



# Annual Report 2018

**AEX Gold Inc.**

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# AEX Gold Inc.

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# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

The following management discussion and analysis (the “MD&A”) of the financial condition and results of the operations of AEX Gold Inc. (the “Corporation” or “AEX”) (previously known as Alopex Gold Inc.) constitutes management’s review of the factors that affected the Corporation’s financial and operating performance for the year ended December 31, 2018. This MD&A should be read in conjunction with the Corporation’s audited consolidated financial statements for the year ended December 31, 2018 (the “Financial Statements”), which are prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). All figures are in Canadian dollars unless otherwise noted. This MD&A is current as of April 17, 2019.

The MD&A contains forward-looking statements not based on historical facts. Forward-looking statements express, as of the date of this report, our estimates, forecasts, projections, expectations and opinions as to future events or results. Forward-looking statements herein expressed are reasonable, but involve a number of risks and uncertainties, and there can be no guarantee that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to; economic conjuncture, fluctuations in the market price of precious metals, mining industry risks, uncertainty as to the calculation of mineral reserves and requirements of additional financing and the capacity of the Corporation to obtain financing.

Further information regarding the Corporation and its operations are filed electronically on the System for Electronic Document Analysis and Retrieval (SEDAR) in Canada and can be found on [www.sedar.com](http://www.sedar.com). The following abbreviations are used to describe the periods under review throughout this MD&A:

Abbreviation	Period
2016	January 1, 2016 to December 31, 2016
Q1-17	January 1, 2017 to March 31, 2017
Q2-17	April 1, 2017 to June 30, 2017
Q3-17	July 1, 2017 to September 30, 2017
Q4-17	October 1, 2017 to December 31, 2017
2017	January 1, 2017 to December 31, 2017
Q1-18	January 1, 2018 to March 31, 2018
Q2-18	April 1, 2018 to June 30, 2018
Q3-18	July 1, 2018 to September 30, 2018
Q4-18	October 1, 2018 to December 31, 2018
2018	January 1, 2018 to December 31, 2018
2019	January 1, 2019 to December 31, 2019

### 1. NATURE OF ACTIVITIES

AEX was incorporated on February 22, 2017 under the *Canada Business Corporations Act*. The Corporation’s head office is situated at 123 Front Street West, suite 905, Toronto, Ontario, Canada. The Corporation operates in one industry segment, being the acquisition, exploration and evaluation of mineral properties. It owns interests in properties located in Greenland. Since July 2017, the Corporation’s shares are listed on the TSX Venture Exchange (the “Exchange”) under the AEX ticker. On May 24, 2018, the shareholders of the Corporation approved the name change of the Corporation to AEX Gold Inc.

The Corporation’s properties were acquired upon the reorganisation that was completed on June 26, 2017 whereby the Corporation acquired 100% of the shares of Nalunaq A/S, a corporation incorporated under the *Greenland Public Companies Act*, in anticipation of the initial public offering (“IPO”) of the Corporation on the Exchange completed on July 13, 2017. As the Corporation was founded by the same group of shareholders as Nalunaq A/S and in contemplation of the reorganisation, said reorganisation is accounted for as a reorganisation of the capital of Nalunaq A/S.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

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### **1. NATURE OF ACTIVITIES (CONT'D)**

The Financial Statements of the Corporation thus reflect the continuation of the activities of Nalunaq A/S for periods prior to the incorporation of the Corporation on February 22, 2017, the combined activities of the Corporation and Nalunaq A/S for the period from February 22, 2017 until the reorganization on June 26, 2017, and the consolidated activities of the Corporation since June 26, 2017.

### **2. CORPORATE UPDATE**

#### **2.1 Financing**

On May 14, 2018, the Corporation completed a non-brokered private placement by issuing 5,564,422 common shares at a price of \$0.45 per share, for gross proceeds to the Corporation of \$2,503,990.

In connection with the private placement, \$32,901 finders fees were paid and 184,227 non-transferable finders warrants were issued. The finder's warrants are exercisable at any time up to 24 months following the closing of the private placement at \$0.45 per share. Insiders of the Corporation purchased an aggregate of 986,111 common shares for \$443,750.

On October 9, 2018, the Corporation completed a non-brokered private placement by issuing 2,631,577 common shares at a price of \$0.38 per share, for gross proceeds to the Corporation of \$1,000,000. Insiders of the Corporation purchased an aggregate of 759,905 common shares for \$288,764.

The Corporation will continue to use the aggregate net proceeds from the last private placement to continue desktop work for the Nalunaq, Vagar and Tartoq properties and for general corporate purposes.

#### **2.2 Highlights of the 2018 work programme and results**

The summer work programme was designed to further test down-dip extensions of South Block and to infill historic drilling.

- All elements of the programme were successful, with 18 boreholes drilled at Nalunaq.
- Results improve confidence in the potential of an area down-dip of South Block
- Highlights include 0.55 m @ 46.0 g/t Au in AEX1804 and 0.43 m @ 2.11 g/t Au in AEX1805.
- Results help test the 80 koz gold to 1.2 Moz gold contained within 1 Mt to 2 Mt grading between 2.5 to 19.0 g/t gold Exploration Target and the 2019 work programme aims to build upon the existing Inferred Mineral Resource of 263 koz @ 18.7 g/t Au from 446,900 t (reference "An independent Technical report on the Nalunaq Gold Project, South Greenland", March 2017. The potential quantity and grade of this Exploration Target is conceptual in nature, there is insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource).
- Nalunaq A/S has submitted its statements of expenses for the Nalunaq Licence for the 2017 and 2018 years to the MLSA and is now awaiting confirmation from the MLSA regarding a rollover of unspent amount to the subsequent period.

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

### 2. CORPORATE UPDATE (CONT'D)

#### 2.3 Use of funds following the initial public offering

Following is a table summarizing the use of the IPO's \$6,796,250 gross proceeds:

	Assuming completion of the minimum concurrent financing	Assuming completion of the maximum concurrent financing	Up to June 30, 2018
	\$	\$	\$
Underground exploration program	-	4,395,000	-
Surface exploration program	1,807,000	1,433,000	2,927,698
Nalunaq Infrastructure (property and equipment)	396,000	796,000	192,129
General and administrative expenses for 18 months	1,339,000	1,339,000	1,669,991
Working capital deficiency	360,000	360,000	313,941
Costs to complete the IPO	530,000	530,000	928,428
Financing costs (commission)	325,000	650,000	441,756
Short form prospectus expenses	-	-	322,307
Unallocated, including contingencies	243,000	497,000	-
	<b>5,000,000</b>	<b>10,000,000</b>	<b>6,796,250</b>

As of June 30, 2018, the Corporation has used all the funds received during the 2017 IPO and is now using the funds received during the October 2018 private placement.

#### 2.4 Next 12 months and more outlook

2019 plan for a bulk sample and gravity testwork, with the start of underground exploration development of Nalunaq

- A four phase programme beginning in 2019 will upgrade existing infrastructure including the mine road, bridge and camp. Rehabilitation of the underground workings will also be carried out along with installation of mine services (ventilation, electricity and water).
- Initial plans for a 1000 t bulk sample for grade continuity and gravity test work (Phase 1). The bulk sample site, located between the 450-490 level, is within Area L of the Remnant Mining Study that defined a high grade portion of the Inferred Mineral Resource at 4,295t @ 53.8g/t Au for 7,430 oz Au, (reference "An independent Technical report on the Nalunaq Gold Project, South Greenland", March 2017). Re-surveying to check positions of old sampling, waste dumps and the original surface topography may be required. The "Remnant Mining Study" is only disclosed for purposes of exploration and does not constitute a preliminary economic assessment, pre-feasibility study or feasibility study. The economic viability and technical feasibility of the project has not been established by completion of these studies.
- 3,400 m of development in Mountain Block (Phases 2 & 3) including 1,200 m of development on reef. This development is predicted to produce a further 10,000 t bulk sample for exploration data and continued process test work. AEX caution that this material will be taken as an exploration sample and does not constitute a Mineral Resource. Up to 10,000 m of underground exploration drilling from footwall development.
- 1,740 m of development in South Block (Phase 4) including 1,640 m of development on reef. This development is predicted to produce a further 13,000 t bulk sample for exploration data and continued process test work. AEX caution that this material will be taken as an exploration sample and does not constitute a Mineral Resource.

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### **Management Discussion & Analysis**

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#### **2. CORPORATE UPDATE (CONT'D)**

- Targeting full-scale production in Q2/Q3 2021 if resources have been sufficiently increased. AEX Gold cautions that this production decision has been taken before the estimation of Mineral Reserves and is not based on a feasibility study of these Mineral Reserves demonstrating economic and technical viability resulting in a significantly higher risk of economic and technical failure.

#### **3. PROPERTY ACQUISITION**

Property acquisitions are capitalized in the consolidated statement of financial position.

##### **Vagar Licence**

Nalunaq A/S entered into a sale and purchase agreement with NunaMinerals A/S, acting through its bankruptcy receiver, on February 6, 2017 to acquire the Vagar exploration licence number 2006/10 ("Vagar Licence") located in Western Greenland, along with all mineral exploration and mining-related data, maps and reports pertaining to the Vagar Licence, studies and reports, for a purchase price of \$9,465 (DKK 50,000) conditional upon the approval of the Greenland authorities. The approval has been received and on October 30, 2017. Nalunaq A/S signed the paperwork to complete the licence transfer, which became effective upon the Greenland authorities executing the document on January 18, 2018.

##### **Naalagaaffiup Portornga Licence (Land Adjacent to Existing Tartoq Licence)**

The Corporation has acquired the right to conduct exploration activities on approximately 170km<sup>2</sup> of land in an area adjacent to the Tartoq Licence. The exploration rights have been granted to the Corporation under a new separate Exploration Licence 2018/17 Naalagaaffiup Portornga. The licence application has been approved and all required documentation was signed by the Corporation on January 16, 2018 and the licence became effective on February 19, 2018 when it was signed by the Government of Greenland.

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## Management Discussion & Analysis

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### 4. EXPLORATION AND EVALUATION EXPENSES

Exploration and evaluation expenses are included in the operating loss in the consolidated statement of comprehensive loss.

The Corporation incurred the following exploration and evaluation expenses:

	Q4-18	Q4-17	2018	2017
	\$	\$	\$	\$
<b>Nalunaq</b>				
Geology	93,710	118,278	408,419	423,623
Lodging and on-site support	218	15,557	556,922	340,518
Drilling	-	78,435	455,663	673,205
Analysis	25,951	51,907	55,798	56,952
Transport	(727)	103,777	423,877	391,979
Helicopter Charter	-	-	-	387,525
Logistic support	11,409	25,547	144,217	215,579
Supplies and equipment	-	6,412	-	46,100
Government fees	6,507	3,274	7,699	9,477
Depreciation	41,286	16,010	114,593	32,021
	178,354	419,197	2,167,188	2,576,979
<b>Tartoq</b>				
Geology	-	7,470	-	111,957
Lodging and on-site support	-	-	-	17,099
Analysis	-	7,523	-	7,968
Transport	-	14,869	-	53,647
Helicopter Charter	-	-	-	40
Supplies and equipment	-	412	-	1,606
Taxes and permits	-	-	-	-
Government fees	-	-	-	4,011
Stock-based compensation	-	-	-	-
	-	30,274	-	196,328
<b>Vagar</b>				
Analysis	-	458	3,709	458
Transport	5,235	-	5,235	-
Government fees	1,012	-	9,361	29,000
	6,247	458	18,305	29,458
<b>Genex</b>				
Government fees	-	992	-	5,752
		992		5,752
<b>Total</b>				
Geology	93,710	125,748	408,419	535,580
Lodging and on-site support	218	15,557	556,922	357,617
Drilling	-	78,435	455,663	673,205
Analysis	25,951	59,888	59,507	65,378
Transport	4,508	118,646	429,112	445,626
Helicopter Charter	-	-	-	387,565
Logistic support	11,409	25,547	144,217	215,579
Supplies and equipment	-	6,824	-	47,706
Taxes and permits	-	-	-	-
Government fees	7,519	4,266	17,060	48,240
Depreciation	41,286	16,010	114,593	32,021
<b>Total exploration and evaluation expenses</b>	<b>184,601</b>	<b>450,921</b>	<b>2,185,493</b>	<b>2,808,517</b>

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## Management Discussion & Analysis

For the year ended December 31, 2018

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### 4. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

James Gilbertson CGeol, who is a full-time employee and Managing Director of SRK Exploration Services Limited and a Chartered Geologist with the Geological Society of London and as such a qualified person as defined in NI 43-101 supervised the preparation of the technical information in this section.

#### 4.1 Nalunaq

##### a) Property description

The Nalunaq Property is located in Southern Greenland at 60°21'N latitude and 44°50'W longitude in the Municipality of Kujalleq. Greenland is an autonomous territory within the Danish realm. It is the largest island in the world with an area of 2,166,086 km<sup>2</sup> although it has a small population of just 56,000 people. Most of the island is covered by the Greenland ice sheet, thus the population lives along the coastal fringe which is heavily incised by fjords. Most of the population is located on the west and south coasts and the largest settlement is the capital, Nuuk. The Nalunaq Property is located on the northern side of the Kirkespirdalen Valley, about 33 km northeast of the town of Nanortalik.

The Nalunaq Exploration Project area lies within exploitation licence #2003/05 issued by the Government of Greenland, Mineral Licence and Safety Authority (the "Nalunaq Licence"), which covers an area of 22 km<sup>2</sup> and includes the former underground mine which ceased operating in 2013 (the "Nalunaq Gold Mine").

The Nalunaq Licence was granted in April 2003 by the Government of Greenland to Nalunaq Gold Mine A/S, a subsidiary of Crew Gold Corporation ("Crew Gold") and is valid until April 24, 2033.

##### b) Exploration work

Drilling ran between July 12 and September 5, 2018. Using two rigs a total of 3,831.70 metres of diamond drilling was completed in 18 holes with 344.51 metres being sampled. This equates to 525 samples, including 97 QAQC samples. Drilling was focused on a surface in-fill drilling programme centred around extending resources down dip and along strike from the South Block mining area of the Nalunaq mine. A small amount of surface geological mapping was completed. The technical team was demobilised on September 13, 2018.

#### New 2018 Structural Model

- An unmanned aerial vehicle (UAV) allowed field teams to remotely map structures on the western face of Nalunaq mountain where access is prohibitive. This contributed to a re-evaluation of the structural model.
- Using 3D implicit modelling software, the structural model used for exploration programme planning was re-interpreted in 2018 using all the recent drilling data and a re-evaluation of the underground data. The 2018 Main Vein (MV) structural model indicates that there is a strong possibility that the 2017 mountain sampling was not on the MV structure. This would also explain why some of the high elevation boreholes drilled in 2017 may have fallen short of the MV. It is therefore thought that the area to the upper west of Target Block can still be considered untested.
- Significant intersections (>0.1 g/t Au) from the 2018 drilling are shown in Table 1. Selected surface channel sampling, underground channel sampling and drilling highlights to date are shown in Figure 1.

