



# **NEWPORT**

## **EXPLORATION LTD.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited)**  
**(Expressed in Canadian Dollars)**

**OCTOBER 31, 2018**

These unaudited condensed interim financial statements of Newport Exploration Ltd. for the three months ended October 31, 2018 have been prepared by management and approved by the Board of Directors. These unaudited condensed interim financial statements have not been reviewed by the Company's external auditors.

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
AS AT,  
(Unaudited)  
(Expressed in Canadian Dollars)

	October 31, 2018	July 31, 2018
<b>ASSETS</b>		
<b>Current</b>		
Cash and equivalents	\$ 918,437	\$ 2,407,300
Receivables (Note 3)	2,600,463	2,929,934
Prepaid expenses	-	6,869
Short-term investments	<u>2,851,833</u>	<u>3,871,997</u>
	6,370,733	9,216,100
<b>Exploration and evaluation asset</b> (Note 4)	<u>1</u>	<u>1</u>
	<u>\$ 6,370,734</u>	<u>\$ 9,216,101</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 6)	\$ 62,277	\$ 54,016
Income tax payable (Note 11)	<u>396,210</u>	<u>565,997</u>
	<u>458,487</u>	<u>620,013</u>
<b>Shareholders' equity</b>		
Capital stock (Note 7(a))	47,229,658	45,939,732
Reserves (Note 7(c))	1,792,287	2,078,953
Deficit	<u>(43,109,698)</u>	<u>(39,422,597)</u>
	<u>5,912,247</u>	<u>8,596,088</u>
	<u>\$ 6,370,734</u>	<u>\$ 9,216,101</u>

**Nature of operations** (Note 1)

**Commitments** (Note 9)

**Dividends** (Note 13)

<u>“Ian Rozier”</u> Ian Rozier	Director	<u>“Barbara Dunfield”</u> Barbara Dunfield	Director
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The accompanying notes are an integral part of these condensed interim financial statements.

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME**  
**THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited)  
(Expressed in Canadian Dollars)

	2018	2017
<b>EXPENSES</b>		
Administration fees	\$ 3,600	\$ 7,800
Amortization	-	245
Consulting fees	135,000	60,000
Directors' fees	20,000	15,000
Foreign exchange loss	82,181	31,625
Management fees	87,000	55,500
Office and miscellaneous	22,266	25,688
Professional fees	19,131	27,059
Rent	22,500	19,500
Shareholder communications	1,336	1,399
Transfer agent and filing fees	4,195	4,653
Travel and related costs	49,530	21,016
<b>Loss from operations</b>	<u>(446,739)</u>	<u>(269,485)</u>
<b>OTHER ITEMS</b>		
Interest income	14,554	16,446
Petroleum royalty (Note 5)	2,606,538	1,348,566
	<u>2,621,092</u>	<u>1,365,012</u>
<b>Net income before income taxes</b>	<u>2,174,353</u>	<u>1,095,527</u>
Income tax expense (Note 11)	<u>(708,260)</u>	<u>(345,379)</u>
<b>Net income and comprehensive income for the period</b>	<u>\$ 1,466,093</u>	<u>\$ 750,148</u>
<b>Earnings per common share:</b>		
Basic	\$ 0.02	\$ 0.01
Diluted	\$ 0.02	\$ 0.01
<b>Weighted average number of common shares outstanding:</b>		
Basic (Note 7 (a))	95,674,265	92,329,874
Diluted (Note 7 (a))	96,427,072	99,421,541

