF FINANCIAL POSITION
AS AT JULY 31,
(Expressed in Canadian Dollars)

	2017	2016
ASSETS		
Current		
Cash	\$ 258,196	\$ 243,698
Receivables (Note 4)	1,123,048	1,015,005
Income tax receivable (Note 13)	-	2,290,862
Prepaid expenses	6,869	6,869
Short-term investments	<u>2,770,723</u>	<u>2,770,549</u>
	4,158,836	6,326,983
Equipment (Note 5)	959	3,107
Exploration and evaluation asset (Note 6)	<u>2,080,370</u>	<u>2,079,870</u>
	<u>\$ 6,240,165</u>	<u>\$ 8,409,960</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	\$ 46,827	\$ 87,641
Income tax payable (Note 13)	<u>71,622</u>	<u>-</u>
	<u>118,449</u>	<u>87,641</u>
Shareholders' equity		
Capital stock (Note 9(a))	45,939,732	45,939,732
Reserves (Note 9(c))	2,037,237	2,028,553
Deficit	<u>(41,855,253)</u>	<u>(39,645,966)</u>
	<u>6,121,716</u>	<u>8,322,319</u>
	<u>\$ 6,240,165</u>	<u>\$ 8,409,960</u>

Nature of operations (Note 1)
Commitments (Note 11)
Dividends (Note 15)

"Ian Rozier"	Director	"Barbara Dunfield"	Director
_____ Ian Rozier		_____ Barbara Dunfield	

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF NET INCOME AND COMPREHENSIVE NET INCOME
YEARS ENDED JULY 31,
(Expressed in Canadian Dollars)

	2017	2016
EXPENSES		
Administration fees	\$ 42,867	\$ 43,423
Amortization	2,148	3,052
Bonuses	125,000	225,000
Consulting fees	223,750	208,222
Directors' fees	51,668	40,000
Foreign exchange loss	30,049	169,217
Management fees	204,500	167,500
Office and miscellaneous	112,800	85,596
Professional fees	140,500	581,015
Rent	70,500	70,166
Shareholder communications	5,947	13,478
Share-based payments (Note 9)	8,684	217,994
Transfer agent and filing fees	21,394	24,098
Travel and related costs	<u>134,112</u>	<u>107,863</u>
Loss from operations	<u>(1,173,919)</u>	<u>(1,956,624)</u>
OTHER INCOME		
Interest income	134,128	132,392
Petroleum royalty (Note 7)	<u>4,549,529</u>	<u>4,398,918</u>
	<u>4,683,657</u>	<u>4,531,310</u>
Net income before income taxes	3,509,738	2,574,686
Income tax expense (Note 13)	<u>(1,102,531)</u>	<u>(941,427)</u>
Net income and comprehensive net income for the year	<u>\$ 2,407,207</u>	<u>\$ 1,633,259</u>
Earnings per common share:		
Basic	\$ 0.03	\$ 0.02
Diluted	\$ 0.02	\$ 0.02
Weighted average number of common shares outstanding:		
Basic (Note 9 (a))	92,329,874	90,997,907
Diluted (Note 9 (a))	<u>98,933,678</u>	<u>96,837,921</u>

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31,
(Expressed in Canadian Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	\$ 2,407,207	\$ 1,633,259
Items not affecting cash:		
Amortization	2,148	3,052
Share-based payments	8,684	217,994
Interest income	(134,128)	(132,392)
Income tax expense	1,102,531	941,427
Foreign exchange	11,354	177,112
Change in non-cash working capital items:		
Decrease (increase) in receivables	(129,238)	1,928,384
Increase in prepaid expenses	-	(1,600)
Decrease in accounts payable and accrued liabilities	(40,814)	(25,783)
Interest received	133,611	97,354
Income taxes received (paid)	<u>1,270,138</u>	<u>(6,039,166)</u>
Net cash provided by (used in) operating activities	<u>4,631,492</u>	<u>(1,200,359)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Expenditures on exploration and evaluation asset	(500)	(500)
Cash provided by short-term investments	<u>-</u>	<u>9,222,172</u>
Cash provided by (used in) financing activities	<u>(500)</u>	<u>9,221,672</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	-	546,000
Dividend paid	<u>(4,616,494)</u>	<u>(9,232,987)</u>
Cash used in financing activities	<u>(4,616,494)</u>	<u>(8,686,987)</u>
Change in cash during the year	14,498	(665,674)
Cash, beginning of year	<u>243,698</u>	<u>909,372</u>
Cash, end of year	<u>\$ 258,196</u>	<u>\$ 243,698</u>