All sampling was conducted with appropriate quality assurance and quality control, including the insertion of blanks, duplicates and a range of Reference Materials into the sample batches. This was done in accordance with a detailed protocol recommended by SRK Exploration Services Ltd. All assays were performed by an accredited laboratory; ALS, OMAC Laboratories, Loughrea, Co Galway, Ireland. (NB: 1g/t Au = 1ppm Au)

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## Management Discussion & Analysis

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### 4. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

**Table 1 Significant intersections (>0.1g/t Au) from the 2018 drilling programme**

Hole ID	Depth From (m)	Depth To (m)	Grade (ppm)	True Thickness (m)	Composite Grades	
AEX1803	150.30	151.30	0.29	0.91		0.32 g/t over 1.36 m
AEX1803	151.30	151.80	0.37	0.45	MV	
AEX1804	111.30	111.80	0.50	0.45		0.50 g/t over 0.45 m
AEX1804	174.30	175.33	0.16	0.93		17.13 g/t over 1.48 m
AEX1804	175.33	176.00	46.0*	0.55	MV	
AEX1805	146.70	147.20	2.11*	0.43	MV	2.11 g/t over 0.43 m
AEX1806	197.10	197.60	0.71	0.43	MV	0.71 g/t over 0.43 m
AEX1808	193.10	193.60	0.33	0.50	MV	0.33 g/t over 0.50 m
AEX1810	133.50	134.10	0.39	0.56	MV	0.39 g/t over 0.56 m
AEX1813	68.65	69.15	0.13	0.32		0.17 g/t over 0.64 m
AEX1813	69.15	69.65	0.21	0.32		
AEX1813	127.15	127.95	0.16	0.66		0.16 g/t over 0.66 m
AEX1813	191.50	192.35	0.11	0.70		0.26 g/t over 1.52 m
AEX1813	192.35	192.85	0.62	0.41	MV	
AEX1813	192.85	193.35	0.14	0.41		
AEX1814	153.10	153.60	0.91	0.38	MV	0.55 g/t over 0.77 m
AEX1814	153.60	154.10	0.18	0.38		
AEX1816	43.45	44.20	0.68	0.53		0.30 g/t over 1.66 m
AEX1816	44.20	45.00	0.12	0.57		
AEX1816	45.00	45.80	0.13	0.57		
AEX1816	183.00	184.05	0.15	1.03	MV	0.15 g/t over 1.03 m
AEX1817	175.30	175.80	0.54	0.47	MV	0.67 g/t over 1.63 m
AEX1817	175.80	176.30	1.55	0.48	MV	
AEX1817	176.30	177.00	0.12	0.68	MV	
AEX1818	183.00	184.20	0.28	1.13	MV	0.49 g/t over 1.99 m
AEX1818	184.20	184.70	0.50	0.43	MV	
AEX1818	184.70	185.20	1.04	0.43	MV	

Notes: \* = visible gold; MV = confirmed Main Vein intersections

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## 4. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

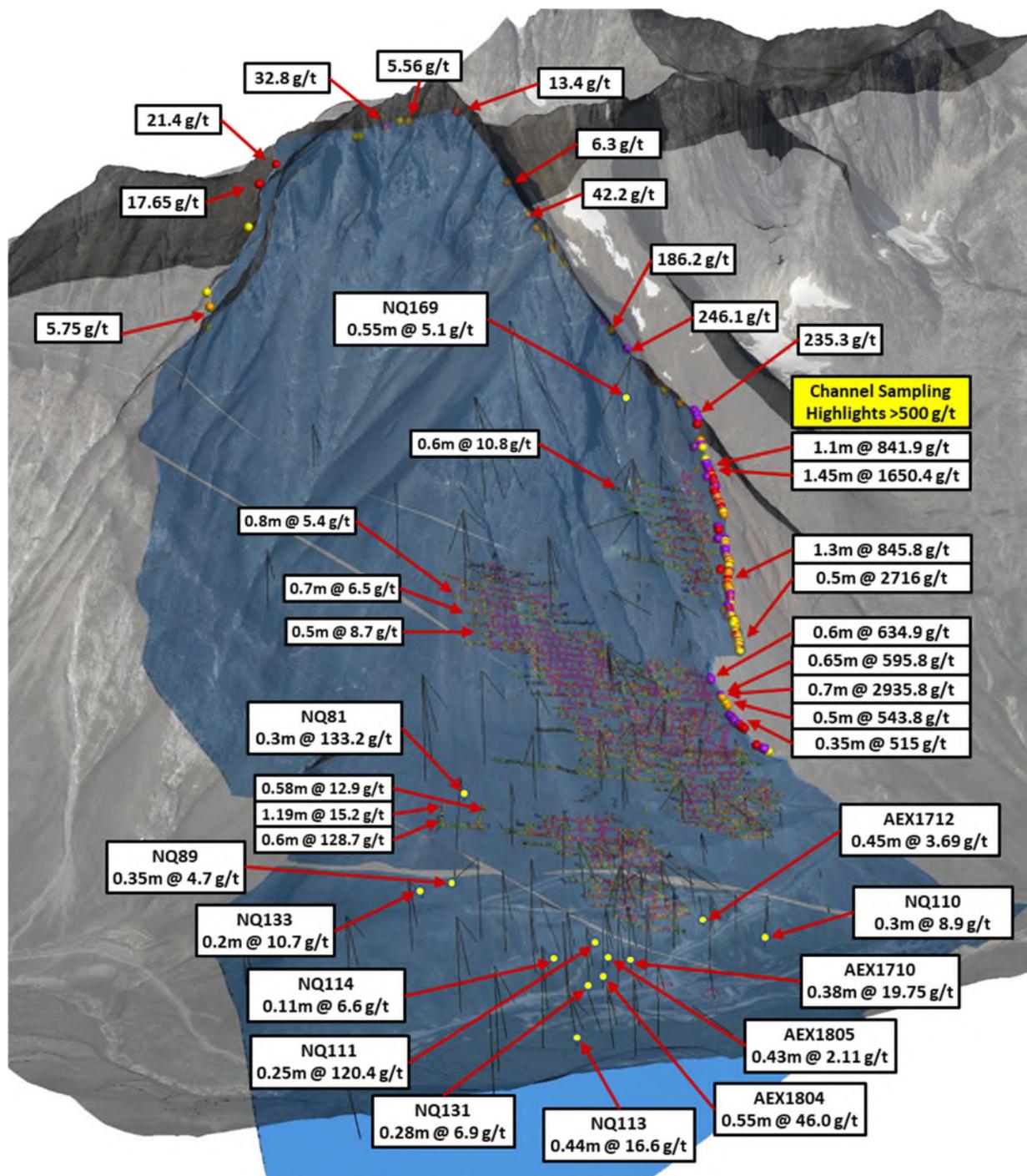


Figure 1 Selected MV drill intercepts, underground channel samples, surface channel samples and grab samples

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## Management Discussion & Analysis

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### 4. EXPLORATION AND EVALUATION EXPENSES (CONT'D)

#### 4.2 Tartoq

##### a) Property description

The exploration project on the Tartoq Property as described in the Tartoq Report (the "Tartoq Exploration Project") is comprised of the area covered by the Mineral Exploration Licence 2015/17 (the "Tartoq Licence") in which Nalunaq A/S holds an undivided 100% interest. The Tartoq Licence conveys the exclusive right to explore for all mineral resources except hydrocarbons and radioactive elements and is valid until December 31, 2019. Pursuant to the Greenland Exploration Standard Terms, at any time before the expiration of its initial term on December 31, 2019, Nalunaq A/S will have the ability to extend the term of the Tartoq Licence for an additional five-year period. At the expiration of the second term of the Tartoq Licence, Nalunaq A/S may, upon application to the MLSA, be granted up to four consecutive three-year extensions for an aggregate additional 12-year period.

The Tartoq Exploration Project covers an "official area" (all parts of the licence excluding those covered by sea) of 78 km<sup>2</sup> in south-western Greenland, some 330 km from the capital, Nuuk. The approximate centre of the project is 61°30'N latitude and 48°40'W longitude. The Tartoq Exploration Project flanks the Sermilgaarsuk Fjord and is split into two licence sub-blocks: Nuuluk on the southern side of the fjord and Ilerlak on the northern side to the east.

There is no infrastructure within the licence area and access is by boat and then on foot to reach the main target areas, or by helicopter. Given the remote location of the project, any development of the site for mineral exploration and mining would require self-sufficiency in terms of utilities and infrastructure. Some staffing may be sourced from Paamiut or Arsuk, but a skilled workforce will likely need to come from Nuuk.

##### b) Exploration work

No field work has been conducted in 2018 and work will be conducted in Q1-19 in the form of desk based studies, which will dictate the future exploration planning for 2019.

#### 4.3 Vagar

##### a) Property description

Nalunaq A/S entered into a sale and purchase agreement with NunaMinerals A/S, acting through its bankruptcy receiver, on February 6, 2017 to acquire the exploration licence #2006/10 issued by the MLSA (the "Vagar Licence"), along with all mineral exploration and mining-related data, maps and reports pertaining to the Vagar Licence, conditional upon the MLSA's approval on terms acceptable to Nalunaq A/S. The approval has been received and on October 30, 2017, Nalunaq A/S signed the paperwork to complete the licence transfer, became effective upon the Greenland authorities executing the document on January 18, 2018. The licence expires December 31, 2021. The Vagar Licence covers an official area of 420 km<sup>2</sup> and comprises three sub-areas. The acquisition of this licence area is potentially important to the Corporation since it is close to the Nalunaq Property and hosts a number of gold prospects that lie along the prospective Nanortalik Gold Belt, some of which show similarities to Nalunaq.

##### b) Exploration work

No field work has been conducted in 2018 so all work carried out has been in the form of desk based studies. A large amount of historical data was collated and digitised in 2018. A remote sensing and machine learning target generation study using these data will be completed in Q1-19. Exploration planning for 2019 is ongoing.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **4. EXPLORATION AND EVALUATION EXPENSES (CONT'D)**

#### **4.4 Genex**

On October 16, 2017, Nalunaq A/S was awarded a prospecting licence covering West Greenland, in this context defined as areas south of 78°N and west of 44°W. It is valid for a term of five years until December 31, 2021. Nalunaq A/S is not obligated to spend exploration expenses regarding this licence area during this period.

### **5. STRATEGY AND ACTION PLAN**

#### **Planned work for the 2019 field season and going forward**

Figure 2 shows the four phases of development planned prior to a targeted full production commencing in 2021. AEX cautions that this production decision has been taken before the estimation of Mineral Reserves and is not based on a feasibility study of these Mineral Reserves demonstrating economic and technical viability resulting in a significantly higher risk of economic and technical failure. Initial work will involve upgrading existing site infrastructure followed by bulk sampling of an area of MV which will be treated to test processing options. Development underground will consist of exploration strike drives targeting the MV structure where it is inferred from high grade surface channel and grab samples and from drill intercepts. No stoping will take place during these initial phases. Geological mapping will be conducted at various stages on surface and underground to aid in further structural interpretation of Nalunaq Mountain. This will likely involve the use of UAVs and photogrammetry techniques.

#### **Phase 1 – Upgrading infrastructure and bulk sample**

Phase 1 will begin with upgrading of existing site infrastructure, including rehabilitation of the mine road, installation of a new bridge and moving the camp from its current location close to the harbour to its old location at the base of Nalunaq Mountain. Camp facilities will be expanded and winterised to allow for year-round operation.

AEX is currently enquiring as to the suitability of extracting a 1000 t bulk sample for grade continuity and gravity test work. The bulk sample site, located between the 450-490 level, is aligned with Area L of the Remnant Mining Study (Section 8.8 of the 2016 NI43-101 report). The “Remnant Mining Study” is only disclosed for purposes of exploration and does not constitute a preliminary economic assessment, pre-feasibility study or feasibility study. The economic viability and technical feasibility of the project has not been established by completion of these studies. Re-surveying to check positions of old sampling, waste dumps and the original surface topography may be required.

Additional permitting / permissions will also be required from the relevant government authority. AEX is investigating the use of a mobile gravity plant to process this bulk sample during the 2019 field season or otherwise directly shipping mineralized material for offsite test processing.

A geotechnical assessment of the ramp and relevant drives will be carried out early in the 2019 season. Initial underground work will consist of rehabilitation of the main ramp from the 300 portal up to the top of Mountain Block at 720 m level. It is anticipated this will mainly be in the form of scaling and grading. This stage will also involve ventilation control and the installation of underground services (electricity and water) as well as refuge bays and first aid infrastructure.

Phase 1 is expected to begin in Q2/Q3 2019 and run through Q4 2019.

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### **5. STRATEGY AND ACTION PLAN (CONT'D)**

#### **Phase 2 - Rehabilitation and development of Mountain Block 720-780 L**

Following the completion of bulk sampling activities in Phase 1, full Phase 2 development will begin in Q3/Q4 2019. A total of 1,700 m development is planned. Prior to development, a small amount of exploration drilling will be carried out from the existing ramp at 720 L. The ramp will then be extended by approximately 600 m from 720 L to 780 L. Six 100 m strike drives will be developed on 10 m levels. These drives will target the MV structure inferred from high-grade channel and grab samples where the Main Vein crops out on the north face of Nalunaq Mountain. In areas of robust grade, the up-dip potential will be tested with exploration raises.

An additional 500 m of development and up to 5000 m of underground drilling has been allowed for. Depending on the geology encountered, this will either be used to further extend new strike drives, or alternatively in footwall development to provide a platform for underground exploration drilling. The additional drilling would improve confidence prior to further phases of development in Mountain Block.

It is anticipated that future mining will proceed with the longhole method, historically proven at Nalunaq, though this will be reviewed once exploration has defined further stope panels.

Completion of Phase 2 is expected around Q2/Q3 2020.

#### **Phase 3 – Continued development of Mountain Block 790-840 L**

Following successful completion of Phase 2, Phase 3 will begin in Q2/Q3 2020 and involve an additional 1,700 m of development in Mountain Block, including extending the ramp to 840 L. This will result in a further 600 m of strike drives on reef.

An additional 500 m of development and up to 5000 m of underground drilling has been allowed for. Depending on the geology encountered, this will either be used to further extend new strike drives in Mountain Block, or alternatively in footwall development to provide a platform for underground exploration drilling. Footwall development and drilling will test for up-dip and strike extensions to MV either in Mountain Block or Target Block. This extra development could also be used to extend selected western drives in Target block where it is believed the drives end on reef.

Completion of Phase 3 is expected in Q4 2020 / Q1 2021.

#### **Phase 4 – Rehabilitation and development of South Block**

Phase 4 is expected to begin in Q4 2020 / Q1 2021. Dewatering and rehabilitation of South Block will be followed by 1,740 m of development. The existing ramp will be extended by 100 m from 200 L down to 190 L. 1,640 m of on reef exploration strike drives will target high-grade MV drill intercepts along strike and down-dip from existing workings. Deep drilling from surface may be carried out if the budget allows, aiming to locate down-dip extensions to MV.

Completion of Phase 4 and the beginning of full production is targeted for Q2/Q3 2021. AEX cautions that this production decision has been taken before the estimation of Mineral Reserves and is not based on a feasibility study of these Mineral Reserves demonstrating economic and technical viability resulting in a significantly higher risk of economic and technical failure.

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

### 5. STRATEGY AND ACTION PLAN (CONT'D)

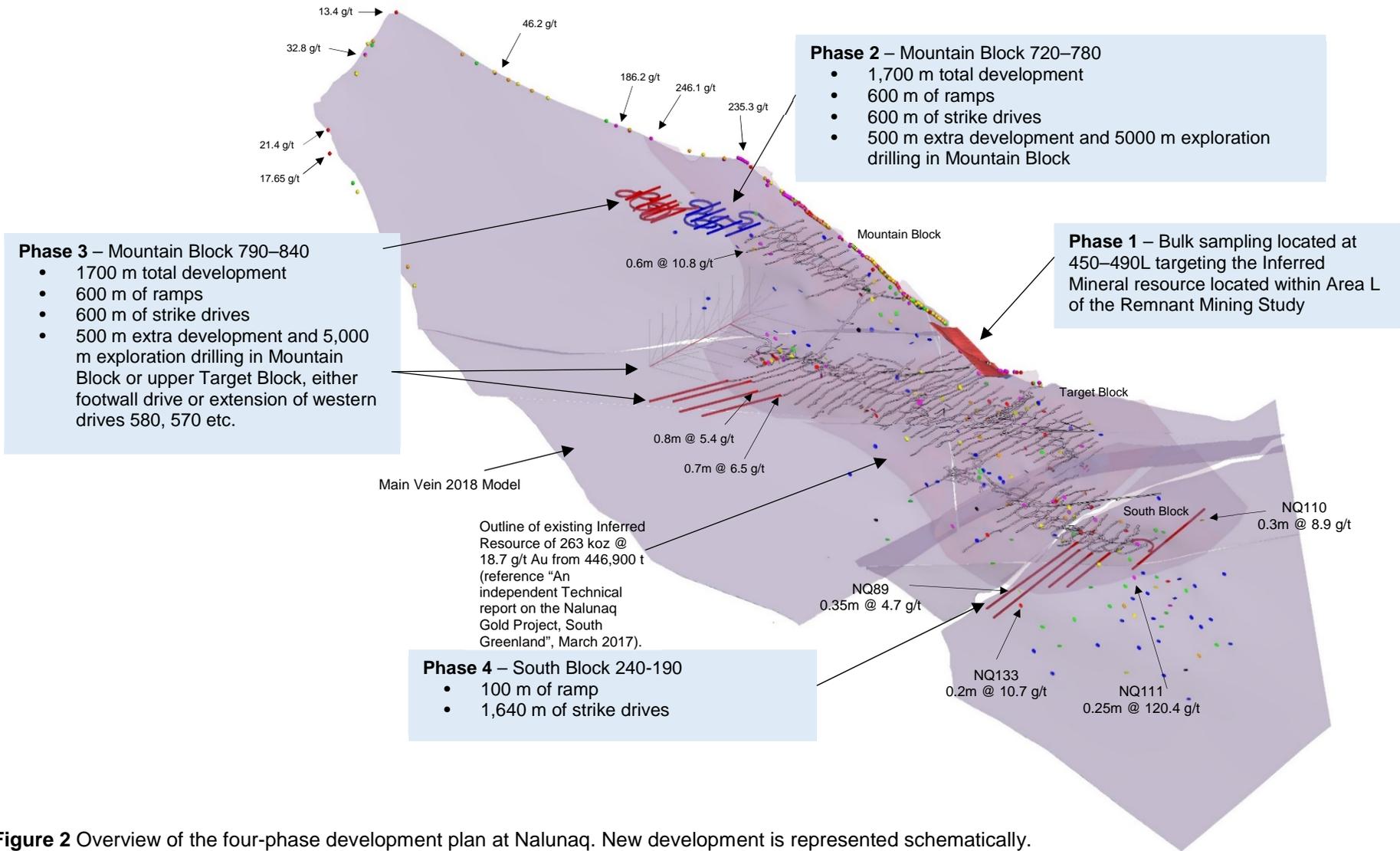


Figure 2 Overview of the four-phase development plan at Nalunaq. New development is represented schematically.