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

**NEWPORT EXPLORATION LTD.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited)  
(Expressed in Canadian Dollars)

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income for the period	\$ 1,466,093	\$ 750,148
Items not affecting cash:		
Amortization	-	245
Interest income	(14,554)	(16,446)
Income tax expense	708,260	345,379
Foreign exchange	58,304	12,507
Change in non-cash working capital items:		
Decrease (increase) in receivables	230,321	(223,008)
Decrease in prepaid expenses	6,869	6,869
Increase (decrease) in accounts payable and accrued liabilities	8,261	(20,869)
Interest received	43,689	23,258
Income taxes paid	<u>(842,827)</u>	<u>(332,153)</u>
Net cash provided by operating activities	<u>1,664,416</u>	<u>545,930</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Expenditures on exploration and evaluation asset	-	(1,711)
Short-term investment redemptions (purchases), net	<u>996,655</u>	<u>(579,753)</u>
Cash provided by (used in) investing activities	<u>996,655</u>	<u>(581,464)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividend paid	(5,153,194)	-
Issuance of common shares	<u>1,003,260</u>	<u>-</u>
Net cash used in financing activities	<u>(4,149,934)</u>	<u>-</u>
<b>Decrease in cash during the period</b>	<b>(1,488,863)</b>	<b>(35,534)</b>
<b>Cash, beginning of period</b>	<b><u>2,407,300</u></b>	<b><u>258,196</u></b>
<b>Cash, end of period</b>	<b>\$ 918,437</b>	<b>\$ 222,662</b>

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

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

	<u>Capital Stock</u>		Reserves	Deficit	Total
	Number	Amount			
<b>Balance at July 31, 2017</b>	92,329,874	\$ 45,939,732	\$ 2,037,237	\$ (41,855,253)	\$ 6,121,716
Net income for the period	-	-	-	750,148	750,148
<b>Balance at October 31, 2017</b>	92,329,874	\$ 45,939,732	\$ 2,078,953	\$ (41,105,105)	\$ 6,871,864
<b>Balance at July 31, 2018</b>	92,329,874	\$ 45,939,732	\$ 2,078,953	\$ (39,422,597)	\$ 8,596,088
Dividend distribution	-	-	-	(5,153,194)	(5,153,194)
Net income for the period	-	-	-	1,466,093	1,466,093
Shares issued pursuant to option exercise	6,100,000	641,166	(286,666)	-	354,500
Shares issued pursuant to warrant exercise	<u>4,634,000</u>	<u>648,760</u>	-	-	<u>648,760</u>
<b>Balance at October 31, 2018</b>	103,063,874	\$ 47,229,658	\$ 1,792,287	\$ (43,109,698)	\$ 5,912,247

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

**NEWPORT EXPLORATION LTD.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
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**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 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, 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 receipt 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 receipt is treated as fortuitous.

These unaudited condensed interim 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 \$3,770,270 and net working capital of \$5,912,246 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 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. STATEMENT OF COMPLIANCE AND NEW ACCOUNTING STANDARDS**

These unaudited condensed interim financial statements were authorized for issue on December 18, 2018 by the directors of the Company.

*Statement of compliance*

These unaudited condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee.

These unaudited condensed interim financial statements do not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the audited annual financial statements of the Company for the year ended July 31, 2018.

## **2. STATEMENT OF COMPLIANCE AND NEW ACCOUNTING STANDARDS (cont'd)**

### *New Accounting Standards Adopted during the period*

IFRS 15, Revenue from Contracts with Customers was adopted on August 1, 2018. The standard introduces a single, principles-based, five-step model for the recognition of revenue when control of goods is transferred to the customer. The five steps are: identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. IFRS 15 also requires enhanced disclosures about revenue to help users better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The amended standard did not have an impact on the financial statements.

IFRS 9, Financial Instruments (“IFRS 9”) replaces IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) and introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. The amendment also introduces a third measurement category for financial assets: fair value through other comprehensive income, and includes a single, forward-looking ‘expected loss’ impairment model.

The following is the new accounting policy for financial instruments under IFRS 9:

Financial assets and liabilities are initially recognized at fair value on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Subsequently, financial assets and liabilities are recognized based on the classification of these financial assets. The Company has classified financial assets into one of the following categories: (1) financial assets at fair value through profit or loss (“FVTPL”), (2) financial assets at fair value through other comprehensive income (“FVTOCI”), (3) financial assets at amortized cost. Financial liabilities are classified as either (1) financial liabilities at FVTPL or (2) financial liabilities at amortized cost.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in profit or loss. Financial assets at FVTOCI are subsequently measured at fair value with changes in those fair values recognized in other comprehensive income (loss), net of tax. Financial assets and liabilities at amortized cost are measured at amortized cost using the effective interest rate method.