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	<u>Capital Stock</u>				
	<u>Number</u>	<u>Amount</u>	<u>Reserves</u>	<u>Deficit</u>	<u>Total</u>
Balance at July 31, 2015	88,429,874	\$ 45,393,732	\$ 1,810,559	\$ (32,046,238)	\$ 15,158,053
Exercise of warrants	3,900,000	546,000	-	-	546,000
Dividend distribution	-	-	-	(9,232,987)	(9,232,987)
Net income for the year	-	-	-	1,633,259	1,633,259
Share-based payments	-	-	217,994	-	217,994
Balance at July 31, 2016	92,329,874	45,939,732	2,028,553	(39,645,966)	8,322,319
Dividend distribution	-	-	-	(4,616,494)	(4,616,494)
Net income for the year	-	-	-	2,407,207	2,407,207
Share-based payments	-	-	8,684	-	8,684
Balance at July 31, 2017	92,329,874	\$ 45,939,732	\$ 2,037,237	\$ (41,855,253)	\$ 6,121,716

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

1. NATURE OF OPERATIONS

Newport Exploration Ltd. (the “Company”) was incorporated on September 19, 1979 under the Business Corporations Act, British Columbia and is considered to be in the exploration stage with respect to its exploration and evaluation asset. Based on the information available to date, the Company has not yet determined whether its exploration and evaluation asset contains ore reserves. Recoverability of the carrying amount of the exploration and evaluation asset is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. The Company also receives royalty payments related to a retained interest in certain petroleum licenses in Australia (note 7). The Company has no ability to determine the quantum or sustainability of future royalty payments, and as a result, there is no assurance the Company will continue to receive payments from its 2.5% gross overriding petroleum royalty. The receipts of royalty payments are not indicative of additional near-term income or any future income as the Company has no information to support or validate the expectation of future receipt. Any future royalty receipts are treated as fortuitous.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. To date, the Company has financed its operations primarily through issuance of common shares and from the receipt of royalty payments. The Company currently has cash and short term investments totalling \$3,028,919 and net working capital of \$4,040,387 which the Company believes is sufficient to fund its current business plans in the foreseeable future. In the longer term, additional equity or debt financing may be necessary to fund exploration and general and administrative activities or mine development or if royalty payments are not sufficient to fund such activities.

The Company’s head office and principal address is 501 – 837 West Hastings Street, Vancouver, British Columbia, Canada, V6C 3N6. The Company’s registered and records office is 1500 – 1055 West Georgia Street, Vancouver, British Columbia, Canada, V6E 4N7.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

These financial statements were authorized for issue on October 17, 2017 by the directors of the Company.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). They have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit and loss, which are stated at their fair value. These financial statements are presented in Canadian dollars unless otherwise noted.

Functional and presentation currency

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar for the Company. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in the statement of net income and comprehensive net income in the year in which they arise.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Critical accounting estimates, judgments and assumption

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the year. Actual results could differ from these estimates.

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, relate to the following:

- i) The carrying value and the recoverability of its exploration and evaluation asset, which is included in the statements of financial position. The Company capitalizes exploration and evaluation expenditures. At every reporting period, management assesses the potential impairment of the exploration and evaluation asset which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount. Such assessment requires judgement and estimates with respect to mineral resources, metal prices, capital and operating costs and considers management's plans with respect to an area of interest. Changes in these assumptions and judgements could result in an impairment of the carrying value of the exploration and evaluation asset
- ii) The inputs used in calculating the fair value for share-based payments expense included in net income and stock-based share issuance costs included in shareholders' equity. The share-based payments expense is estimated using the Black-Scholes pricing model as measured on the grant date to estimate the fair value of stock options. This model involves the input of subjective assumptions, including the expected price volatility of the Company's common shares, the expected life of the options, and the estimated forfeiture rate. Changes in these assumptions affect the fair value of share-based compensation and the amount recognized as an expense in net income or as stock-based share issuance costs included in shareholders' equity

Cash and equivalents

Cash and equivalents consist of cash and short-term investments with original maturity dates of less than ninety days or that are fully redeemable without penalty or loss of interest.