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

### 6. ENVIRONMENTAL MONITORING EXPENSES

When Nalunaq A/S purchased the Nalunaq Property on October 15, 2015, it came with an escrow account for environmental monitoring and an environmental monitoring provision. This escrow account was set up in favour of the Government of Greenland as security for fulfilling the environmental monitoring expenses following the closure of the Nalunaq Gold Mine.

For the year ended December 31, 2018, Nalunaq A/S incurred \$85,015 (\$10,036 in 2017) in environmental monitoring expenses. All incurred amounts are funded from the escrow account.

### 7. SELECTED ANNUAL INFORMATION

	2018	2017	2016
	\$	\$	\$
<b>Financial Results</b>			
Exploration and evaluation expenses	2,185,493	2,808,517	800,103
General and administrative expenses	1,085,630	1,212,237	445,188
Net loss	4,023,320	4,489,949	1,143,424
<b>Financial Position</b>			
Cash on hand	963,788	1,465,277	137,322
Total assets	1,962,821	2,373,983	772,153
Total current liabilities	327,847	428,667	460,805
Shareholders' equity	1,634,974	1,810,629	187,939
Working capital (deficiency)	877,201	1,250,542	(182,050)

### 8. RESULTS OF OPERATIONS

#### 8.1 Discussion on 2018

The Corporation reported a net loss of \$4,023,320 in 2018 compared to \$4,489,949 for 2017. The main variations are as follow:

- Exploration and evaluation expenses of \$2,185,493 (\$2,808,517 in 2017) (see section exploration and evaluation expenses for details).
- General and administrative of \$1,085,630 (\$1,212,237 in 2017).
  - Director's fees of \$18,750 (\$50,001 in 2017). The Corporation decided to reduce its fees and paid the director fees for the first quarter of 2018 only.
  - Professional fees of \$354,636 (\$344,544 in 2017). The Corporation incurred audit fees in 2018 for the 2017 financial statement but in 2017, the Corporation incurred legal fees to prepare the Pre-IPO Reorganization.
  - Marketing and industry involvement of \$153,331 (\$237,058 in 2017). The Corporation became public in 2017 and less costs were spent in 2018 related to investor relations, strategic communications and conferences.
  - Travel and other expenses of \$98,181 (\$127,152 in 2017). The Corporation became public in 2017 and less travel were necessary in 2018.
- Stock-based compensation of \$438,170 (\$518,630 in 2017) was estimated using the Black-Scholes model. The Corporation granted 1,660,000 (1,410,000 in 2017) options to its directors, officers and consultants for a costs amount to \$431,600 (\$503,200 in 2017) for an estimated fair value of \$0.26 (\$0.37 in 2017) per option.
- The cost incurred for the preliminary short form prospectus filed on February 14, 2018 and withdrawn in April 2018 was \$322,701 in 2018 (nil in 2017).

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

### 8. RESULTS OF OPERATIONS (CONT'D)

#### 8.2 Discussion on Q4-18

The Corporation reported a net loss of \$334,240 in Q4-18 compared to \$778,978 for Q4-17. The main variations are as follow:

- Exploration and evaluation expenses of \$184,601 (\$450,921 in Q4-17) (see section exploration and evaluation expenses for details).
- General and administrative of \$199,753 (\$332,740 in Q4-17).
  - Director's fees of nil (\$18,751 in Q4-17). The Corporation decided to reduce its fees and stop paying director's fees at the end of Q1-18.
  - Professional fees of \$52,058 (\$84,613 in Q4-17). The Corporation incurred more legal fees for general consultation purposes in Q4-17 than Q4-18. The accounting fees were reduced in Q4-18 because an accounting team had been put in place to bring the bookkeeping to an IFRS level in 2017.
  - Marketing and industry involvement of \$31,133 (\$61,037 in Q4-17). The Corporation became public in 2017 and less costs were spent in Q4-18 related to investor relations and strategic communications.
  - Travel and other expenses of \$12,744 (\$40,478 in Q4-17). The Corporation became public in 2017 and less travel were necessary in Q4-18.

### 9. SELECTED QUARTERLY INFORMATION

The following table presents selected financial information for each of the most recent eight quarters:

	Q4-18	Q3-18	Q2-18	Q1-18
	\$	\$	\$	\$
Exploration and evaluation expenses	184,601	1,306,886	591,687	102,319
General and administrative expenses	199,753	177,785	278,245	429,847
Net loss	334,240	1,959,074	898,829	831,177
Cash on hand	963,788	677,232	1,820,915	913,180
Total assets	1,962,821	1,747,259	2,954,232	1,779,142
Total current liabilities	327,847	600,297	309,770	651,759
Shareholders' equity	1,634,974	1,008,164	2,503,836	983,577
Working capital	877,201	222,957	1,665,646	416,247

	Q4-17	Q3-17	Q2-17	Q1-17
	\$	\$	\$	\$
Exploration and evaluation expenses	450,921	2,216,823	94,427	46,346
General and administrative expenses	332,740	467,363	239,963	172,171
Net loss	778,978	3,182,622	308,296	220,053
Cash on hand	1,465,277	2,506,265	74,928	58,999
Total assets	2,373,983	3,518,863	1,649,579	785,310
Total current liabilities	428,667	807,376	1,690,239	693,817
Shareholders' equity (deficiency)	1,810,629	2,579,348	(172,467)	(33,716)
Working capital (deficiency)	1,250,542	2,023,142	(1,409,288)	(403,976)

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **9. SELECTED QUARTERLY INFORMATION (CONT'D)**

Highlights for each quarter are as follows.

#### **9.1 Q4-18**

- On October 9, 2018, the Corporation completed a non-brokered private placement by issuing 2,631,577 common shares at a price of \$0.38 per share, for gross proceeds of \$1,000,000.
- The Corporation completed its work exploration program and sent samples for analysis. The majority of exploration and evaluation work was performed on the Nalunaq Property for \$184,601.

#### **9.2 Q3-18**

- On August 22, 2018, the Corporation granted options to its directors, officers and consultants for a stock-based compensation of \$431,600.
- The majority of exploration and evaluation work was performed on the Nalunaq Property for \$1,306,886. The Corporation executed its summer work exploration programme and the largest expenses were drilling, geology, lodging and on-site support and transport.

#### **9.3 Q2-18**

- On May 14, 2018, the Corporation completed a non-brokered private placement by issuing 5,564,422 common shares at a price of \$0.45 per share, for gross proceeds of \$2,503,990.
- The Corporation bought property and equipment for \$303,298. The Corporation bought field equipment and base camp, vehicles and rolling stock for the exploration and evaluation purpose work.
- Exploration and evaluation expenses were primarily incurred on the Nalunaq property for a sum of \$591,687 and are relative to the transport, lodging and on-site support and preparation of the summer exploration season.

#### **9.4 Q1-18**

- On January 16, 2018, Nalunaq A/S acquired for \$6,334, the right to conduct exploration activities on approximately 170km<sup>2</sup> of land in an area adjacent to the Tartoq Licence. The exploration rights have been granted under a new separate Exploration Licence Naalagaaffiup Portornga. The licence became effective on February 19, 2018 when it was signed by the Government of Greenland.
- On February 14, 2018, a preliminary short form prospectus was filed pursuant to which the Corporation proposed to complete, on a best effort basis, a public offering of common shares upon terms to be determined in the context of the market. On April 12, 2018, the Corporation announced that it had withdrawn the preliminary prospectus. For Q1-18, the Corporation incurred professional fees and expenses related to this short form prospectus for an amount of \$311,611.
- On March 13, 2018, Nalunaq A/S incurred \$85,015 in environmental monitoring expenses. All incurred amounts were funded from the escrow account.
- Exploration and evaluation expenses were incurred for a sum of \$102,319 and are composed primarily of geological expenses on Nalunaq property.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **9. SELECTED QUARTERLY INFORMATION (CONT'D)**

#### **9.5 Q4-17**

- On October 16, 2017, Nalunaq A/S was awarded a prospecting licence covering West Greenland, in this context defined as areas south of 78°N and west of 44°W. It is valid for a term of five years until December 31, 2021.
- The Corporation completed its field exploration program, sent samples for analysis and results and the results were announced November 30, 2017. The majority of exploration and evaluation work was performed on the Nalunaq Property for \$419,197 and on the Tartoq Property for \$30,274.

#### **9.6 Q3-17**

- On July 13, 2017, the Corporation completed its IPO of 13,592,500 common shares at a price of \$0.50 per share for aggregate gross proceeds of \$6,796,250.
- Following completion of the IPO, the Corporation granted options to its directors, officers and consultants including an investor relation firm for a stock-based compensation of \$510,839.
- The functional currency of Nalunaq A/S was the Danish Krone ("DKK") up until June 30, 2017 and it was changed thereafter to Canadian dollars ("CAD").
- Included in its summer exploration programme, the Corporation purchased property and equipment for \$192,129.
- The majority of exploration and evaluation work was performed on the Nalunaq Property for \$2,042,196 and on the Tartoq Property for \$140,867. The Corporation executed its summer exploration programme and the largest expenses are drilling, helicopter charter, geology, lodging and on-site support and transport.

#### **9.7 Q2-17**

- On June 26, 2017, ARC, AEX Gold Limited and the Corporation completed the Pre-IPO Reorganization.
- Exploration and evaluation expenses were incurred on the Nalunaq property for a sum of \$94,427 and are relative to the preparation of the summer exploration season.

#### **9.8 Q1-17**

- On February 6, 2017, Nalunaq A/S entered into a sale and purchase agreement with NunaMinerals A/S to acquire the Vagar exploration licence located in Western Greenland for a purchase price of \$9,465 conditional upon the approval of the Greenland authorities.
- Included within general and administrative expenses, professional fees were spent on the corporate reorganization related to the IPO.
- Exploration and evaluation expenses were incurred for a sum of \$46,346 and are composed primarily of geological expenses.

### **10. LIQUIDITY AND CAPITAL RESOURCES**

The Corporation has a working capital of \$877,201 as of December 31, 2018 (\$1,250,542 as of December 31, 2017). The working capital position was favorably improved on October 9, 2018 when the Corporation completed its non-brokered private placements of 2,631,577 common shares at a price of \$0.38 per share, for gross proceeds of \$1,000,000. In addition to ongoing working capital requirements, the Corporation must secure sufficient funding to meet its other obligations, existing commitments for the exploration and evaluation programs including the unspent amount on the Nalunaq Licence and pay general and administration costs.

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

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### 10. LIQUIDITY AND CAPITAL RESOURCES (CONT'D)

As at December 31, 2018, Nalunaq A/S had a payable of \$8,234 to FBC Mining BA Ltd. ("FBC BA"), a subsidiary of FBC Mining (Holdings) Ltd. (75%) and Artic Resources Capital S.à r.l. (25%)

See Section 2.3 for the use of funds following the IPO.

While the Corporation has secured financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation. If new funding is not obtained, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these financial statements and this could have a significant impact on the financial position of the Corporation, its financial performance and its cash flows.

### 11. OFF BALANCE SHEET ARRANGEMENTS

Neither the Corporation nor Nalunaq A/S have any off-balance sheet arrangements.

### 12. SUBSEQUENT EVENT

Neither the Corporation nor Nalunaq A/S have any subsequent event.

### 13. TRANSACTIONS BETWEEN RELATED PARTIES

Following are additional information on related party transactions in 2018:

*In the normal course of operations:*

- A company controlled by George Fowlie, (president from February 22, 2017 to April 28, 2017, director since April 14, 2017 and chairman of the board since April 28, 2017) invoiced \$31,251 (\$33,336 in 2017) as chairman compensation;
- A company controlled by Eldur Olafsson (director appointed April 14, 2017 and president and CEO since April 28, 2017) invoiced \$202,421 (\$133,334 in 2017) as president and CEO compensation;
- A company in which Eldur Olafsson (director appointed April 14, 2017 and president and CEO since April 28, 2017) holds shares charged exploration work and equipment amounting to \$99,079 (\$129,207 in 2017);
- A firm in which Georgia Quenby (director, appointed April 14, 2017) is a partner charged legal professional fees of \$nil (\$11,761 in 2017) through FBC BA and directly to the Corporation for \$10,121 (\$5,169 in 2017);
- A company controlled by Ingrid Martin (chief financial officer, appointed April 28, 2017) charged accounting professional fees of \$168,193 (\$142,212 in 2017) (including \$113,518 (\$85,553 in 2017) for her staff) and \$nil (\$5,000 in 2017) for additional work during the IPO process;
- Justinas Matusevicius (vice-president operations and logistic, appointed April 28, 2017) invoiced \$91,293 (\$55,681 in 2017) as compensation and \$nil (\$20,000 in 2017) for additional work during the IPO process;
- FBC BA invoiced \$45,353 (\$69,967 in 2017) for Joan Plant (Corporate Secretary, appointed February 22, 2017) for her compensation (including \$nil (\$20,000 in 2017) for additional work during the IPO process);
- ARC charged a fixed management fee of \$65,637 from January 1, 2017 to April 30, 2017 (date of the termination of the agreement with ARC) including management services from Eldur Olafsson and Justinas Matusevicius and other services (\$nil in 2018);
- As at December 31, 2018, the balance due to those related parties amounted to \$40,972 (\$45,173 as at December 31, 2017).

# AEX Gold Inc.

## Management Discussion & Analysis

For the year ended December 31, 2018

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### 13. TRANSACTIONS BETWEEN RELATED PARTIES (CONT'D)

*Outside of the normal course of operations:*

- Directors and officers of the Corporation participated in the May 14, 2018 and October 9, 2018 private placements for \$182,514 (\$135,000 in the July 2017 IPO offering) while AEX Gold Limited participated for \$550,000 (\$450,000 in the July 2017 IPO offering). The directors and officers as well as AEX Gold Limited subscribed to the private placements in 2018 and the IPO in 2017 under the same terms and conditions set forth all subscribers.

### 14. CRITICAL ACCOUNTING POLICIES, ESTIMATES, JUDGEMENTS AND ASSUMPTIONS

The preparation of the Financial Statements requires Management to make judgments and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, Management evaluates its judgments in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments. Actual outcomes may differ from these estimates under different assumptions and conditions. Critical judgments, estimates and assumptions exercised in applying accounting policies with the most significant effect on the amounts recognized in the financial statements are described at note 4 of the 2018 Financial Statements.

### 15. CHANGES IN ACCOUNTING POLICIES

The most relevant standards, amendments and interpretations issued up to the date of the issuance of the 2018 Financial Statements are listed at note 3 of these.

### 16. FINANCIAL INSTRUMENTS

Financial instruments are described in notes 2.12 and 22 to the Financial Statements.

