



GRID METALS CORP. (FORMERLY MUSTANG MINERALS CORP.)
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018

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Independent Auditor's Report

To the Shareholders of Grid Metals Corp.

Opinion

We have audited the consolidated financial statements of Grid Metals Corp. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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

Other information

Management is responsible for the other information. The other information comprises 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 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.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. 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.

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 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.

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 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 judgement 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 risks 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.

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 of the audit resulting in this independent auditor's report is Chris Milios.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 9, 2019

GRID METALS CORP. (FORMERLY MUSTANG MINERALS CORP.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(In Canadian dollars)

	December 31, 2018	December 31, 2017
ASSETS		
Current		
Cash	\$1,471,993	\$2,573,886
Marketable securities, (Note 5)	58,479	83,612
Amounts receivable, (Notes 5 and 10)	12,249	508,266
Prepays, (Note 5)	125,254	316,800
Total current assets	1,667,975	3,482,564
EXPLORATION AND EVALUATION ASSETS, (Note 6)	27,498,006	26,900,363
CAPITAL ASSETS, (Note 7)	1,536	2,052
Total assets	\$29,167,517	\$30,384,979
LIABILITIES		
Current		
Accounts payable and accrued liabilities, (Notes 9 and 10)	\$236,670	\$428,309
Total current liabilities	236,670	428,309
Deferred income taxes, (Note 11)	-	43,000
Total liabilities	236,670	471,309
SHAREHOLDERS' EQUITY		
Capital stock, (Note 8)	49,440,113	49,397,409
Contributed surplus	7,218,571	7,309,821
Deficit	(27,727,837)	(26,793,560)
Total shareholders' equity	28,930,847	29,913,670
Total liabilities and shareholders' equity	\$29,167,517	\$30,384,979

Going concern (Note 2)
Commitments and contingencies (Notes 6 and 9)

Approved on Behalf of the Board

'Thomas W. Meredith' Director

'Robin Dunbar' Director

GRID METALS CORP. (FORMERLY MUSTANG MINERALS CORP.)**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(In Canadian dollars)

	For the years ended	
	December 31,	
	2018	2017
Expenses		
Office, general and administrative	\$ 279,689	\$ 66,725
Management fees and directors fees	258,999	165,167
Stock based compensation, (Note 8(b))	-	534,435
Professional and consulting fees, (Note 10)	350,764	57,382
Amortization, (Note 7)	516	700
Public company costs	52,789	40,020
Gain on disposition of exploration and evaluation assets, (Note 6)	-	(35,000)
Due diligence fees, (Note 6)	307,612	-
Loss from operations before the undernoted	(1,250,369)	(829,429)
Other income	943	-
Impairment of capital assets, (Note 7)	-	(201,000)
Shareholder indemnification recovery, (Note 9)	165,899	533,913
Net loss before provision for income taxes	(1,083,527)	(496,516)
Deferred income tax recovery, (Note 11(a))	43,000	463,000
Net loss for the year	(1,040,527)	(33,516)
Other comprehensive loss		
Net (decrease) increase in fair value of marketable securities	-	13,147
Comprehensive loss for the year	\$ (1,040,527)	\$ (20,369)
Loss per share		
Basic and diluted	\$ (0.02)	\$ (0.00)
Weighted average number of common shares outstanding - basic and diluted	42,178,143	27,785,261

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

GRID METALS CORP. (FORMERLY MUSTANG MINERALS CORP.)
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

(In Canadian dollars)