Short-term investments

Short-term investments include Canadian guaranteed investment certificates with a major Canadian Banking Institution with original maturity dates greater than ninety days. These investments are recognized at fair value on each balance sheet date.

Royalty income

Royalty income is recognized upon sale by the licensee of royalty-bearing petroleum, when realization is considered probable, and collection is reasonably assured.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination or asset acquisition. Expenditures incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of net income and comprehensive net income.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Exploration and evaluation expenditures (cont'd)

Subsequent to the acquisition of the legal rights to explore, exploration and evaluation expenditures are capitalized. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, or (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Equipment

Equipment is carried at cost less accumulated amortization. Amortization is recorded at the following annual rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance

Share-based payments

The Company has a stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods based on the number of options that are expected to vest. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding credit amount is recorded as a reserve in shareholders' equity. The fair value of options is determined using a Black-Scholes pricing model. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest. When the options are exercised, the applicable amounts included in reserves are transferred to capital stock.

Income per share

Basic income per share is calculated by dividing the income attributable to common shareholders by the weighted average number of common shares outstanding in the year. For all periods presented, the income attributable to common shareholders equals the reported income attributable to owners of the Company. In calculating the diluted income per share, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the year.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Financial instruments

Financial assets

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

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

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

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of net income and comprehensive net income. The Company does not currently have instruments classified as held to maturity.

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

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

Financial liabilities

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

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of net income and comprehensive net income. The Company does not currently have liabilities classified as fair value through profit or loss.

Other financial liabilities: This category includes accounts payables and accrued liabilities, all of which are recognized at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Financial instruments (cont'd)

Financial liabilities (cont'd)

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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.

See Note 14 for relevant disclosures.

Impairment of non-financial assets

The carrying amount of the Company's assets (which include exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of net income and comprehensive net income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. A reversal of an impairment loss is recognized immediately in net income.

Income taxes

Current income tax:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Income taxes (cont'd)

Current income tax (cont'd):

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax:

Deferred tax is provided for temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the income taxes relate to the same taxable entity and the same taxation authority.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets, when those obligations result from the acquisition, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. A pre-tax rate discount rate that reflect the time value of money is used to calculate the net present value.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are recorded in net income.

3. NEW AND FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has not adopted any material new or revised standards during the year ended July 31, 2017.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended July 31, 2017, and have not been applied in preparing these financial statements.

IFRS 15 – Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers, which will supersede IAS 18 – Revenue and related interpretations. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Corporation intends to adopt IFRS 15 in its financial statements for the annual period beginning on August 1, 2018.

IFRS 9 – Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The Corporation intends to adopt IFRS 9 in its financial statements for the annual period beginning on August 1, 2018.

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases, which will supersede IAS 17 – Leases. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Corporation intends to adopt IFRS 16 in its financial statements for the annual period beginning on August 1, 2019.

The extent of the impact of adoption of these standards has not yet been determined.

4. RECEIVABLES

Trade and other receivables are comprised of the following:

	July 31, 2017	July 31, 2016
GST receivable	\$ 9,450	\$ 17,586
Petroleum royalty (Note 7)	1,112,533	990,042
Other	1,065	7,377
Total	\$ 1,123,048	\$ 1,015,005