### 17. OUTSTANDING SHARES DATA

	April 17, 2019	December 31, 2018
	Number	Number
Capital stock	57,788,499	57,788,499
Stocks options	3,020,000	3,020,000
Warrants	1,067,739	1,067,739
<b>Fully diluted</b>	<b>61,876,238</b>	<b>61,876,238</b>

#### Escrow Shares

As of December 31, 2018, there were 22,200,014 shares held in escrow following the IPO. Under the escrow agreement, 10% of the escrow common shares were released from escrow on the completion of the Corporation's listing date (done on July 13, 2017, date of the Exchange Bulletin) and additional 15% will be released every six months thereafter.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **18. STOCK OPTION PLAN**

The purpose of the Option Plan is to provide the Corporation with a share-related mechanism to attract, retain and motivate qualified directors, senior officers, employees and consultants of the Corporation, to reward such of these participants from time to time for their contributions toward the long-term goals of the Corporation and to enable and encourage such participants to acquire shares as long-term investments. There is no performance indicator relating to profitability or risk attached to the plan. The maximum number of common shares in the capital of the Corporation that may be reserved for issuance under the plan is limited to a maximum of 10% of the common shares outstanding.

### **19. RISK FACTORS**

The following discussions review a number of important risks which management believes could impact the Corporation's business. There are other risks, not identified below, which currently, or may in the future exist in the Corporation's operating environment.

#### **Risks Related to the Corporation and the Mining Industry**

##### **19.1 The Corporation is an exploration stage company.**

The Corporation currently has no development projects. While the Nalunaq Property has an operating history, the exploration potential that may represent the long-term future of the Nalunaq Property is at an early stage. Future mining and processing methods may differ to those used historically and thus historical operating costs, capital spending, site remediation costs or asset retirement obligations may not be applicable as benchmarks.

The Tartoq Property, the Vagar Property and Naalagaaffiup Portornga Property are an early stage exploration projects that have no operating history upon which to base estimates of future operating costs, future capital spending requirements or future site remediation costs or asset retirement obligations. The Corporation has no experience in placing mineral interests into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements with major mining companies that can provide such expertise. There can be no assurance that the Corporation will have available to it the necessary expertise when and if it places any of its mineral interests into production.

##### **19.2 The Corporation's liquidity and capital resources are uncertain.**

The exploration and evaluation of the Corporation's mineral properties depends upon the Corporation's ability to obtain financing through joint ventures, offerings of equity securities or offerings of debt securities, or by obtaining financing through a bank or other entity. The Corporation has not established a limit as to the amount of debt it may incur nor has it adopted a ratio of its equity to debt allowance. If the Corporation needs to obtain additional financing, there is no assurance that financing will be available from any source, that it will be available on terms acceptable to the Corporation, or that any future offering of securities will be successful. Volatile markets for precious metals may make it difficult or impossible for the Corporation to obtain debt financing or equity financing on favourable terms or at all. If additional funds are raised through the issuance of equity securities, there may be a significant dilution in the value of the Corporation's outstanding Common shares. The Corporation could suffer adverse consequences if it is unable to obtain additional capital, which would cast substantial doubt on its ability to continue its operations and growth.

In addition, the Corporation does not expect to generate material revenue or achieve self-sustaining operations in the near future. To the extent the Corporation has negative cash flows in future periods, the Corporation may use a portion of its general working capital to fund such negative cash flow.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **19.3 The Corporation requires substantial funds merely to determine whether commercial mineral deposits exist on its Properties.**

Any potential development and production of the Corporation's exploration properties depends upon the results of exploration programs and/or feasibility studies and the recommendations of duly qualified engineers and geologists. Such programs require substantial additional funds. Any decision to further expand the Corporation's operations on these exploration properties is anticipated to involve consideration and evaluation of several significant factors including, but not limited to:

- costs of bringing a property into production, including exploration work, preparation of production feasibility studies, and construction of production facilities;
- availability and costs of financing;
- ongoing costs of production;
- market prices for the minerals to be produced;
- environmental compliance regulations and restraints; and
- a political climate and/or governmental regulation and control.

#### **19.4 Gold price volatility may adversely affect the Corporation.**

If the Corporation commences production, profitability will be dependent upon the market price of gold. Gold prices historically have fluctuated widely and are affected by numerous external factors beyond the Corporation's control, including industrial and retail demand, central bank lending, sales and purchases of gold, forward sales of gold by producers and speculators, levels of gold production, short-term changes in supply and demand because of speculative hedging activities, confidence in the global monetary system, expectations of the future rate of inflation, the strength of the U.S. dollar (the currency in which the price of gold is generally quoted), interest rates, terrorism and war, and other global or regional political or economic events.

#### **19.5 Title to the Corporation's mineral properties cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.**

The Corporation cannot guarantee that title to its mineral properties will not be challenged. Title insurance is generally not available for mineral properties and the Corporation's ability to ensure that it has obtained a secure claim to individual mineral properties or mining concessions may be severely constrained. The Corporation's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. The Corporation has not conducted surveys of all of the mineral rights in which it holds direct or indirect interests. A successful challenge to the precise area and location of these mineral rights could result in the Corporation being unable to operate on its Nalunaq Property, Tartoq, Vagar or Naalagaaffiup Portornga Property (collectively, the "Properties") as permitted or being unable to enforce its rights with respect to its Properties.

#### **19.6 Mining, processing, development and exploration activities depend, to one degree or another, on adequate infrastructure.**

Reliable roads, bridges, power sources and water supply are important determinants which affect capital and operating costs. The Corporation's inability to secure adequate water and power resources, as well as other events such as unusual or infrequent weather phenomena, sabotage, government or other interference in the maintenance or provision of such infrastructure could adversely affect the Corporation's operations, financial condition and results of operations.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **19.7 Exploration activities are influenced, amongst others, by the location, its climate and terrain.**

The Properties are in remote locations in a global context, although not in a Greenlandic context. The costs of logistics and staffing are high. The climatic conditions allow a relatively short period for surface exploration activities, although this should not affect underground exploration.

The Nalunaq Gold Mine and areas of exploration potential lie within a steep mountain. Regularized surface diamond drilling for structure is impractical in many parts, resulting in a greater reliance on underground exploration.

#### **19.8 The Corporation is an exploration stage company, and there is no assurance that a commercially viable deposit or “reserve” exists on any properties for which the Corporation has or might obtain an interest.**

The Corporation is an exploration stage company and cannot give assurance that a commercially viable deposit, or “reserve”, exists on any properties for which the Corporation currently has or may have (through potential future joint venture agreements or acquisitions) an interest. Therefore, determination of the existence of a reserve depends on appropriate and sufficient exploration work and the evaluation of legal, economic and environmental factors. If the Corporation fails to find a commercially viable deposit on any of its Properties, its operations, financial condition and results of operations will be materially adversely affected.

#### **19.9 Mineral exploration and development activities are speculative in nature.**

Resource exploration and development is a speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. The marketability of minerals acquired or discovered by the Corporation may be affected by numerous factors which are beyond the control of the Corporation and which cannot be accurately predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection, the combination of which factors may result in the Corporation not receiving an adequate return on investment capital.

Substantial expenditures are required to establish ore reserves through drilling, to develop metallurgical processes to extract the metal from the ore and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities and grades to justify commercial operations or that funds required for development can be obtained on a timely basis. Estimates of reserves, mineral deposits and production costs can also be affected by such factors as environmental permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations and work interruptions. In addition, the grade of ore ultimately mined may differ from that indicated by drilling results. Short-term factors relating to reserves, such as the need for orderly development of ore bodies or the processing of new or different grades, may also have an adverse effect on mining operations and on the results of operations. Material changes in ore reserves, grades, stripping ratios or recovery rates may affect the economic viability of any project.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **19.10 The Corporation depends on the Properties**

The Properties are the only material properties of the Corporation. Any material adverse development affecting the progress of the Properties, or both, will have a material adverse effect on the Corporation's financial condition and results of operations.

#### **19.11 There is no assurance that the Corporation will be able to acquire other properties.**

If the Corporation loses or abandons its interest in its Properties, there is no assurance that it will be able to acquire another mineral property of merit or that such an acquisition would be approved by the Exchange. There is also no guarantee that the Exchange will approve the acquisition of any additional properties by the Corporation, whether by way of option or otherwise, should the Corporation wish to acquire any additional properties.

#### **19.12 The Corporation's insurance does not cover all of its potential losses, liabilities and damage related to its business.**

Exploration, development and production operations on mineral properties involve numerous risks, including:

- unexpected or unusual geological operating conditions;
- rock bursts, cave-ins, ground or slope failures;
- fires, floods, earthquakes and other environmental occurrences;
- political and social instability that could result in damage to or destruction of mineral properties or producing facilities, personal injury or death, environmental damage;
- delays in mining caused by industrial accidents or labour disputes;
- changes in regulatory environment;
- monetary losses; and
- possible legal liability.

It is not always possible to obtain insurance against all such risks and the Corporation may decide not to insure against certain risks because of high premiums or other reasons. Moreover, insurance against risks such as environmental pollution or other hazards as a result of exploration and production is not generally available to the Corporation or to other companies in the mining industry on acceptable terms. Should such liabilities arise, they could reduce or eliminate any further profitability and result in increasing costs and a decline in the value of the securities of the Corporation.

#### **19.13 Competition may hamper the Corporation's ability to acquire attractive mineral properties.**

Significant and increasing competition exists for the limited number of mineral acquisition opportunities available. As a result of this competition, some of which is with large established mining companies with substantial capabilities and greater financial and technical resources than the Corporation, the Corporation may be unable to acquire attractive mineral properties on terms it considers acceptable. The Corporation also competes with other companies for the recruitment and retention of qualified employees and other personnel.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **19.14 Insofar as certain directors and officers of the Corporation hold similar positions with other mineral resource companies, conflicts may arise between the obligations of these directors and officers to the Corporation and to such other mineral resource companies.**

Certain directors and officers of the Corporation are, and may continue to be, involved in the mining and mineral exploration industry through their direct and indirect participation in corporations, partnerships or joint ventures which are potential competitors of the Corporation. Situations may arise in connection with potential acquisitions or investments where the other interests of these directors and officers may conflict with the interests of the Corporation. Directors and officers of the Corporation with conflicts of interest will be subject to and will follow the procedures set out in applicable corporate and securities legislation, regulations, rules and policies.

#### **19.15 The loss of certain key individuals could have an adverse effect on the Corporation.**

The Corporation's success depends to a certain degree upon key members of the management. These individuals are a significant factor in the Corporation's growth and success and the Corporation does not have key man insurance in place in respect of any of its directors, management or employees. The loss of the service of members of the management and certain key employees could have a material adverse effect on the Corporation.

#### **19.16 The Corporation may experience difficulty attracting and retaining qualified management to meet the needs of its anticipated growth.**

The Corporation's prospects depend in part on the ability of its executive officers and senior management to operate effectively, both independently and as a group. Investors must be willing to rely to a significant extent on management's discretion and judgment, as well as the expertise and competence of outside contractors. Recruiting and retaining qualified personnel is critical to the Corporation's success. The number of persons skilled in the acquisition, exploration and development of mining properties is limited and competition for such persons is intense. To manage its growth, the Corporation may have to attract and retain additional highly qualified management, financial and technical personnel and continue to implement and improve operational, financial and management information systems. Although the Corporation believes that it will be successful in attracting and retaining qualified personnel, there can be no assurance of such success.

#### **19.17 Estimates and assumptions used in preparing the Corporation's financial statements and actual amounts could differ.**

Preparation of its financial statements requires the Corporation's management to use estimates and assumptions. Accounting for estimates requires the Corporation's management to use its judgment to determine the amount to be recorded on its financial statements in connection with these estimates. If the estimates and assumptions are inaccurate, the Corporation could be required to write down its recorded values. On an ongoing basis, the Corporation re-evaluates its estimates and assumptions. However, the actual amounts could differ from those based on estimates and assumptions.

#### **19.18 Investors may not be able to enforce judgments against foreign persons.**

AEX's principal assets, as well as three of its directors, namely Eldur Ólafsson, Georgia Quenby and Graham Stewart, and two of AEX's non-director officers, namely Justinas Matusevičius and Joan Plant, either are located or reside outside of Canada. Furthermore, the authors of the Nalunaq Report and Tartoq Report, namely Fernando Saez, James Gilbertson, Jon Russill and Michael Selby either are located or reside outside of Canada. It may therefore not be possible for investors to enforce judgements obtained in Canada against AEX, such directors and officers, or any of the authors of the technical reports, notwithstanding the fact that each of the aforementioned individuals has appointed Bennett Jones LLP as his or her agent for service of process in Canada.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **19.19 The Corporation has significant shareholders.**

Following the completion of the last October 2018 private placement and as of December 31, 2018, FBC Holding S.à r.l. ("FBC") (directly or indirectly through its subsidiary AEX Gold Limited), Eldur Olafsson (through Vatnar S.à r.l. and Vatnar ehf ("Vatnar")), and Crossroads Holdings S.à r.l. ("Crossroads") hold 24.6%, 11.1% and 10.2%, respectively, of the issued and outstanding Common Shares. As a result, FBC, Vatnar and Crossroads will have significant influence over all matters requiring shareholder approval. Circumstances may occur in which the interests of such significant shareholders could be in conflict with the interests of other holders of Common Shares. There is no assurance that the interests of FBC, Vatnar and Crossroads will always be aligned with the Corporation's interests and those of the Corporation's other shareholders, and there is no assurance that such significant shareholders would not make decisions with regard to their holdings of Common Shares or how they vote those Common Shares in a manner that is adverse to the Corporation or the Corporation's other shareholders.

While FBC, Vatnar and Crossroads will have limitations on their ability to dispose of their Common Shares in the near term due to the escrow agreement that was entered into among the Corporation, Computershare Trust Company of Canada and certain principals of the Corporation in accordance with the closing of the Corporation's initial public offering, this may not prevent FBC, Vatnar and Crossroads from selling some or all of their Common Shares in the future. If FBC, Vatnar and/or Crossroads dispose of a significant number of Common Shares in the future, the market price of the Common Shares may be negatively impacted by the resulting additional trading volume.

#### **19.20 The Corporation is subject to the risks and liabilities associated with possible accidents, injuries or deaths on its Properties.**

Mining, like many other extractive natural resource industries, is subject to potential risks and liabilities due to accidents that could result in serious injury or death. The impact of such accidents could affect the profitability of the operations, cause an interruption to operations, lead to a loss of licences, affect the reputation of the Corporation and its ability to obtain further licences, damage community relations and reduce the perceived appeal of the Corporation as an employer.

There is no assurance that the Corporation has been or will at all times be in full compliance with all laws and regulations or hold, and be in full compliance with, all required health and safety permits. The potential costs and delays associated with compliance with such laws, regulations and permits could prevent the Corporation from proceeding with the development of a project or the operation or further development of a project, and any non-compliance therewith may adversely affect the Corporation's operations, financial condition and results of operations.

Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Corporation and cause increases in exploration expenses, capital expenditures or production costs, reduction in levels of production at producing properties, or abandonment or delays in development of new mining properties.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **19. RISK FACTORS (CONT'D)**

#### **Risks Related to the Political and Economic Climate of Greenland and its Legislative Regime**

##### **19.21 The Corporation's operations depend on permits and government regulations**

The Corporation's future operations on the Properties, including exploration and any development activities or commencement of production on its properties, require permits from various governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, protection of endangered and protected species, treatment of indigenous people, mine safety and other matters. To the extent that such permits are required and not obtained, the Corporation may be delayed or prohibited from proceeding with planned exploration or development of its mineral properties. The costs and delays associated with obtaining necessary permits and complying with these permits and applicable laws may have a material adverse effect on the operations, financial condition and results of the Corporation.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or to be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

The Government of Greenland may from time to time change the Mineral Resources Act, the Greenland Exploration Standard Terms and the royalties imposed on proceeds from mineral exploitation.

##### **19.22 The Corporation's operations are subject to compliance with environmental laws and regulation**

The Corporation's operations are subject to environmental regulations in the jurisdictions in which it operates. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's operations.

The Corporation's exploration programs on the Properties will, in general, be subject to approval by the MLSA and the EAMRA. Development of the mineral properties located in Greenland will be dependent on the project meeting environmental regulations and guidelines set by governmental agencies in Greenland and, where required, being approved by governmental authorities.