Cash and cash equivalents and accounts receivable are classified as financial assets at amortized cost and accounts payable and accrued liabilities are classified as liabilities at amortized cost. Accounts receivable, where applicable are net of a provision for expected credit losses.

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. The Company is required to recognize expected credit losses when financial instruments 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 instruments. In addition, IFRS 9 requires additional disclosure requirements about expected credit losses and credit risk.



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**2. STATEMENT OF COMPLIANCE AND NEW ACCOUNTING STANDARDS (cont'd)**

*New Accounting Standards Adopted during the period (cont'd)*

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 asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the loss allowance is measured for the financial asset at an amount equal to 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 a lifetime expected loss provision. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized. Due to the nature of its receivables and that expected credit loss is nominal, no provision for credit loss was recognized by the Company.

As the accounting reflected by the adoption of IFRS 9 under the above classifications is similar to that of IAS 39, there was no measurement impact on the Company's financial statements.

*Future Accounting Pronouncements*

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

The Company has not early adopted these standards and is currently assessing the impact these standards will have on its financial statements:

*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.

**3. RECEIVABLES**

Trade and other receivables are comprised of the following:

	October 31, 2018	July 31, 2018
GST receivable	\$ 13,879	\$ 13,791
Petroleum royalty (Note 7)	2,582,661	2,902,947
Other	3,923	13,196
<b>Total</b>	<b>\$ 2,600,463</b>	<b>\$ 2,929,934</b>

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**4. 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 claims are in good standing as at October 31, 2018. There are two separate 1% net smelter returns on Chu Chua to underlying parties. A significant shareholder of Grosvenor is a director of Newport. 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. During the year ended July 31, 2018, the Company incurred \$1,711 for permitting. As there were minimal expenditures incurred on the property over the last three years and the Company has no current plans for additional expenditures on the property, the Company tested Chu Chua for impairment and determined based on various factors, that Chu Chua should be impaired to its recoverable amount of \$1. Accordingly, the Company recorded an impairment charge of \$2,082,080 to operations during the year ended July 31, 2018.

**5. 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 three months ended October 31, 2018, the Company earned \$2,606,538 (2017 - \$1,348,566) of petroleum royalty income, of which \$2,582,661 (July 31, 2018 - \$2,902,947) is included in receivables as at October 31, 2018. Subsequent to October 31, 2018, the Company received AUD\$1,942,833 which represents the royalty receivable net of a 30% withholding tax of AUD\$832,643. 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.

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”), which Beach and Santos are required to remit to the ATO. The Company files annual tax returns in Australia.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	October 31, 2018	July 31, 2018
Trade payables	\$ 24,595	\$ 14,334
Due to related parties (Note 10)	13,332	13,332
Accrued liabilities	24,350	26,350
<b>Total</b>	<b>\$ 62,277</b>	<b>\$ 54,016</b>

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**7. CAPITAL STOCK AND RESERVES**

a) Authorized share capital

As at October 31, 2018, 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:

	October 31, 2018	October 31, 2017
Weighted average number of common shares - basic	95,674,265	92,329,874
Effect of outstanding stock options	86,733	4,591,667
Effect of outstanding warrants	666,074	2,500,000
Weighted average number of common shares - diluted	96,427,072	99,421,541

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

During the three months ended October 31, 2018, the Company received proceeds of \$1,003,260 from the exercise of 4,634,000 warrants and 6,100,000 stock options. In conjunction with the exercise of stock options, the Company reclassified \$286,666 to capital stock from contributed surplus.