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
JULY 31, 2017

5. EQUIPMENT

	Furniture and fixtures	Computer equipment	Total
Cost			
Balance, July 31, 2015	\$ 21,758	\$ 46,291	\$ 68,049
Additions	<u>-</u>	<u>1,263</u>	<u>1,263</u>
Balance, July 31, 2016 and 2017	\$ 21,758	\$ 47,554	\$ 69,312
Accumulated amortization			
Balance, July 31, 2015	\$ 21,437	\$ 41,716	\$ 63,153
Amortization	<u>65</u>	<u>2,987</u>	<u>3,052</u>
Balance, July 31, 2016	21,502	44,703	66,205
Amortization	<u>51</u>	<u>2,097</u>	<u>2,148</u>
Balance, July 31, 2017	\$ 21,553	\$ 46,800	\$ 68,353
Carrying amounts			
As at July 31, 2016	\$ 256	\$ 2,851	\$ 3,107
As at July 31, 2017	\$ 205	\$ 754	\$ 959

6. EXPLORATION AND EVALUATION ASSET

During the year ended July 31, 2014, the Company acquired a 100% interest in Chu Chua, a sulphide deposit located north of Kamloops, British Columbia. In consideration, the Company paid Grosvenor Resource Corporation ("Grosvenor") \$1,500,000 and issued 5,436,000 common shares of the Company having a fair value of \$217,440. The acquisition agreement supercedes and replaces an earlier 50% earn-in agreement wherein the Company incurred a total of \$335,012 in expenditures. The Company incurred \$24,986 of geological consulting expenditures on Chu Chua during the year ended July 31, 2014, and \$1,932 for assaying costs during the year ended July 31, 2015. During the years ended July 31, 2016 and 2017, the Company incurred \$500 for permitting. The claims are in good standing as at July 31, 2017. There are two separate 1% net smelter returns on Chu Chua to underlying parties. Two significant shareholders of Grosvenor are directors of the Company.

7. PETROLEUM ROYALTY

Under the terms of an agreement for the sale of CVL Resources (Barbados) Ltd. (formerly a wholly-owned subsidiary of the Company) in 2002, the Company retained a 2.5% gross overriding royalty interest on any hydrocarbons discovered on certain petroleum exploration licences in Australia. During the year ended July 31, 2017, the Company earned \$4,549,529 (2016 - \$4,398,918) of petroleum royalty income, of which \$1,112,533 (2016 - \$990,042) is included in receivables as at July 31, 2017. Subsequent to July 31, 2017, the Company received AUD\$782,062 which represents the royalty receivable net of a 30% withholding tax of AUD\$335,169. The receipt of royalty payments is considered to be highly variable, and as such these payments are not indicative of additional near-term income or any future income.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)
JULY 31, 2017

7. PETROLEUM ROYALTY (cont'd)

During the year ended July 31, 2016, the Australian Tax Office (“ATO”) ruled that the Company’s petroleum royalty income is taxable in Australia and, as such, the Company has 30% of its royalty payment withheld at source by Beach Energy Ltd (“Beach”) and Santos Ltd (“Santos”), for which Beach and Santos are required to remit to the ATO. The Company files annual tax returns in Australia.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31, 2017	July 31, 2016
Trade payables	\$ 6,477	\$ 60,897
Due to related parties (Note 10)	10,000	6,666
Accrued liabilities	30,350	20,078
Total	\$ 46,827	\$ 87,641

9. CAPITAL STOCK AND RESERVES

a) Authorized share capital

As at July 31, 2017, the authorized share capital of the Company is an unlimited number of common shares without par value.

Basic and diluted per share amounts have been calculated based on the following:

	July 31, 2017	July 31, 2016
Weighted average number of common shares - basic	92,329,874	90,997,907
Effect of outstanding stock options	4,466,463	4,270,446
Effect of outstanding warrants	2,137,341	1,569,568
Weighted average number of common shares - diluted	98,933,678	96,837,921

Only the “in-the-money” dilutive instruments impact the calculation of dilutive income per common share.

During the year ended July 31, 2016, the Company received \$546,000 pursuant to the exercise of 3,900,000 warrants.