##### **19.23 The Corporation may lose its interests in licences.**

Interests in licences in Greenland are for specific terms and carry with them estimated annual expenditure and reporting commitments, as well as other conditions requiring compliance. The MLSA is largely focused on the activities completed by an exploitation licence holder and ensuring that a project is advancing towards production. The Corporation could lose title to or its interest in licences relating to the Properties if licence conditions are not met.

In particular, the Nalunaq Exploration Project is currently within the Nalunaq Licence. Under the current terms of this licence, Nalunaq A/S is required to commence mine production by January 1, 2021, although the scale of this production is not specified. There is no guarantee that this will be possible within this timeframe, and the government has reserved the right to revoke the licence if these conditions are not met.

## **AEX Gold Inc.**

### **Management Discussion & Analysis**

For the year ended December 31, 2018

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#### **19. RISK FACTORS (CONT'D)**

Failure to satisfy any of the conditions set forth in the addendums to the Nalunaq Licence (for example, the commitment to perform specific exploration activities for sub period 3 as set out in Addendum No. 4) may result in the MLSA revoking the Nalunaq Licence, however the MLSA has stated as an objective that there is no automatic revocation of a licence when a condition has not been achieved, rather they have committed to, at all times, act reasonably and in accordance with the general rules and regulations of Greenlandic administrative law, including the principles of objectiveness, proportionality and equal treatment.

Moreover, under the Tartoq Licence, Nalunaq A/S is required to expend a total of \$203,000 in 2018 on exploration activities.

##### **19.24 The Corporation is exposed to fluctuation in exchange rates.**

A portion of the Corporation's undertakings are in Greenland. As a result, revenues, cash flows, expenses, capital expenditure and commitments are primarily denominated in Danish Krone, Euros, Canadian dollars, U.S. dollars and U.K. Pound Sterling. This results in the income, expenditure and cash flows of the Corporation being exposed to fluctuations and volatilities in exchange rates, as determined in international markets. The amount of revenue generated by the Corporation in Canadian dollars to pay dividends and operating costs will fluctuate with changes in exchange rates. Changes in exchange rates are outside the Corporation's control.

##### **19.25 The Corporation is subject to political risks.**

The Corporation's underlying business interests are located and carried out in Greenland. As a result, the Corporation is subject to political and other uncertainties, including but not limited to, changes in politics or the personnel administering them, nationalisation or expropriation of property, cancellation or modification of contractual rights, foreign exchange restrictions, currency fluctuations, royalty and tax increases and other risks arising out of foreign governmental sovereignty over the areas in which the Corporation's operations are conducted.

The Greenland Home Rule Government has responsibility for the mineral resources area in Greenland. The political condition in Greenland is generally stable; however, changes in exchange rates, control of fiscal regulations and regulatory regimes, labour unrest, inflation or economic recession could affect the Corporation's business. The management of the Corporation will closely monitor events and take advice, if necessary, from experts to prepare for any eventualities.

#### **20. MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

The Corporation's Financial Statements are the responsibility of the Corporation's management. The Financial Statements were prepared by the Corporation's management in accordance with IFRS. The Financial Statements include certain amounts based on the use of estimates, judgements and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the Financial Statements are presented fairly in all material respects.

The Financial Statements have been approved by the board of directors based on the estimates, judgements and assumptions as presented by management.

# **AEX Gold Inc.**

## **Management Discussion & Analysis**

For the year ended December 31, 2018

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### **21. FORWARD LOOKING INFORMATION**

This MD&A contains forward-looking information within the meaning of applicable securities legislation, which reflects the Corporation's current expectations regarding future events, including expectations regarding the completion of the Offering, the receipt of necessary authorizations from securities regulatory authorities and the use of the net proceeds from the Offering. Such statements can be recognized by the terms "forecast", "anticipate", "consider", "foresee" and other terms and similar expressions. In this MD&A there is forward-looking information based on a number of assumptions and subject to a number of risks and uncertainties, many of which are beyond the Corporation's control that could cause actual results and events to differ materially from those that are disclosed in or implied by such forward-looking information. Such risks and uncertainties include, but are not limited to, failure to complete the Offering and the factors discussed under "Risk Factors" in Section 19. Any forward-looking information included in this MD&A is based only on information currently available to the Corporation and speaks only as of the date on which it is made. Except as required by applicable securities laws, the Corporation assumes no obligation to update or revise any forward-looking information to reflect new circumstances or events.

April 17, 2019

(s) "Eldur Ólafsson"

Eldur Ólafsson  
President, CEO and Director

(s) "Ingrid Martin"

Ingrid Martin  
CFO



## *Independent auditor's report*

To the Shareholders of AEX Gold Inc.

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### *Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of AEX Gold Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS).

#### **What we have audited**

The Company's consolidated financial statements comprise:

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

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### *Basis for opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

#### **Independence**

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

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### *Material uncertainty related to going concern*

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

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PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.  
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### *Other information*

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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

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### *Auditor's responsibilities for the audit of the consolidated financial statements*

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



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



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

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

The engagement partner on the audit resulting in this independent auditor's report is Marc-Stéphane Pennee.

*PricewaterhouseCoopers LLP<sup>1</sup>*

Montréal, Quebec  
April 17, 2019

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<sup>1</sup> CPA auditor, CA, public accountancy permit No. A123642

**AEX Gold Inc.**  
**Consolidated Statements of Financial Position**

As at December 31, 2018 and 2017  
(In Canadian Dollars)

	Notes	As at December 31, 2018 \$	As at December 31, 2017 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		963,788	1,465,277
Escrow account for environmental monitoring	5	209,695	138,386
Sales tax receivable		9,285	18,849
Prepaid expenses and others		22,280	56,697
<b>Total current assets</b>		<b>1,205,048</b>	<b>1,679,209</b>
<b>Non-current assets</b>			
Escrow account for environmental monitoring	5	373,091	505,131
Mineral properties	6	35,869	29,535
Property and equipment	7	348,813	160,108
<b>Total non-current assets</b>		<b>757,773</b>	<b>694,774</b>
<b>TOTAL ASSETS</b>		<b>1,962,821</b>	<b>2,373,983</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Trade and other payables		109,918	273,825
Payables to shareholders	8	8,234	16,456
Current portion of environmental monitoring provision	9	209,695	138,386
<b>Total current liabilities</b>		<b>327,847</b>	<b>428,667</b>
<b>Non-current liabilities</b>			
Environmental monitoring provision	9	-	134,687
<b>Total non-current liabilities</b>		<b>-</b>	<b>134,687</b>
<b>Total liabilities</b>		<b>327,847</b>	<b>563,354</b>
<b>Equity</b>			
Capital stock	11	10,058,355	6,696,759
Warrants	12	321,788	273,889
Contributed surplus		956,800	518,630
Accumulated other comprehensive loss		(36,772)	(36,772)
Deficit		(9,665,197)	(5,641,877)
<b>Total equity</b>		<b>1,634,974</b>	<b>1,810,629</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,962,821</b>	<b>2,373,983</b>

Going concern 1

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

**Approved by the Board of Directors**

*(s) Eldur Ólafsson*  
Eldur Ólafsson  
Director

*(s) George Fowlie*  
George Fowlie  
Director

## AEX Gold Inc.

### Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2018 and 2017

(In Canadian Dollars)

	Notes	2018	2017
		\$	\$
<b>Expenses</b>			
Exploration and evaluation expenses	16	2,185,493	2,808,517
General and administrative	17	1,085,630	1,212,237
Stock-based compensation	13	438,170	518,630
Short form prospectus expenses	18	322,701	-
Foreign exchange gain		(8,249)	(52,958)
Operating loss		4,023,745	4,486,426
<b>Other expenses (income)</b>			
Interest income		(10,640)	(3,629)
Finance costs	19	10,215	7,152
<b>Net loss</b>		<b>(4,023,320)</b>	<b>(4,489,949)</b>

#### Other comprehensive loss that may not be reclassified subsequently to net loss:

Exchange rate differences on translation from functional to presentation currency		-	(2,823)
<b>Other comprehensive loss</b>		-	(2,823)
<b>Comprehensive loss</b>		<b>(4,023,320)</b>	<b>(4,492,772)</b>

Weighted average number of common shares outstanding - basic and diluted		53,734,961	43,333,821
Basic and diluted loss per common share	21	(0.08)	(0.10)

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

# AEX Gold Inc.

## Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(In Canadian Dollars)

	Notes	Number of common shares outstanding	Capital stock	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total equity
<b>Balance, January 1, 2017</b>	<b>1.1</b>	<b>35,657,869</b>	<b>1,088,160</b>	-	<b>224,562</b>	<b>27,145</b>	<b>(1,151,928)</b>	<b>187,939</b>
Net loss		-	-	-	-	-	(4,489,949)	(4,489,949)
Other comprehensive loss		-	50,756	-	10,338	(63,917)	-	(2,823)
<b>Comprehensive loss</b>								<b>(4,492,772)</b>
Share issuance in consideration of cash		1	1	-	-	-	-	1
Share issuance in consideration of conversion of debt	<b>10</b>	342,130	171,065	-	-	-	-	171,065
Share issuance in initial public offering ("IPO")	<b>10</b>	13,592,500	6,796,250	-	-	-	-	6,796,250
Pre-IPO Reorganization	<b>10</b>	-	234,600	-	(234,600)	-	-	-
Warrants issuance in IPO	<b>12</b>	-	(273,889)	273,889	-	-	-	-
Stock-based compensation	<b>13</b>	-	-	-	518,330	-	-	518,330
Share issuance costs		-	(1,370,184)	-	-	-	-	(1,370,184)
<b>Balance, December 31, 2017</b>		<b>49,592,500</b>	<b>6,696,759</b>	<b>273,889</b>	<b>518,630</b>	<b>(36,772)</b>	<b>(5,641,877)</b>	<b>1,810,629</b>
<b>Balance, January 1, 2018</b>		<b>49,592,500</b>	<b>6,696,759</b>	<b>273,889</b>	<b>518,630</b>	<b>(36,772)</b>	<b>(5,641,877)</b>	<b>1,810,629</b>
Net and comprehensive loss		-	-	-	-	-	(4,023,320)	(4,023,320)
Share issuance under private placements	<b>11</b>	8,195,999	3,503,990	-	-	-	-	3,503,990
Warrants issuance under a private placement	<b>12</b>	-	(47,899)	47,899	-	-	-	-
Share issuance costs	<b>12</b>	-	(94,495)	-	-	-	-	(94,495)
Stock-based compensation	<b>13</b>	-	-	-	438,170	-	-	438,170
<b>Balance, December 31, 2018</b>		<b>57,788,499</b>	<b>10,058,355</b>	<b>321,788</b>	<b>956,800</b>	<b>(36,772)</b>	<b>(9,665,197)</b>	<b>1,634,974</b>

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

# AEX Gold Inc.

## Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(In Canadian Dollars)

	Notes	2018 \$	2017 \$
<b>Operating activities</b>			
Net loss		(4,023,320)	(4,489,949)
Adjustments for:			
Depreciation	7	114,593	32,021
Stock-based compensation	13	438,170	518,330
Finance costs	19	10,215	7,152
Payment from cash held in escrow account for environmental monitoring	5	(85,015)	(10,036)
Escrow account for environmental monitoring	9	85,015	10,036
Foreign exchange gain		(8,623)	(32,654)
		(3,468,965)	(3,965,100)
Changes in non-cash working capital items:			
Sales tax receivable		9,564	(18,849)
Prepaid expenses and others		29,611	(51,217)
Trade and other payables		(145,967)	141,326
Payables to shareholders		(8,222)	5,119
		(115,014)	76,379
<b>Cash flow used in operating activities</b>		<b>(3,583,979)</b>	<b>(3,888,721)</b>
<b>Investing activities</b>			
Acquisition of mineral properties	6	(6,334)	(27,768)
Acquisition of property and equipment	7	(303,298)	(192,129)
<b>Cash flow used in investing activities</b>		<b>(309,632)</b>	<b>(219,897)</b>
<b>Financing activities</b>			
Share issuance	11	3,503,990	6,796,251
Share issuance costs		(110,743)	(1,353,936)
Loans from shareholders	8	-	254,233
Reimbursement of loans from shareholders	8	-	(254,233)
<b>Cash flow from financing activities</b>		<b>3,393,247</b>	<b>5,442,315</b>
Net change in cash before effects of exchange rate changes on cash		(500,364)	1,333,697
Effects of exchange rate changes on cash		(1,125)	(5,742)
Net change in cash		(501,489)	1,327,955
Cash, beginning		1,465,277	137,322
<b>Cash, ending</b>		<b>963,788</b>	<b>1,465,277</b>
<b>Supplemental cash flow information</b>			
Interest received		10,640	3,629
Net decrease in investing activities including in trade and other payables		-	16,665
Share issuance costs included in trade and other payables		-	21,048
Share issuance costs included in prepaid expenses and others		-	4,800
Share issued in payment of payables and loans to shareholders		-	171,065

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

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### 1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN

AEX Gold Inc. (the "Corporation") (previously known as Alopex Gold Inc.) was incorporated on February 22, 2017 under the *Canada Business Corporations Act*. The Corporation's head office is situated at 123 Front Street West, suite 905, Toronto, Ontario, Canada. The Corporation operates in one industry segment, being the acquisition, exploration and development of mineral properties. It owns interests in properties located in Greenland. The Corporation's financial year ends on December 31. Since July 2017, the Corporation's shares are listed on the TSX Venture Exchange (the "Exchange") under the AEX ticker.

These consolidated financial statements ("Financial Statements") were reviewed and authorized for issue by the Board of Directors on April 17, 2019.

#### 1.1 Basis of presentation and consolidation

The Corporation's properties were acquired upon the reorganisation that was completed on June 26, 2017 whereby the Corporation acquired 100% of the shares of Nalunaq A/S, a corporation incorporated under the *Greenland Public Companies Act*, in anticipation of the IPO of the Corporation on the Exchange completed on July 13, 2017 (Note 10). As the Corporation was founded by the same group of shareholders as Nalunaq A/S and in contemplation of the reorganisation, said reorganisation is accounted for as a reorganisation of the capital of Nalunaq A/S. These Financial Statements thus reflect the continuation of the activities of Nalunaq A/S for periods prior to the incorporation of the Corporation on February 22, 2017, the combined activities of the Corporation and Nalunaq A/S for the period from February 22, 2017 until the reorganization on June 26, 2017, and the consolidated activities of the Corporation since June 26, 2017.

Control is defined by the authority to direct the financial and operating policies of a business in order to obtain benefits from its activities. The amounts presented in the consolidated financial statements of subsidiary have been adjusted, if necessary, so that they meet the accounting policies adopted by the Corporation.

Profit or loss or other comprehensive loss of subsidiary set up, acquired or sold during the year are recorded from the actual date of acquisition or until the effective date of the sale, if any. All intercompany transactions, balances, income and expenses are eliminated at consolidation.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

#### 1.2 Going concern

The Financial Statements were prepared using IFRS applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due. In assessing whether the going concern assumption is appropriate, senior management of the Corporation ("Management") takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment of material uncertainties related to events and conditions that lend a significant doubt upon the Corporation's ability to continue as a going concern and accordingly, the appropriateness of the use of IFRS applicable to a going concern, as described in the following paragraph. The Financial Statements do not reflect the adjustment to the carrying values of assets and liabilities, expenses and financial position classifications that would be necessary if the going concern assumption would not be appropriate. These adjustments could be material.

The Corporation recorded a loss of \$4,023,320 for 2018 (\$4,489,949 for 2017) and has an accumulated deficit of \$9,665,197 as at December 31, 2018 (\$5,641,877 as at December 31, 2017). In addition to ongoing working capital requirements, the Corporation must secure sufficient funding to meet its other obligations, existing commitments for the exploration and evaluation programs including the unspent amount on the Nalunaq Licence discussed in Note 6 and pay general and administration costs. As at December 31, 2018, the Corporation had a working capital of \$877,201 (\$1,250,542 as at December 31, 2017). These conditions indicate the existence of material uncertainties that may cast a significant doubt regarding the Corporation's ability to continue as a going concern.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **1. NATURE OF OPERATIONS, BASIS OF PRESENTATION AND GOING CONCERN (CONT'D)**

The Corporation' ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties. The completion in 2017 of the IPO of the Corporation discussed in Note 10 and of the private placements in May and October 2018, contributed to such financing. While Management has secured financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available for the Corporation or that they will be available on terms which are acceptable to the Corporation. If Management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these Financial Statements and this could have a significant impact on the financial position of the Corporation, its financial performance and its cash flows.