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% (10,306,387) 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 permitted by the securities regulatory authorities. 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 October 31, 2018 are as follows:

Number of Options	Exercise Price	Expiry Date
1,650,000	\$0.34	December 13, 2019
<u>1,300,000</u>	\$0.26	October 8, 2020
2,950,000		

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**7. CAPITAL STOCK AND RESERVES (cont'd)**

b) Stock options (cont'd)

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2017	8,800,000	\$ 0.14
Granted	300,000	0.22
Expired	<u>(50,000)</u>	0.27
Balance, July 31, 2018	9,050,000	0.14
Exercised	<u>(6,100,000)</u>	0.06
Balance, October 31, 2018	2,950,000	\$ 0.30
Number of options exercisable	2,950,000	\$ 0.30

c) Warrants

Details of warrants outstanding as at October 31, 2018 are as follows:

Number of Warrants	Exercise Price	Expiry Date
1,366,000	\$0.14	March 7, 2019

Warrant transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2017 and 2018	6,000,000	\$ 0.14
Exercised	<u>(4,634,000)</u>	0.14
Balance, October 31, 2018	1,366,000	\$ 0.14

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**8. 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:

	October 31, 2018	October 31, 2017
Management fees	\$ 87,000	\$ 55,500
Consulting fees	126,000	60,000
Directors fees	20,000	15,000

In addition, during the three months ended October 31, 2018, the Company entered into the following transactions with related parties:

- a) Paid rent of \$22,500 (2017 - \$19,500) to a company controlled by a director of the Company.
- b) Paid or accrued professional fees of \$1,131 (2017 - \$Nil) to a legal firm of which an officer of the Company is a partner.

As at October 31, 2018, accounts payable and accrued liabilities included \$13,332 (July 31, 2018 - \$13,332) owing to directors of the Company.

**9. COMMITMENTS**

The Company has management and consulting contracts with a company controlled by Ian Rozier, a director and CEO of the Company, and a company controlled by Barbara Dunfield, a director and CFO of the Company. The Company pays the companies a combined total of \$71,000 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, on January 3, 2018, the Company, entered into a consulting agreement with a company controlled by a former director of the Company, which pays \$3,000 per month through to December 31, 2018. If termination of services prior to December 31, 2018, the Company will be obligated to pay service fees to the consultant as though the agreement terminated on December 31, 2018.

**10. 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.

## **11. INCOME TAXES**

The Company received a private tax ruling from the Australian Tax Office (the "ATO") indicating that the Company's royalties received from Beach and Santos, current and past, (net of applicable expenses) are subject to withholding tax in Australia. The Company had a net Australian income tax liability at October 31, 2018 of \$396,210 (July 31, 2018 - \$565,997) which consists of accrued withholding taxes on its Royalty receivable at October 31, 2018 of \$774,798 (July 31, 2018 - \$870,884) and accrued Australian income tax receivable of \$378,588 (July 31, 2018 - \$304,887). Subsequent to October 31, 2018, the Company received its July 31, 2018 Australian income tax receivable.

## **12. 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 \$2,851,833 at October 31, 2018 (July 31, 2018 - \$3,871,997), 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 \$6,370,733, 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 October 31, 2018, the Company had a cash and equivalents balance of \$918,437 (July 31, 2018 - \$2,407,300), receivables of \$2,600,463 (July 31, 2018 - \$2,929,934) and short-term investments of \$2,851,833 (July 31, 2018 - \$3,871,997) to settle current liabilities of \$458,487 (July 31, 2018 - \$620,013). All of the Company's financial liabilities are subject to normal payment terms.

**12. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd)**

**Financial risk factors (cont'd)**

*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 income of a 1% change in interest rates is approximately \$28,500.

b) Foreign currency risk

The Company is exposed to foreign currency risk with respect to its petroleum royalty payment, and its net income tax payable which are denominated in Australian dollars. The net effect on net income and comprehensive income of a 1% change in exchange rates between the Australian dollar and Canadian dollar foreign exchange is approximately \$21,900. The Company does not currently hedge exchange risk.

**Capital management**

Newport's objective is 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.

**13. DIVIDENDS**

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.

On September 27, 2018, 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 October 12, 2018, resulting in a distribution of \$5,153,194 on October 19, 2018.