	Capital Stock		Contributed Surplus	Deficit	Accumulated Other Comprehensive	
	# of shares	Amount \$			Income (Loss) \$	Total \$
Balance, December 31, 2016	25,647,260	46,866,255	5,707,257	(26,754,722)	(18,469)	25,800,321
Shares issued in partial settlement of shareholder indemnification (Note 8(a)d.)	500,508	58,713	-	-	-	58,713
Common shares issued in connection with unit private placements (Note 8(a)e. and f.)	15,586,496	3,655,274	-	-	-	3,655,274
Fair value assigned to warrants and broker warrants issued in connection with the private placements (Note 8(c)b. and c.)	-	(1,120,929)	1,120,929	-	-	-
Cash share issue expenses (Note 8(a)e. and f.)	-	(273,704)	-	-	-	(273,704)
Allocation of share issue expenses to warrants	-	77,000	(77,000)	-	-	-
Deferred income tax recovery share issue expenses	-	76,000	38,000	-	-	114,000
Warrants exercised (Note 8(c)d.)	300,000	58,800	(13,800)	-	-	45,000
Stock based compensation (Note 8(b))	-	-	534,435	-	-	534,435
Net loss for the year	-	-	-	(33,516)	-	(33,516)
Other comprehensive income for the year	-	-	-	-	13,147	13,147
Balance, December 31, 2017	42,034,264	49,397,409	7,309,821	(26,788,238)	(5,322)	29,913,670
Options expired (Note 8(b))	-	-	(106,250)	106,250	-	-
Shares issued in partial settlement of shareholder indemnification (Note 8(a)a.)	82,346	17,704	-	-	-	17,704
Shares/warrants issued in satisfaction of due diligence fees (Note 8(a)b.)	300,000	25,000	15,000	-	-	40,000
Re-allocation on adoption of IFRS 9	-	-	-	(5,322)	5,322	-
Net loss for the year	-	-	-	(1,040,527)	-	(1,040,527)
Balance, December 31, 2018	42,416,610	49,440,113	7,218,571	(27,727,837)	-	28,930,847

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

GRID METALS CORP. (FORMERLY MUSTANG MINERALS CORP.)**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31,**

(In Canadian dollars)

	2018	2017
Cash flows used in operating activities		
Net loss for the year	\$ (1,040,527)	\$ (33,516)
Adjustments not affecting cash		
Unrealized loss on investment	25,133	-
Amortization	516	700
Gain on disposition of exploration and evaluation interests	-	(35,000)
Stock based compensation	-	534,435
Due diligence fees settled with non-cash consideration	40,000	-
Shareholder indemnification recovery	(165,899)	(533,913)
Impairment charge on capital assets	-	201,000
Deferred income tax (recovery)	(43,000)	(463,000)
Changes in non-cash working capital		
Amounts receivable	496,017	(500,083)
Prepays	191,547	(309,111)
Accounts payable and accrued liabilities	(8,037)	(319,741)
Cash flows used in operating activities	(504,250)	(1,458,229)
Cash flows used in investing activities		
Proceeds on sale of exploration and evaluation assets	-	35,000
Increase in exploration and evaluation assets	(597,643)	(52,034)
Cash flows used in investing activities	(597,643)	(17,034)
Cash flows from financing activities		
Issuance of common shares	-	3,655,274
Share issue costs	-	(273,704)
Proceeds on exercise of warrants	-	45,000
Cash flows provided by financing activities	-	3,426,570
Change in cash for the year	(1,101,893)	1,951,307
Cash, beginning of year	2,573,886	622,579
Cash, end of year	\$ 1,471,993	\$ 2,573,886
Supplemental information		
Finder's warrants issued	\$ -	\$ 90,874

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(In Canadian dollars)

1. GENERAL INFORMATION

Grid Metals Corp. (formerly Mustang Minerals Corp.) (the "Company") was incorporated under the laws of Ontario on July 15, 1997 and is engaged in the business of exploring and developing base and precious metal mineral properties. Substantially all of the efforts of the Company are devoted to these business activities and to date the Company has not earned significant revenues. The principal business address of the Company is 3335 Yonge Street, Suite 305 Toronto, Ontario, M4N 2M1.

Pursuant to a shareholder's resolution approved March 9, 2018, on June 8, 2018 the Company announced that it had changed its name to Grid Metals Corp. from Mustang Minerals Corp. and began trading on the TSX Venture Exchange under the symbol GRDM effective June 8, 2018.