The measurement of certain assets and liabilities is dependent on future events; therefore the preparation of these Financial Statements requires the use of estimates, which may vary from actual results. The success of the Corporation' exploration and evaluation activities is influenced by significant financial risks, legal and political risks, commodity prices, and the ability of the Corporation to discover economically recoverable reserves.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 Basis of measurement**

The Financial Statements have been prepared on the historical cost basis.

#### **2.2 Functional and presentation currency – Foreign currency transactions**

The functional and presentation currency is Canadian dollars ("CAD"). The functional currency of Nalunaq A/S was Danish Krone ("DKK") up until June 30, 2017 and it was changed thereafter to CAD. The functional currency of Nalunaq A/S is determined using the currency of the primary economic environment in which the entity evolves and using the currency which is more representative of the economic effect of the underlying financings, transactions, events and conditions.

Foreign currency transactions are translated into the functional currency of the underlying entity using appropriate rates of exchange prevailing on the dates of such transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of each reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the net profit or loss.

Until June 30, 2017, for presentation purposes, the results of operations are translated to CAD at an appropriate average rate of exchange during the year and are included in net profit or loss. The assets, liabilities, capital stock and contributed surplus are translated to CAD at rates of exchange in effect at the end of the period. Gains or losses arising on translation to the presentation currency for assets, liabilities, capital stock and contributed surplus to CAD at period end are recognized in other comprehensive loss as a foreign currency translation adjustment.

When a foreign operation is sold, such exchange differences are recognized in the statement of comprehensive loss as part of the gain or loss on sale.

#### **2.3 Mineral properties and exploration and evaluation expenses**

Mineral properties include rights in mining properties, paid or acquired through a business combination or an acquisition of assets, and costs related to the initial search for mineral deposits with economic potential or to obtain more information about existing mineral deposits.

All costs incurred prior to obtaining the legal rights to undertake exploration and evaluation on an area of interest are expensed as incurred.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Mining rights are recorded at acquisition cost or at its recoverable amount in the case of a devaluation caused by an impairment of value. Mining rights and options to acquire undivided interests in mining rights are depreciated only as these properties are put into commercial production. Proceeds from the sale of mineral properties are applied as a reduction of the related carrying costs and any excess or shortfall is recorded as a gain or loss in the consolidated statement of comprehensive loss.

Exploration and evaluation expenses ("E&E expenses") also typically include costs associated with prospecting, sampling, trenching, drilling and other work involved in searching for ore such as topographical, geological, geochemical and geophysical studies. Generally, expenditures relating to exploration and evaluation activities are expensed as incurred. Capitalization of E&E expenses commences when a mineral resource estimate has been obtained for an area of interest.

E&E expenses include costs related to establishing the technical and commercial viability of extracting a mineral resource identified through exploration or acquired through a business combination or asset acquisition. E&E include the cost of:

- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
- determining the optimal methods of extraction and metallurgical and treatment processes, including the separation process, for Corporation' mining properties;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

When a mine project moves into the development phase, E&E expenses are capitalized to mine development costs. An impairment test is performed before reclassification and any impairment loss is recognized in the consolidated statement of comprehensive loss.

E&E include overhead expenses directly attributable to the related activities.

The Corporation has taken steps to verify the validity of title to mineral properties on which it is conducting exploration activities and is acquiring interests in accordance with industry standards that apply to the current stage of exploration and evaluation of such property. However, these procedures do not guarantee the Corporation' title, as property title may be subject to unregistered prior agreements, aboriginal claims or noncompliance with regulatory requirements.

#### 2.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying amount of a replaced asset is derecognized when replaced.

Repairs and maintenance costs are charged to the consolidated statement of comprehensive loss during the period in which they are incurred.

Depreciation is calculated to amortize the cost of the property and equipment less their residual values over their estimated useful lives using the straight-line method and following periods by major categories:

Vehicles and rolling stock	3 years
Field equipment and base camp related to exploration and evaluation activities	3 years

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Depreciation of property and equipment, if related to exploration activities, is expensed consistently with the policy for exploration and evaluation expenses. For those which are not related to exploration and evaluation activities, depreciation expense is recognized directly in the consolidated statement of comprehensive loss.

Depreciation of an asset ceases when it is classified as held for sale (or included in a disposal group that is classified as held for sale) or when it is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Residual values, methods of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property and equipment are determined by comparing the proceeds with the carrying amount of the asset and are recorded in the consolidated statement of comprehensive loss.

#### **2.5 Impairment of non-financial assets**

Mineral properties and property and equipment are reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Mineral properties and property and equipment are reviewed by area of interest. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the asset group to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or asset group is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the consolidated statement of comprehensive loss. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. A reversal is recognized as a reduction in the impairment charge for the period.

#### **2.6 Environmental monitoring provision**

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The Corporation is subject to laws and regulations relating to environmental matters, including land reclamation and discharge of hazardous materials and environmental monitoring. The Corporation may be found to be responsible for damage caused by prior owners and operators of its unproven mineral interests and in relation to interests previously held by the Corporation.

On initial recognition, the estimated net present value of a provision is recorded as a liability and a corresponding amount is added to the capitalized cost of the related non-financial asset or charged to consolidated statement of comprehensive loss if the property has been written off. Discount rates using a pre-tax rate that reflects the time value of money and the risk associated with the liability are used to calculate the net present value. The provision is evaluated at the end of each reporting period for changes in the estimated amount or timing of settlement of the obligation.

#### **2.7 Taxation**

Income tax expense represents the sum of tax currently payable and deferred tax.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Current income tax assets and liabilities for the current and prior periods 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 substantively enacted by the date of the consolidated statement of financial position.

Deferred income taxes are provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable earnings; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income 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 date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### 2.8 Equity

Capital stock represents the amount received on the issue of shares. Options represents the charges related to stock options until they are exercised. Contributed surplus includes charges related to stock options that are expired and not exercised. Contributed surplus also includes contributions from shareholders. Deficit includes all current and prior period retained profits or losses and share issue expenses.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

Share and warrant issue expenses are accounted for in the year in which they are incurred and are recorded as a deduction to equity in the deficit in the year in which the shares are issued.

Proceeds from unit placements are allocated between shares and warrants issued on a pro-rata basis of their value within the unit using the Black-Scholes pricing model.

#### **2.9 Interest income**

Interest income from financial assets is accrued, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### **2.10 Stock-based compensation**

Employees and consultants of the Corporation may receive a portion of their compensation in the form of share-based payment transactions, whereby employees or consultants render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued for goods or services, the transaction is measured at the fair value of the goods or services received by the entity. When the value of the goods or services cannot be specifically identified, they are measured at fair value of the share-based payment. The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Corporation's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional amount is recognized on the same basis as the amount of the original award for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

#### **2.11 Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding options and warrants, in the weighted average number of common shares outstanding during the year, if dilutive. During 2018 and 2017, all the outstanding common share equivalents were anti-dilutive.

#### **2.12 Financial instruments**

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is an unconditional and legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

All financial instruments are required to be measured at fair value on initial recognition. The fair value is based on quoted market prices, unless the financial instruments are not traded in an active market. In this case, the fair value is determined by using valuation techniques like the Black-Scholes option pricing model or other valuation techniques.

#### 2.12.1 Financial assets

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset have expired, or when the financial asset and all substantial risks and rewards have been transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. On initial recognition, the Corporation classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired.

##### *Amortized cost:*

Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments constituted solely of payments of principal and interest that are held within a "held to collect" business model. Financial assets at amortized cost are initially recognized at the amount expected to be received, less, when material, a discount to reduce the financial assets to fair value. Subsequently, financial assets at amortized cost are measured using the effective interest method less a provision for expected losses. The Corporation's cash and escrow account for environmental monitoring are classified within this category.

Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated statement comprehensive loss.

#### 2.12.2 Financial liabilities

A financial liability is derecognized when extinguished, discharged, terminated, cancelled or expired.

##### *Financial liabilities measured at amortized cost*

Trade and other payables and payables to shareholders are initially measured at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, financial liabilities are measured at amortized cost using the effective interest method.

#### 2.12.3 Impairment of financial assets

##### *Amortized cost:*

At each reporting date, the Corporation assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The expected loss is the difference between the amortized cost of the financial asset and the present value of the expected future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account. Provisions for expected losses are adjusted upwards or downwards in subsequent periods if the amount of the expected loss increases or decreases.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

#### **2.13 Segment disclosures**

The Corporation operates in one industry segment, being the acquisition, exploration and evaluation of mineral properties. All of the Corporation' activities are conducted in Greenland.

### **3. CHANGES IN ACCOUNTING POLICIES**

#### **3.1 Accounting standards issued but not yet effective**

The Corporation has not yet adopted certain standards, interpretations to existing standards and amendments that have been issued but have an effective date of later than January 1, 2019. All of these updates are not relevant to the Corporation and are therefore not discussed herein.

### **4. CRITICAL ACCOUNTING JUDGMENTS AND ASSUMPTIONS**

The preparation of these Financial Statements requires Management to make judgments and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. On an ongoing basis, Management evaluates its judgments in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments. Actual outcomes may differ from these estimates under different assumptions and conditions. Critical judgments exercised in applying accounting policies with the most significant effect on the amounts recognized in the Financial Statements are described below.

#### **JUDGMENTS**

#### **4.1 Going concern**

The assessment of the Corporation' ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future cash flows from operations and events that are believed to be reasonable under the circumstances.

#### **4.2 Impairment of mineral properties**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations in many cases.

Determining whether to test for impairment of mineral properties requires Management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed; substantive expenditure on further exploration and evaluation of mineral resources in a specific area is neither budgeted nor planned; exploration for and evaluation of mineral resources in a specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; or sufficient data exists to indicate that, although a development in a specific area is likely to proceed, the carrying amount of the mineral properties is unlikely to be recovered in full from successful development or by sale.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **4. CRITICAL ACCOUNTING JUDGMENTS AND ASSUMPTIONS (CONT'D)**

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined. Identifying the cash-generating units requires considerable management judgment. In testing an individual asset or cash-generating unit for impairment and identifying a reversal of impairment losses, Management estimates the recoverable amount of the asset or the cash-generating unit. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation and significant adjustments to the Corporation' assets and earnings may occur during the next period.

#### **4.3 Recognition of deferred income tax assets and the measurement of income tax expense**

Periodically, the Corporation evaluates the likelihood of whether some portion of the deferred tax assets will not be realized. Once the evaluation is completed, if the Corporation believes that it is probable that some portion of the deferred tax assets will fail to be realized, the Corporation records only the remaining portion for which it is probable that there will be available future taxable profit against which the temporary differences can be utilized. Assessing the recoverability of deferred income tax assets requires Management to make significant judgment.

To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the net deferred tax assets recorded at the statement of financial position date could be impacted. Significant judgment is required in determining the income tax recovery as there are transactions and calculations for which the ultimate tax determination is uncertain.

#### **4.4 Determination of functional currency**

In accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates", Management determined that the functional currency of the Corporation and its subsidiary is the Canadian dollar.

### **ESTIMATES AND ASSUMPTIONS**

#### **4.5 Environmental monitoring costs**

The provisions for environmental monitoring costs are based on estimated future costs using information available at the financial reporting date. Determining these obligations requires significant estimates and assumptions due to the numerous factors that affect the amount ultimately payable. Such factors include estimates of the scope and cost of restoration activities, legislative amendments, known environmental impacts, the effectiveness of reparation and restoration measures and changes in the discount rate. This uncertainty may lead to differences between the actual expense and the provision. At the date of the consolidated statement of financial position, environmental monitoring costs represent Management's best estimate of the charge that will result when the actual obligation is terminated.

### **5. ESCROW ACCOUNT FOR ENVIRONMENTAL MONITORING**

On behalf of Nalunaq's licence holder, an escrow account has been set up with the holder of the licence as holder of the account and the Government of Greenland as beneficiary. The funds in the escrow account have been provided in favour of the Government of Greenland as security for fulfilling the environmental monitoring expenses following the closure of the Nalunaq mine.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

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### 5. ESCROW ACCOUNT FOR ENVIRONMENTAL MONITORING (CONT'D)

	2018	2017
	\$	\$
Balance beginning	643,517	617,213
Effect of translation	24,284	36,340
Payment for environmental monitoring work	(85,015)	(10,036)
Balance ending	582,786	643,517
Non-current portion – escrow account for environmental monitoring	(373,091)	(505,131)
<b>Current portion – escrow account for environmental monitoring</b>	<b>209,695</b>	<b>138,386</b>

### 6. MINERAL PROPERTIES

	As at December 31, 2017	Additions	As at December 31, 2018
	\$	\$	\$
Nalunaq	1	-	1
Tartoq	18,431	-	18,431
Vagar	11,103	-	11,103
Naalagaaffiup Portornga	-	6,334	6,334
<b>Total mineral properties</b>	<b>29,535</b>	<b>6,334</b>	<b>35,869</b>

	As at December 31, 2016	Effect of translation	Additions	As at December 31, 2017
	\$	\$	\$	\$
Nalunaq	1	-	-	1
Tartoq	17,617	814	-	18,431
Vagar	-	-	11,103	11,103
<b>Total mineral properties</b>	<b>17,618</b>	<b>814</b>	<b>11,103</b>	<b>29,535</b>

#### 6.1 Nalunaq

Nalunaq A/S holds the gold exploitation licence number 2003/05 on the Nalunaq property (the “Nalunaq Licence”) located in South West Greenland. The licence expires in April 2033 with an extension possible up to 50 years.

##### 6.1.1 Collaboration agreement and project schedule

Cyrus Capital Partners LP was the main creditor of Angel Mining PLC, the parent company of Angel Mining (Gold) A/S. Angel Mining PLC went into administration in February 2013 and as part of the Administrator’s restructuring process, FBC Mining (Holdings) Ltd. (“FBC Mining”) and Arctic Resources Capital S.à r.l. (“ARC”) agreed to enter into a collaboration agreement (“Collaboration Agreement”) (signed July 15, 2015) to progress the Nalunaq exploration project. FBC Mining is a 100% subsidiary of FBC Holdings S.à r.l which is managed by Cyrus Capital Partners LP.

In addition, ARC, FBC Mining and AEX Gold Limited (previously known as FBC Mining (Nalunaq) Limited) (a 100% subsidiary of FBC Mining) signed on July 17, 2015 the Nalunaq project schedule (“2015 Project Schedule”) which was continued following the signature with Nalunaq A/S on March 31, 2017 of the 2016-2017 Nalunaq Project Schedule (“2016-2017 Project Schedule”), (collectively “Project Schedules”). Under the Project Schedules, the following collaboration conditions are defined:

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

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### 6. MINERAL PROPERTIES (CONT'D)

- a) ARC shall undertake an exploration program in the summer of 2015.
- b) The activities will consist of progressing the work programs approved by the Mineral Licence and Safety Authority in Greenland ("MLSA") in respect of the Nalunaq Licence in 2015 and 2016, providing assistance as may be required in connection with the IPO and manage Nalunaq A/S.
- c) The Project Schedules are in effect up to the earliest of i) the completion of the IPO, ii) June 30, 2017 and iii) the date on which the 2016-2017 Project Schedule is terminated in accordance with the Collaboration Agreement.

In preparation for the Pre-IPO Reorganization, an agreement was signed on May 30, 2017 between ARC, AEX Gold Limited, FBC Mining and Nalunaq A/S whereby the 2016-2017 Project Schedule effective date was extended up to July 31, 2017.