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9. CAPITAL STOCK AND RESERVES (cont'd)

b) Stock options

The Company has an incentive stock option plan (the "Plan") in place under which it is authorized to grant options to directors and employees to acquire up to 10% (9,232,987) of the issued and outstanding common shares of the Company to be issued from the treasury upon exercise of the stock options. Under the Plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of Grant less any applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

Details of options outstanding as at July 31, 2017 are as follows:

Number of Options	Exercise Price	Expiry Date
5,800,000	\$0.05	December 19, 2018
1,650,000	\$0.34	December 13, 2019
1,300,000	\$0.26	October 8, 2020
<u>50,000</u>	\$0.27	March 1, 2022
8,800,000		

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2015	7,500,000	\$ 0.12
Granted	1,300,000	0.26
Expired	<u>(50,000)</u>	0.34
Balance, July 31, 2016	8,750,000	0.13
Granted	<u>50,000</u>	0.27
Balance, July 31, 2017	8,800,000	\$ 0.14
Number of options exercisable	8,800,000	\$ 0.14

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9. CAPITAL STOCK AND RESERVES (cont'd)

c) Share-based payments

During the year ended July 31, 2017, the Company granted 50,000 stock options to an employee of the company, with a grant date fair value of \$0.17 per option resulting in share-based payments expense of \$8,684, using the Black-Scholes option pricing model. During the year ended July 31, 2016, the Company granted stock options to directors, officers and a consultant to acquire up to 1,300,000 common shares with a grant date fair value of \$0.17 per option resulting in share-based payments expense of \$217,994, using the Black-Scholes option pricing model.

The Company applies the fair value method using the Black-Scholes option pricing model to account for stock options granted to directors, officers and consultants. The following assumptions were used to calculate the fair value of the stock options granted during the year:

	2017	2016
Risk-free interest rate	1.17%	0.86%
Expected life of options	5 years	5 years
Annualized volatility	80.62%	83.61%
Dividend rate	0%	0%
Forfeiture rate	0%	0%

d) Warrants

Details of warrants outstanding as at July 31, 2017 are as follows:

Number of Warrants	Exercise Price	Expiry Date
6,000,000	\$0.14	March 7, 2019

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance, July 31, 2015	9,900,000	\$ 0.14
Exercised	<u>(3,900,000)</u>	0.14
Balance, July 31, 2016 and 2017	6,000,000	\$ 0.14

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10. RELATED PARTY TRANSACTIONS

Payments to key management personnel, consisting of the Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”) and members of the board of directors, for compensation are as follows:

	July 31, 2017	July 31, 2016
Management fees	\$ 204,500	\$ 167,500
Consulting fees	223,750	192,250
Bonuses	125,000	225,000
Share-based payments	-	176,072
Directors fees	51,668	40,000

In addition, during the year ended July 31, 2017, the Company entered into the following transactions with related parties:

- a) Paid rent of \$70,500 (2016 - \$70,166) to a company controlled by a director of the Company.
- b) Paid or accrued professional fees of \$2,496 (2016 - \$6,363) to a legal firm of which an officer of the Company is a partner.

As at July 31, 2017, accounts payable and accrued liabilities included \$10,000 (2016 - \$6,666) owing to directors of the Company.

11. COMMITMENTS

The Company has management and consulting contracts with a company controlled by Barbara Dunfield, a director and CFO of the Company, and a company controlled by Ian Rozier, a director and CEO of the Company. The Company pays the companies a combined total of \$38,500 per month. These contracts remain in force on a continuous basis and can be terminated by the Company with 90 days written notice. If termination of services of either or both companies is without cause, the Company will be obligated to pay 36 months of service fees to either or both companies.

Additionally, the Company, through a professional and administrative consulting contract, pays a consultant \$6,500 per month. The contract remains in force on a continuous basis and can be terminated by the Company by providing 90 days written notice. If termination of services is without cause, the Company will be obligated to pay 12 months of service fees to the consultant.

12. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of resource properties. The Company’s mineral property is in Canada and the Company’s royalty income is derived from Australia.