The consolidated financial statements of the Company for the years ended December 31, 2018 and 2017 were authorized for issue in accordance with a resolution of the Board of Directors on April 9, 2019.

2. GOING CONCERN

The Company's ability to realize the costs it has incurred to date on its properties is dependent upon it being able to identify economically recoverable reserves; to finance their exploration and evaluation costs; to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the reserves; and to attain profitable operations.

The business of mining and exploration for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, and political uncertainty.

The Company has cumulative operating losses at December 31, 2018. The Company expects to incur further losses in the exploration and development of its properties. The Company will have an ongoing need for equity financing for working capital and exploration and development of its properties.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. It is not possible to predict whether the Company will be able to raise adequate financing or to ultimately attain profitable levels of operations.

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Details of deficit and working capital of the Company are as follows:

	December 31, 2018 \$	December 31, 2017 \$
Deficit	27,727,837	26,793,560
Working capital	1,431,304	3,054,255

3. BASIS OF PREPARATION

These consolidated financial statements are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). IFRS represents standards and interpretations approved by the IASB, and are comprised of IFRSs, International Accounting Standards (“IASs”), and interpretations issued by the IFRS Interpretations Committee (“IFRICs”) and the former Standing Interpretations Committee (“SICs”).

4. SIGNIFICANT ACCOUNTING POLICIES**Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

These consolidated financial statements include the accounts of the Company; its 72.56% owned Maskwa Nickel Chrome Mines Limited, a Manitoba corporation; its wholly-owned subsidiary, Global Nickel Inc., a Canadian federally incorporated company. The financial statements of the subsidiaries are consolidated from the date that control commences until the date that control ceases. All inter-company balances and transactions have been eliminated.

Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, and have been prepared using the accrual basis of accounting except for cash flow information.

Exploration and evaluation assets – acquisition costs and exploration expenditures

Acquisition costs and exploration expenditures relating to properties that are incurred after the legal right to explore has been obtained are capitalized until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of exploration properties abandoned, impaired or sold and their related capitalized exploration costs are expensed to operations in the year of abandonment or sale. The amounts shown as Exploration and evaluation assets represent unamortized costs to date and do not necessarily reflect present or future values.

Costs include the cash consideration and the fair market value of shares issued for the acquisition and exploration of properties. The carrying value is reduced by option proceeds received until such time as the exploration property acquisition assets and exploration and evaluation assets are reduced to nominal amounts. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment.

When a project is considered to no longer have commercially viable prospects for the Company, exploration and evaluation assets in respect of that property are assessed as impaired and written off to the consolidated statement of operations. The Company also assesses exploration and evaluation assets for impairment when other facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Provisions and decommissioning liabilities

Provisions, which include decommissioning liabilities, are liabilities that are uncertain in timing or amount. The Company records a provision when:

- (i) the Company has a present obligation, legal or constructive, as a result of a past event;

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- (ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (iii) a reliable estimate can be made of the amount of the obligation.

Constructive obligations are obligations that derive from the Company's actions where:

- (i) by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- (ii) as a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Provisions are reviewed at the end of each reporting year and adjusted to reflect management's current best estimate of the expenditure required to settle the present obligation at the end of the reporting year. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of a provision increases in each year to reflect the passage of time. This increase (accretion expense) is included in finance costs in the consolidated statement of operations.

The Company did not have any material reclamation provisions or decommissioning liabilities as at December 31, 2018 and 2017.

Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated by assuming that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. During the years ended December 31, 2018 and 2017, all outstanding options and warrants were considered anti-dilutive and were therefore excluded from the diluted loss per share calculation.

Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of operations except to the extent it relates to items recognized in other comprehensive loss or directly in equity.