Finally, the conditions relating to a processing plant located on the Nalunaq Licence ("Processing Plant") and a royalty payment were outlined in the 2015 Project Schedule and formalized in the processing plant and royalty agreement ("Processing Plant and Royalty Agreement") signed on March 31, 2017 and the conditions are as follows:

- a) AEX Gold Limited transfers the Processing Plant to Nalunaq A/S under the following conditions:
  - i) An initial purchase price of US\$1;
  - ii) A deferred consideration of US\$1,999,999 ("Deferred Consideration") on a pay as you go basis until the Deferred Consideration is paid in full. If only part of the Processing Plant is used, then the Deferred Consideration payable shall be reduced by an amount to be agreed by the parties to reflect the value of the part of the Processing Plant used.
  - iii) The Deferred Consideration may be reduced to the extent that the Processing Plant or any part which is being used requires repairs, is not in good working conditions or will not be capable of doing the work for which it was designed.
  - iv) Nalunaq A/S may dispose or otherwise deal with the Processing Plant or any part of it at its own cost. If any disposal proceeds (defined as proceeds received minus costs of dealing with the disposal) are received, that disposal proceeds shall be paid to AEX Gold Limited and such amount shall be deemed to be Deferred Consideration. If there are any disposal proceeds remaining after the Deferred Consideration has been paid in full, the disposal proceeds remaining may be retained by Nalunaq A/S.
- b) Nalunaq A/S shall pay to AEX Gold Limited a 1% royalty on Nalunaq A/S' net revenue generated on the Nalunaq Licence (total revenue minus production, transportation and refining costs), provided that in respect to the last completed calendar year, the operating profit per ounce of gold exceeded US\$500. The cumulative royalty payments over the life of mine are capped at a maximum of US\$1,000,000.

#### 6.1.2 Government of Greenland royalty

The Nalunaq Licence and subsequent Addendums does not have a royalty clause. However, according to the Addendum 3 of the *Mineral Resources Act* enacted on July 1, 2014, the Greenland Government may set terms on the licensee's payment of royalty or consideration, if the Greenland Government and the licensee agree, since the Nalunaq Licence was granted before July 1, 2014. Nalunaq A/S may have to pay to the Government of Greenland a sales royalty of up to 2.5% of the value of the minerals. Nalunaq A/S may on certain terms offset an amount equal to paid corporate income tax and corporate dividend tax against the sales royalty to be paid.

#### 6.1.3 Exploration commitments and exploitation milestones

Under Addendum No. 2 of the Nalunaq Licence dated March 2016 and as subsequently amended with Addendum No. 3 dated May 2016, Nalunaq A/S is committed to perform exploration activities for an estimated amount of US\$1,750,000 in 2016 and US\$9,600,000 from January 1, 2017 to December 31, 2018, for a total of US\$11,350,000.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **6. MINERAL PROPERTIES (CONT'D)**

On March 27, 2017, the MLSA confirmed that the Government of Greenland had approved that the outstanding exploration obligation initially scheduled to be incurred by December 31, 2016 (sub period 2) be carried forward to the ensuing licence period. As a result, Nalunaq A/S is committed to perform specific exploration activities stated in Addendum No. 3 and as subsequently confirmed with Addendum No. 4 (dated June 2017 which was signed by the Government of Greenland and therefore became effective on December 5, 2017) totaling an estimated amount of US\$10,259,000 by no later than December 31, 2018 (sub period 3). This US\$10,259,000 takes into account the Addendum No. 3 obligation totaling an estimated amount of US\$11,350,000 less the US\$1,091,000 expenditures of 2016 calculated in line with the MLSA guidelines. For the purpose of crediting expenditures for MLSA purposes, actual expenditures are multiplied by a factor of between 1.5 and 3, depending upon the type of expenditures made. In the event the additional exploration expenditures totaling an estimated amount of US\$10,259,000 are not made by December 31, 2018, Nalunaq A/S would request a rollover of any unspent amount to the next period (sub period 4), subject to approval from the MLSA. Nalunaq A/S has submitted its statements of expenses for the Nalunaq Licence for the 2017 and 2018 years to the MLSA and is now awaiting confirmation from the MLSA regarding a rollover of unspent amount to the subsequent period. Failure to satisfy any of the conditions set forth in the addendums to the Nalunaq Licence may result in the MLSA revoking the Nalunaq Licence without further notice.

No later than December 31, 2019, the licensee shall submit a report on a bankable feasibility study, prepare an environmental impact assessment and social impact assessment and by December 31, 2020, perform an impact benefit agreement. The time limit for commencement of exploitation is January 1, 2021.

#### **6.2 Tartog**

##### **6.2.1 Purchase of the Tartog Licence**

Nalunaq A/S signed on July 6, 2016 a sale and purchase agreement, to purchase from Nanoq Resources Ltd. the Tartog exploration licence number 2015/17 located in Southwest Greenland, for a total consideration of \$7,221. The licence expires December 31, 2019 with a possible 5 year extension.

##### **6.2.2 Exploration commitments**

Under the exploration licence, Nalunaq A/S shall complete DKK 959,340 of exploration activities in 2017, adding the non-fulfilled exploration obligation 2016 of DKK 105,587, for a total of DKK 1,064,927 (\$222,446 using the exchange rate as at December 31, 2018) exploration obligation in 2017. For the purpose of crediting expenditures against the amounts set forth in the Tartog Licence, actual expenditures are multiplied by a factor of between 1.5 and 3, depending upon the type of expenditures made. If these obligations are not met, certain measures may be taken by the licence holder to rectify the situation, including reducing the area of the licence proportionately to the spending shortfall or rolling over the exploration commitment to the next period subject to approval from the MLSA. Based on the December 31, 2017 expense report submitted to the MLSA for their approval, Nalunaq A/S estimates it has met the 2016 and 2017 exploration obligation. For 2018, Nalunaq A/S is required to expense a total of DKK 972,720 (\$203,186 using the exchange rate as at December 31 2018) on exploration activities. Nalunaq A/S has submitted its statements of expenses for the Tartog exploration licence for the 2018 year to the MLSA and is now awaiting confirmation from the MLSA regarding a rollover of the exploration commitment to the subsequent period.

# **AEX Gold Inc.**

## **Notes to the Consolidated Financial Statements**

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

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### **6. MINERAL PROPERTIES (CONT'D)**

#### **6.3 Naalagaaffiup Portornga (Land Adjacent to Existing Tartoq Licence)**

##### **6.3.1 Purchase of the Naalagaaffiup Portornga Licence**

The Corporation has acquired the right to conduct exploration activities on approximately 170km<sup>2</sup> of land in an area adjacent to the Tartoq Licence. The exploration rights have been granted to the Corporation under a new separate exploration Licence 2018/17 Naalagaaffiup Portornga and the licence expires December 31, 2022 with a possible 5 year extension. The licence application has been approved and all required documentation was signed by the Corporation on January 16, 2018 and the licence became effective on February 19, 2018 when it was signed by the Greenland authorities.

##### **6.3.2 Exploration commitments**

The exploration commitment for this new exploration Licence is DKK 445,500 (\$93,058 using the exchange rate as at December 31, 2018) in 2018. For the purpose of crediting expenditures against the amounts set forth in the Naalagaaffiup Portornga Licence, actual expenditures are multiplied by a factor of between 1.5 and 3, depending upon the type of expenditures made. If these obligations are not met, certain measures may be taken by the licence holder to rectify the situation, including reducing the area of the licence proportionately to the spending shortfall or rolling over the exploration commitment to the next period subject to approval from the MLSA. Nalunaq A/S has submitted its statements of expenses for the Naalagaaffiup Portornga exploration licence for the 2018 year to the MLSA and is now awaiting confirmation from the MLSA regarding a rollover of the exploration commitment to the subsequent period.

#### **6.4 Vagar**

##### **6.4.1 Purchase of the Vagar Licence**

Nalunaq A/S entered into a sale and purchase agreement with NunaMinerals A/S, acting through its bankruptcy receiver, on February 6, 2017 to acquire the Vagar exploration licence number 2006/10 ("Vagar Licence") located in Western Greenland, along with all mineral exploration and mining-related data, maps and reports pertaining to the Vagar Licence, studies and reports, for a purchase price of \$9,465 (DKK 50,000). Upon the approval of the Greenland authorities received on October 30, 2017, Nalunaq A/S signed the paperwork to complete the licence transfer, which became effective upon the Greenland authorities executing the document on January 18, 2018. The licence expires December 31, 2021.

##### **6.4.2 Exploration commitments**

For the Vagar Licence the exploration commitment for 2018 is nil as confirmed in Addendum No. 7 to the Vagar Licence signed by the Corporation on January 22, 2018 which became effective upon the Greenland authorities executing the document on February 19, 2018.

#### **6.5 Genex**

On October 16, 2017, Nalunaq A/S was awarded a prospecting licence number 2017/45 covering West Greenland, in this context defined as areas south of 78°N and west of 44°W. It is valid for a term of five years until December 31, 2021. Nalunaq A/S is not obligated to spend exploration expenses regarding this licence area during this period.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

### 7. PROPERTY AND EQUIPMENT

	Exploration and evaluation		Total \$
	Field equipment and base camp \$	Vehicles and rolling stock \$	
<b>2017</b>			
Opening net book value	-	-	-
Additions	20,000	172,129	192,129
Depreciation	(3,333)	(28,688)	(32,021)
Closing net book value	16,667	143,441	160,108
<b>As at December 31, 2017</b>			
<b>Cost</b>	<b>20,000</b>	<b>172,129</b>	<b>192,129</b>
<b>Accumulated depreciation</b>	<b>(3,333)</b>	<b>(28,688)</b>	<b>(32,021)</b>
<b>Closing net book value</b>	<b>16,667</b>	<b>143,441</b>	<b>160,108</b>
<b>2018</b>			
Opening net book value	16,667	143,441	160,108
Additions	187,361	115,937	303,298
Depreciation	(37,894)	(76,699)	(114,593)
Closing net book value	166,134	182,679	348,813
<b>As at December 31, 2018</b>			
<b>Cost</b>	<b>207,361</b>	<b>288,066</b>	<b>495,427</b>
<b>Accumulated depreciation</b>	<b>(41,227)</b>	<b>(105,387)</b>	<b>(146,614)</b>
<b>Closing net book value</b>	<b>166,134</b>	<b>182,679</b>	<b>348,813</b>

Depreciation of property and equipment related to exploration and evaluation properties is being recorded in exploration and evaluation expenses in the consolidated statement of comprehensive loss, under depreciation. Depreciation of \$114,593 (\$32,021 – 2017) was expensed as exploration and evaluation expenses in 2018.

### 8. PAYABLES TO SHAREHOLDERS

Amounts payable to shareholders for cost recoveries related to management and professional services are detailed as follow:

	As at December 31, 2018 \$	As at December 31, 2017 \$
<b>Shareholders payables</b>		
FBC Mining (BA) Ltd.	8,234	16,456
	<b>8,234</b>	<b>16,456</b>

FBC Mining BA Ltd. ("FBC BA") is a subsidiary of FBC Mining (75%) and ARC (25%). Amounts due to shareholders are unsecured, non-interest bearing.

On March 1, 2017, March 30, 2017, April 10, 2017 and April 19, 2017, Nalunaq A/S signed loan agreements with ARC and FBC BA whereby ARC and FBC BA agreed to make available US\$80,000 (\$103,849) and US\$106,707 (\$138,518) respectively to Nalunaq A/S. The loans bore no interest and were payable in one installment upon request when Nalunaq A/S has sufficient cash reserves. Nalunaq A/S reimbursed all shareholders loans in the month of August 2017.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

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### 9. ENVIRONMENTAL MONITORING PROVISION

	2018	2017
	\$	\$
Balance beginning	273,073	260,484
Effect of translation	11,422	15,473
Payment from cash held in escrow account for environmental monitoring	(85,015)	(10,036)
Accretion expense	10,882	11,350
Change in estimates	(667)	(4,198)
Balance ending	209,695	273,073
Non-current portion – environmental monitoring provision	-	(134,687)
<b>Current portion – environmental monitoring provision</b>	<b>209,695</b>	<b>138,386</b>

The estimated undiscounted cash flows required to settle the environmental monitoring obligations attached to the Nalunaq Licence are DKK 1,038,303 (\$216,885) as at December 31, 2018. Nalunaq A/S is reviewing, at each period, the amount and the expected timing of payment of the cash flows required to settle the obligations and adjusts the environmental monitoring provision accordingly. The key assumptions applied to determine the environmental monitoring provision is a discount rate of 4.99% (4.87% as at December 31, 2017) and the calculation uses the assumption that the disbursements necessary to settle the obligations would be made in 2019, the year as estimated in the environmental monitoring program produced for the Ministry of Environment and Nature of the Government of Greenland.

### 10. TRANSACTIONS EXECUTED, PRE-IPO REORGANIZATION AND INITIAL PUBLIC OFFERING

On June 26, 2017, ARC, AEX Gold Limited and the Corporation completed the Pre-IPO Reorganization. Pursuant to the Pre-IPO Reorganization, ARC transferred the shares of Nalunaq A/S held by ARC to its shareholders by way of a distribution in kind. Upon completion of such distribution, Nalunaq A/S issued 2 shares to ARC and 1 share to AEX Gold Limited in settlement of outstanding debt obligations in the aggregate amount of \$171,065 which was owed to them for advances made to fund the operations of Nalunaq A/S, and contemporaneously therewith, each of ARC, ARC's shareholders and AEX Gold Limited transferred all of their respective shares of Nalunaq A/S to the Corporation in exchange for an aggregate of 35,999,999 Shares of the Corporation. Nalunaq A/S thereby became a wholly-owned subsidiary of the Corporation. As of June 26, 2017 (without giving effect to the prospectus offering), ARC and its shareholders and AEX Gold Limited held 66.67% and 33.33%, respectively, of the issued and outstanding shares of the Corporation.

The final prospectus was filed on June 29, 2017 by the Corporation to qualify the IPO of a minimum of 10,000,000 common shares in the share capital of the Corporation (the "Shares"), for total gross proceeds to the Corporation of \$5,000,000, and a maximum of 20,000,000 Shares, for total gross proceeds to the Corporation of \$10,000,000, at a price of \$0.50 per share.

The IPO was made pursuant to the terms of an agency agreement dated June 29, 2017 (the "Agency Agreement") between the Corporation and Paradigm Capital Inc., acting as lead agent (the "Lead Agent") and Canaccord Genuity Corp. (together with the Lead Agent, the "Agents"). The Corporation has also agreed to pay the Lead Agent a work fee of \$15,000 per month for up to four months, commencing January 1, 2017 (the "Work Fee"). Any Work Fee payable shall be creditable against any Commission that becomes payable.

On July 13, 2017, the Corporation completed its IPO of 13,592,500 common shares at a price of \$0.50 per share (the "IPO share price") for aggregate gross proceeds of \$6,796,250.

# AEX Gold Inc.

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### 10. TRANSACTIONS EXECUTED, PRE-IPO REORGANIZATION AND INITIAL PUBLIC OFFERING (CONT'D)

The Agents received a commission of \$441,756 which represents 6.5% of the gross amount raised in the IPO. In addition, the Corporation issued 883,512 compensation, non-transferable share purchase warrants (each an "Agent Warrant") which represents 6.5% of the shares sold during the IPO. The Agent Warrants are exercisable at \$0.50 (the IPO share price) on or before July 13, 2020. The total cost of the Agent Warrant is \$273,889 which was recorded under warrants. The fair value of the Agent Warrants was estimated using the Black-Scholes model with no expected dividend yield, 100% expected volatility, 1.38% risk-free interest rate and 3 years Agent Warrant expected life. The expected life and expected volatility were estimated by benchmarking comparable situations for companies that are similar to the Corporation.

### 11. SHARE CAPITAL

#### 11.1 Share Capital

The Corporation is authorized to issue an unlimited number of common voting shares and an unlimited number of preferred shares issuable in series, all without par value.

#### 11.2 Private placements

##### a) May 2018

On May 14, 2018, the Corporation completed a non-brokered private placement by issuing 5,564,422 common shares at a price of \$0.45 per share, for gross proceeds to the Corporation of \$2,503,990.

In connection with the private placement, \$32,901 finders fees were paid and 184,227 non-transferable finders warrants were issued. The finder's warrants are exercisable at any time up to 24 months following the closing of the private placement at \$0.45 per share. Insiders of the Corporation purchased an aggregate of 986,111 common shares for \$443,750 (note 22).

The Corporation incurred total issuance costs of \$136,644 of which \$88,745 was incurred in cash and \$47,899 was incurred through the issuance of the 184,227 non-transferable finders warrants. The fair value of the finders warrants of \$0.26 per finder warrant was determined using the Black-Scholes option pricing model assuming no expected dividends, a risk-free interest rate of 1.99%, an expected stock price volatility of 100%, and an expected life of 2 years. The expected volatility was estimated by benchmarking comparable situations for companies that are similar to the Corporation.

##### b) October 2018

On October 9, 2018, the Corporation completed a non-brokered private placement by issuing 2,631,577 common shares at a price of \$0.38 per share, for gross proceeds to the Corporation of \$1,000,000. Share issue costs amounted to \$5,750. Insiders of the Corporation purchased an aggregate of 759,905 common shares for \$288,764 (note 22).