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13. INCOME TAXES

A reconciliation of income tax expense calculated at statutory rates of 26% (2016 - 26%) with the reported income tax expense is as follows:

	2017	2016
Net income before income taxes	\$ 3,509,738	\$ 2,574,686
Expected tax expense	\$ 912,532	\$ 640,427
Change in statutory rate and other	189,968	(36,000)
Non-deductible expenditures and non-taxable revenues	2,147	55,000
Change in unrecognized deductible temporary differences	<u>(2,115)</u>	<u>282,000</u>
Total income taxes	<u>\$ 1,102,531</u>	<u>\$ 941,427</u>

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

	2017	2016	Expiry date range
Temporary differences:			
Investment tax credits	\$ 9,000	\$ -	2038
Exploration and evaluation asset	\$ 697,000	\$ 697,000	No expiry
Equipment	\$ 261,000	\$ 259,000	No expiry
Allowable capital losses	\$ 12,286,000	\$ 12,286,000	No expiry
Share issuance costs	\$ 3,000	\$ 5,000	2018
Non-capital losses	\$ 2,834,000	\$ 2,834,000	2026-2032

During the year ended July 31, 2016, the Company received a private tax ruling from the Australian Tax Office (the "ATO") indicating that the Company's annual 2.5% gross overriding petroleum royalties received from Beach, current and past, (net of applicable expenses) is subject to withholding tax in Australia. The Company has accepted the tax ruling from the ATO and, has since lodged its Australian tax returns for current and past taxes. At July 31, 2015, the Company recognized Australian income taxes payable of \$5,655,463 related to the ATO tax ruling, these taxes were paid during the year ended July 31, 2016. The Company had an Australian income tax liability at July 31, 2017 of \$333,760 and, Australian income taxes receivable of \$262,138 (2016 - \$387,948 (received)) relating to its 2017 Australian income tax return.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash, receivables and accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. The fair value of short term investments was \$2,770,723 at July 31, 2017 (2016 -\$2,770,549), a level 1 fair value measurement.

Financial risk factors

The Company is exposed in varying degrees to a variety of financial instrument related risks and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and equivalents, short-term investments and receivables, the carrying value totalling \$4,151,967, represents the Company's maximum exposure to credit risk. Management believes that the credit risk concentration with respect to financial instruments is remote because cash and equivalents and short-term investments are held with reputable Canadian financial institutions. Receivables consist mainly of the Company's royalty income. The royalty income comes from one company, and is typically received within 30 days after the quarter of production. The Company does not consider any of its current receivables past due. The Company believes any credit risk associated with its receivables is remote due to the historical success of collecting receivables.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. As at July 31, 2017, the Company had a cash balance of \$258,196 (2016 - \$243,698), receivables of \$1,123,048 (2016 - \$1,015,005) and short-term investments of \$2,770,723 (2016 - \$2,770,549) to settle current liabilities of \$118,449 (2016 - \$87,641). All of the Company's financial liabilities are subject to normal trade terms.

Market risk

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

a) Interest rate risk

The Company has cash and equivalents balances and short-term investments. The Company's current policy is to invest excess cash in investment-grade short-term deposits certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The effect on net income and comprehensive net income of a 1% change in interest rates is approximately \$30,000.

14. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd)

Financial risk factors (cont'd)

b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment, its income tax receivable and its income tax payable which are denominated in Australian dollars. The net effect on net income and comprehensive net income of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$10,000. The Company does not currently hedge exchange risk.

c) Price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the amount of petroleum royalty payment received and the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

Capital management

Newport's objectives when managing capital is to pursue the exploration and evaluation of its mineral property, possibly acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

Newport manages the capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company monitors its expenditures against its available capital.

The Company is currently not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

15. DIVIDENDS

On June 6, 2016, the Company announced the payment of a one-time special dividend of \$0.10 per common share. The Special Dividend was paid to shareholders of record at the close of business on June 23, 2016, resulting in a distribution of \$9,232,987 on July 7, 2016. The dividend was distributed pursuant to the TSX Venture Exchange's due bill trading policy. The due bill redemption date was July 12, 2016.

On June 19, 2017, the Company announced the payment of a one-time special dividend of \$0.05 per common share. The Special Dividend was paid to shareholders of record at the close of business on June 30, 2017, resulting in a distribution of \$4,616,494 on July 7, 2017.