Current income tax

Current income tax expense is based on the results for the year as adjusted for items that are not taxable and not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting year. Management at the end of each reporting year evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable on differences between the carrying amounts of assets in the financial statements and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the asset and liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

Flow-through share financings

The Company periodically finances a portion of its exploration activities through the issue of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor (referred to as renunciation). Proceeds received on the issuance of such shares up to the value of similar non-flow through shares are credited to capital stock and any difference between that amount and the issue price is recognized as a flow-through share premium and

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recognized as a liability in the consolidated statement of financial position. Upon renunciation to the investor of the tax benefits associated with the related expenditures, a deferred income tax liability and corresponding deferred income tax expense is recognized and the liability previously recorded as a flow through share premium is recorded to flow-through share premium income. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred income tax liability and record a recovery on the consolidated statement of operations. The related exploration costs are charged to exploration and evaluation assets.

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company's operations. Monetary assets and liabilities are translated into Canadian dollars at exchange rates in effect at the consolidated statement of financial position date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenues and expenses are translated at the rate at the time of the transaction. Any resulting gain or loss is recorded in the consolidated statement of operations.

Share-based payments

The Company applies the fair value method of accounting for share-based payments granted to employees and other individuals providing similar services. The fair value of options is determined using an option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. Each tranche of an option that vests over time is considered a separate award and the fair value of each tranche is expensed over its vesting period with the corresponding credit to contributed surplus. The fair value of options granted is recorded in contributed surplus. Cash consideration received from employees on exercise of options is credited to share capital along with the original grant date fair value of the options exercised. The value of options forfeited before vesting is removed from the option reserve and credited to operations, while the value of options that expire after vesting is credited directly to deficit.

Share-based payments granted to non-employees are measured at the fair value of goods received unless that cannot be reasonably estimated in which case the estimated fair value of the share-based payments are used. The measurement date is generally the date the goods or services are received.

Warrants

All warrants issued are valued on the date of grant using the Black-Scholes option pricing model, net of related issue costs and are recorded in contributed surplus.

Capital assets

Recognition and Measurement

Capital assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes all expenditures that are directly attributable to the acquisition of the asset.

Amortization

Equipment and automobile are depreciated annually on a straight-line basis using rates of 20% and 30% respectively.

Recent accounting pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2019. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 3 – Business Combinations (“IFRS 3”) was amended in October 2018 to clarify the definition of a business. This amended definition states that a business must include inputs and a process and clarified that the process must be

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substantive and the inputs and process must together significantly contribute to operating outputs. In addition it narrows the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRS 10 – Consolidated Financial Statements (“IFRS 10”) and IAS 28 – Investments in Associates and Joint Ventures (“IAS 28”) were amended in September 2014 to address a conflict between the requirements of IAS 28 and IFRS 10 and clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business. The effective date of these amendments is yet to be determined, however early adoption is permitted.

Change in accounting policy

Effective January 1, 2018, the Company adopted IFRS 9, Financial Instruments, and IFRS 15, Revenue from Contracts with Customers, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018. There were no effects on opening balances at January 1, 2018 with respect to the adoption of these policies.

IFRS 9 Financial Instruments

IFRS 9 replaces International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVPL”) or through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

Upon adoption of IFRS 9, the main change in the Company’s accounting policy on financial instruments is equity investments previously classified as available-for-sale are now classified as financial assets measured at FVPL.

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as “financial assets at fair value”, as either FVPL or FVOCI, and “financial assets at amortized costs”, as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company’s business model and the contractual terms of the cash flows.

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive

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income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of earnings (loss) when the right to receive payments is established.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of earnings (loss). The Company's marketable securities are classified as financial assets at FVPL.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of earnings (loss).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of earnings (loss).

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The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Marketable securities	Available for sale	FVPL
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company's previous accounting policy under IAS 39. Significant accounting policies which outline the current and previous accounting policies pertaining to financial instruments.