### 12. AGENT WARRANTS

Changes in the Corporation's agent and finders warrants are as follow:

	2018			2017		
	Number of warrants	Carrying Value	Weighted average exercise price	Number of warrants	Carrying Value	Weighted average exercise price
Balance, beginning	883,512	\$ 273,889	\$ 0.50	-	\$ -	\$ -
Issued (notes 10&11)	184,227	47,899	0.45	883,512	273,889	0.50
<b>Balance, end</b>	<b>1,067,739</b>	<b>321,788</b>	<b>0.49</b>	<b>883,512</b>	<b>273,889</b>	<b>0.50</b>

## AEX Gold Inc.

### Notes to the Consolidated Financial Statements

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#### 12. AGENT WARRANTS (CONT'D)

Agent and finders warrants outstanding and exercisable as at December 31, 2018 are as follows:

Number of warrants outstanding and exercisable	Exercise price	Expiry date
	\$	
184,227	0.45	May 14, 2020
883,512	0.50	July 13, 2020
<b>1,067,739</b>		

#### 13. STOCK OPTIONS

Changes in stock options are as follow:

	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance, beginning	1,410,000	0.50	165	0.19
Granted	1,660,000	0.45	1,410,000	0.50
Expired	(50,000)	0.59	-	-
Exercised	-	-	(165)	0.19
<b>Balance, end</b>	<b>3,020,000</b>	<b>0.47</b>	<b>1,410,000</b>	<b>0.50</b>
Balance, end exercisable	3,020,000	0.47	1,372,500	0.50

Stock options outstanding and exercisable as at December 31, 2018 are as follows:

Number of options outstanding and exercisable	Exercise price	Expiry date
	\$	
1,360,000	0.50	July 13, 2022
1,660,000	0.45	August 22, 2023
<b>3,020,000</b>		

On July 6, 2016, Nalunaq A/S signed a service agreement with a consultant complemented with a share option agreement whereby Nalunaq A/S granted 165 share options at an exercise price of \$0.19 (DKK 1) per share option, with an expiry date of August 30, 2018. Notwithstanding, Nalunaq A/S is entitled to, instead of issuing shares, make a cash payment of \$77.87 (US\$ 59.88) per share option. As per an agreement signed on February 12, 2017, Nalunaq A/S paid in August 2017 \$12,728 (US\$9,735) to a consultant in lieu of issuing shares according to the consultant's July 6, 2016 share option agreement.

On July 13, 2017, the Corporation granted to its directors, officers and consultants 1,360,000 options exercisable at an exercise price of \$0.50, valid for 5 years. The options vest 100% at the grant date. Those options were granted at an exercise price equal to the shares issued as part of concurring IPO. Total stock-based compensation costs amount to \$503,200 for an estimated fair value of \$0.37 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 100% expected volatility, 1.57% risk-free interest rate and 5 years options expected life. The expected life and expected volatility were estimated by benchmarking comparable situations for companies that are similar to the Corporation.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

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### 13. STOCK OPTIONS (CONT'D)

On August 9, 2017, the Corporation granted to an investor relation firm 50,000 options exercisable at an exercise price of \$0.59, valid for 5 years. The options vest 25% every quarter from the grant date. Those options were granted at an exercise price equal to the closing market value of the shares the previous day of the grant. Total stock-based compensation costs amount to \$22,000 for an estimated fair value of \$0.44 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 100% expected volatility, 1.68% risk-free interest rate and 5 years options expected life. The expected life and expected volatility were estimated by benchmarking comparable situations for companies that are similar to the Corporation.

On August 22, 2018, the Corporation granted to its directors, officers and consultants 1,660,000 stock options exercisable at an exercise price of \$0.45, valid for 5 years. The stock options vest 100% at the grant date. Those options were granted at an exercise price over to the closing market value of the shares the previous day of the grant. Total stock-based compensation costs amount to \$431,600 for an estimated fair value of \$0.26 per option. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, 89.12% expected volatility, 2.18% risk-free interest rate and 5 years options expected life. The expected life and expected volatility were estimated by benchmarking comparable situations for companies that are similar to the Corporation.

### 14. CAPITAL MANAGEMENT

The capital of the Corporation consists of the items included in equity and balances thereof and changes therein are depicted in the consolidated statement of changes in equity. Refer to consolidated statement of changes in equity for explanations regarding changes to capital between December 31, 2018 and 2017.

The Corporation' objectives are to safeguard the Corporation' ability to continue as a going concern in order to pursue its acquisition, exploration and evaluation activities and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Corporation manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. As the Corporation does not have cash flow from operations, to maintain or adjust the capital structure, the Corporation may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash. In order to maximize ongoing development efforts and to continue operations, the Corporation does not pay out dividends.

The Corporation is not subject to externally imposed restrictions on capital.

### 15. EMPLOYEE REMUNERATION

#### Salaries

	2018	2017
	\$	\$
Salaries	255,894	23,986
Director's fees	18,750	50,001
Benefits	26,188	216
	300,832	74,203
Less : salaries and benefits presented in E&E expenses	(282,082)	(24,202)
<b>Salaries disclosed on the consolidated statement of comprehensive loss</b>	<b>18,750</b>	<b>50,001</b>

## AEX Gold Inc.

### Notes to the Consolidated Financial Statements

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(In Canadian Dollars, except as otherwise noted)

#### 16. EXPLORATION AND EVALUATION EXPENSES

2018	Nalunaq	Vagar	Total
	\$	\$	\$
Geology	408,419	-	408,419
Lodging and on-site support	556,922	-	556,922
Drilling	455,663	-	455,663
Analysis	55,798	3,709	59,507
Transport	423,877	5,235	429,112
Logistic support	144,217	-	144,217
Government fees	7,699	9,361	17,060
Depreciation	114,593	-	114,593
<b>Exploration and evaluation expenses</b>	<b>2,167,188</b>	<b>18,305</b>	<b>2,185,493</b>

2017	Nalunaq	Tartog	Vagar	Genex	Total
	\$	\$	\$	\$	\$
Geology	423,623	111,957	-	-	535,580
Lodging and on-site support	340,518	17,099	-	-	357,617
Drilling	673,205	-	-	-	673,205
Analysis	56,952	7,968	458	-	65,378
Transport	391,979	53,647	-	-	445,626
Helicopter Charter	387,525	40	-	-	387,565
Logistic support	215,579	-	-	-	215,579
Supplies and equipment	46,100	1,606	-	-	47,706
Government fees	9,477	4,011	29,000	5,752	48,240
Depreciation	32,021	-	-	-	32,021
<b>Exploration and evaluation expenses</b>	<b>2,576,979</b>	<b>196,328</b>	<b>29,458</b>	<b>5,752</b>	<b>2,808,517</b>

#### 17. GENERAL AND ADMINISTRATIVE

	2018	2017
	\$	\$
Management and consulting fees	370,318	378,751
Director's fees	18,750	50,001
Professional fees	354,636	344,544
Marketing and industry involvement	153,331	237,058
Insurance	63,902	61,469
Travel and other expenses	98,181	127,152
Regulatory fees	26,512	13,262
<b>General and administrative</b>	<b>1,085,630</b>	<b>1,212,237</b>

#### 18. SHORT FORM PROSPECTUS EXPENSES

A preliminary short form prospectus was filed on February 14, 2018 pursuant to which the Corporation proposed to complete, on a best efforts basis, a public offering of common shares upon terms to be determined in the context of the market. On April 12, 2018, the Corporation announced that it withdrew the preliminary prospectus. For 2018, the Corporation incurred professional fees and expenses related to this short form prospectus for an amount of \$322,701.

## AEX Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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#### 19. FINANCE COSTS

	2018	2017
	\$	\$
Accretion expense - environmental monitoring provision	10,882	11,350
Change in estimates - environmental monitoring provision	(667)	(4,198)
<b>Finance costs</b>	<b>10,215</b>	<b>7,152</b>

#### 20. INCOME TAXES

Tax expense differs from the amount computed by applying the combined Canadian Statutory and Greenlandic income tax rates, applicable to the Corporation, to the loss before income taxes due to the following:

	2018	2017
	\$	\$
Net loss before income taxes	(4,023,320)	(4,489,949)
Income tax rates	27%	27%
Income tax recovery based on Canadian statutory and Greenlandic income tax rates	(1,066,180)	(1,189,836)
Increase (decrease) attributable to:		
Non deductible expenses	117,175	138,170
Difference in statutory tax rate	(84,278)	(114,992)
Changes in unrecognized deferred tax assets	1,033,283	1,166,658
Tax recovery	-	-

The Corporation has recorded deferred income tax assets to the extent that it is probable that sufficient taxable income will be realized during the carry-forward period to utilize these net future tax assets.

The significant components of deductible temporary differences and unused tax losses for which the benefits have not been recorded on the consolidated statement of financial position as at December 31, 2018 are as follows:

	As at December 31, 2018
<b>Greenland</b>	\$
Non-capital losses carry forwards	7,459,140

As the Corporation is a mineral licence holder, the non-capital losses in Greenland have no expiration dates.

	As at December 31, 2018
<b>Canada</b>	\$
Non-capital losses carry forwards expiring in 2038	965,032
Non-capital losses carry forwards expiring in 2039	1,530,498

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

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### 21. NET LOSS PER SHARE

The calculation of basic and diluted net loss per share for the year ended December 31, 2018, was based on the net loss attributable to shareholders of \$4,023,320 (\$4,489,949 for the year ended December 31, 2017) and the weighted average number of common shares outstanding for the year ended December 31, 2018 of 53,734,961 (43,333,821 for the year ended December 31, 2017). As a result of the net loss for the years ended December 31, 2018 and 2017, all potentially dilutive common shares are deemed to be antidilutive and thus diluted net loss per share is equal to the basic net loss per share for these periods.

### 22. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT COMPENSATION

The Corporation's key management are the members of the board of directors, the President and Chief Executive Officer, the Chief Financial Officer, the Vice-President Exploration, the Vice-President Operations and Logistic and the Corporate Secretary. Key management compensation is as follows:

	2018	2017
	\$	\$
Short-term benefits		
Management and consulting fees	370,318	377,955
Professional fees included in the share issuance costs	-	20,191
Professional fees	41,963	41,468
Professional fees included in the short form prospectus expenses	12,712	-
Professional fees included in the E&E expenses	48,683	123,008
Salaries and benefits included in E&E expenses	10,891	11,085
Director's fees	18,750	50,001
Long-term benefits		
Stock-based compensation (note 13)	429,000	499,500
<b>Total compensation</b>	<b>932,317</b>	<b>1,123,208</b>

The compensation of the Corporate Secretary is charged through FBC BA for \$45,353 for 2018 (\$69,967 for 2017).

From January 1, 2017 to April 30, 2017 (date of the termination of the agreement with ARC), ARC charged a fixed management fee of \$65,637 including management services from two directors and other services (nil in 2018).

In addition to the amounts listed above in the compensation to key management, following are the related party transactions, in the normal course of operations:

- A company in which the President and Chief Executive Officer (appointed April 28, 2017) holds shares charged exploration work and equipment amounting to \$99,079 (\$129,207 in 2017);
- A firm in which a director (appointed April 14, 2017) is a partner charged no legal professional fees through FBC BA in 2018 (\$11,761 in 2017) and directly to the Corporation for \$10,121 (\$5,169 in 2017);
- A company controlled by an officer (appointed on April 28, 2017) charged accounting professional fees of \$113,518 (\$85,553 in 2017) for her staff;
- As at December 31, 2018, the balance due to those related parties listed above and in the compensation to key management amounted to \$40,972 (\$45,173 as at December 31, 2017).

Following are the related party transactions, outside of the normal course of operations:

- Directors and officers of the Corporation participated in the May 14, 2018 and October 9, 2018 private placements for \$182,514 (\$135,000 in the July 2017 IPO offering) while AEX Gold Limited participated for \$550,000 (\$450,000 in the July 2017 IPO offering). The directors and officers as well as AEX Gold Limited subscribed to the private placements in 2018 and the IPO in 2017 under the same terms and conditions set forth all subscribers.
- Key management are subject to employment or consulting agreements which provide for payments on termination, without cause or following a change of control, providing for payments up to twice base salary or consulting fees.

# AEX Gold Inc.

## Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

### 23. FINANCIAL INSTRUMENTS

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Management manages financial risks. The Corporation does not enter into financial instruments agreements, including derivative financial instruments, for speculative purposes. The Corporation's main financial risks exposure and its financial policies are described below.

#### 23.1 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's cash and escrow account for environmental monitoring are exposed to credit risk. Management believes the credit risk on cash and escrow account for environmental monitoring is small because the counterparties are chartered Canadian and Greenlandic banks.

#### 23.2 Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation seeks to ensure that it has sufficient capital to meet short-term financial obligations after taking into account its exploration and operating obligations and cash on hand. The Corporation anticipates seeking additional financing in order to fund general and administrative costs and exploration and evaluation costs. The Corporation's options to enhance liquidity include the issuance of new equity instruments or debt (refer to note 1 for going concern discussion).

The following table summarizes the carrying amounts and contractual maturities of financial liabilities:

	As at December 31, 2018		As at December 31, 2017	
	Trade and other payables	Payables to shareholders	Trade and other payables	Payables to shareholders
	\$	\$	\$	\$
Within 1 year	109,918	8,234	273,825	16,456
1 to 5 years	-	-	-	-
<b>Total</b>	<b>109,918</b>	<b>8,234</b>	<b>263,747</b>	<b>16,456</b>

#### 23.3 Currency risk

As at December 31, 2018, a portion of the Corporation's transactions are denominated in DKK, Euros, US\$ and British Pounds (GBP) to the extent such currencies are different from the relevant group entities' functional currency.

The Corporation had the following balances in currencies:

As at December 31, 2018	In DKK	In Euros	In US\$	In GBP
Cash	240,818	6,953	8,634	-
Escrow account for environmental monitoring	2,789,997	-	-	-
Prepaid expenses and others	4,541	-	-	-
Trade and other payables	(147,677)	(4,373)	-	(12,387)
Payables to shareholders	-	-	(680)	(4,744)
Environmental monitoring provision <sup>(1)</sup>	(1,003,881)	-	-	-
	1,883,798	2,580	7,954	(17,131)
Exchange rate	0.2089	1.5598	1.3630	1.7357
<b>Equivalent to CAD</b>	<b>393,525</b>	<b>4,024</b>	<b>10,841</b>	<b>(29,734)</b>

<sup>(1)</sup> The provision is not a financial instrument but is considered a DKK exposure for currency risk management purposes.

## AEX Gold Inc.

### Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(In Canadian Dollars, except as otherwise noted)

#### 23. FINANCIAL INSTRUMENTS (CONT'D)

Based on the above net exposures as at December 31, 2018, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the DKK, Euro, US\$ and GBP by 10% would decrease/increase profit or loss by \$37,866.

<b>As at December 31, 2017</b>	<b>In DKK</b>	<b>In Euros</b>	<b>In US\$</b>	<b>In GBP</b>
Cash	303,129	1,415	(7)	-
Escrow account for environmental monitoring	3,187,667	-	-	-
Trade and other payables	(182,502)	(18,186)	(61,563)	(35,929)
Payables to shareholders	-	-	(13,112)	-
Environmental monitoring provision <sup>(1)</sup>	(1,352,670)	-	-	-
	1,955,624	(16,771)	(74,682)	(35,929)
Exchange rate	0.2019	1.5034	1.2551	1.6932
<b>Equivalent to CAD</b>	<b>394,840</b>	<b>(25,214)</b>	<b>(93,733)</b>	<b>(60,835)</b>

<sup>(1)</sup> The provision is not a financial instrument but is considered a DKK exposure for currency risk management purposes.

Based on the above net exposures as at December 31, 2017, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the DKK, Euro, US\$ and GBP by 10% would decrease/increase profit or loss by \$21,507.

#### 23.4 Fair value risk

Fair value estimates are made at the consolidated statement of financial position date, based on relevant market information and other information about financial instruments. As at December 31 2018, the Corporation' financial instruments are cash, escrow account for environmental monitoring, trade and other payables and payables to shareholders. For all the financial instruments, the amounts reflected in the consolidated statement of financial position are carrying amounts and approximate their fair values due to their short-term nature.