Accounting policy under IAS 39 applicable prior to January 1, 2018

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities, excluding derivative instruments related to hedging activities, was similar to the accounting policy adopted in 2018, with the following exceptions:

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IAS 39 were classified as "financial assets at fair value through profit or loss", "loans and receivables", or "available-for-sale financial assets", as appropriate. The Company determines the classification of its financial assets at initial recognition.

Subsequent measurement – Available-for-sale financial assets

Available-for-sale financial assets were non-derivative financial assets that were designated as available-for-sale and were not classified in any of the previous categories. The Company's marketable securities were classified as available-for-sale financial assets.

After initial measurement, available-for-sale investments were subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss. When the investment was sold or impaired, the cumulative gain or loss was removed from accumulated other comprehensive income or loss and recognized in other income or expense in the consolidated statements of earnings (loss).

Impairment of financial assets

The Company assessed at each reporting date whether there was any objective evidence that a financial asset or a group of financial assets was impaired. A financial asset or a group of financial assets was deemed to be impaired if there were objective evidence of impairment as a result of one or more events that had occurred after the initial recognition of the asset (an incurred "loss event") and the loss had an impact on the estimated cash flows of the financial asset or group of assets that could be reliably estimated

For financial assets carried at amortized cost, the Company considered evidence of impairment at both a specific asset and collective level. Objective evidence could include the default or delinquency of a debtor or restructuring of an amount due to the Company on terms that the Company would not consider otherwise.

All individually significant financial assets were assessed for specific impairment. Financial assets that were not individually significant were collectively assessed for impairment by grouping together financial assets with similar risk characteristics. If there were objective evidence that an impairment had incurred, the amount of the charge was

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recognized in the consolidated statements of earnings (loss) and was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses that had not yet been incurred. If, in a subsequent period, the estimated impairment charge decreased because of an event, any reversal would have been credited to profit or loss.

Segmented information

The Company conducts all of its operations in Canada in one business segment.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes can differ from these estimates. The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the financial statements are:

Capitalization of Exploration and evaluation assets interest costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits.

Impairment of Exploration and evaluation assets and capital assets

While assessing whether any indications of impairment exist for exploration and evaluation assets and capital assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, and economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets and capital assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates may include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's Exploration and evaluation assets, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's Exploration and evaluation assets and capital assets.

Income taxes and recoverability of potential deferred tax assets

The Company is subject to income, value added, withholding and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the

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application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting year.

Share-based payments

Management determines the valuation of share-based payments and warrants using market-based valuation techniques. The fair value of the market-based and performance-based share awards and warrants are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments may include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Mineral reserve estimates

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101, "Standards of Disclosure for Mineral Projects", issued by the Canadian Securities Administrators. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions such as metal prices and market conditions could have a material effect in the future on the Company's financial position and results of operation.

Contingencies

Refer to Notes 6 and 9.

5. MARKETABLE SECURITIES, ACCOUNTS RECEIVABLE, AND PREPAIDS**Marketable securities:**

The Company's marketable securities have been designated as FVPL and are reported at fair value based on quoted market prices as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Aquila Resources Inc.	42,831	55,681
Other	15,648	27,931
	58,479	83,612

Amounts receivable:

The amounts receivable balance is analyzed as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Amounts receivable related to the private placements	-	457,939
Amounts receivable from a government	12,249	25,997
Other	-	24,330
	12,249	508,266

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Prepays:

The Company entered into a contract for advisory services for which it paid \$320,000, and a business development contract for which it paid US\$100,000. The advisory services contract covers the period December 15, 2017 to June 14, 2019. The business development contract is cancellable on 60 days notice, covers the period September 1, 2018 to August 31, 2019, and is payable US\$50,000 on signing and US\$50,000 on March 1, 2019. The amount paid for each contract is being amortized over the life of the contract. The prepaid balance is analyzed as follows:

	December 31, 2018	December 31, 2017
	\$	\$
Advisory services prepaid balance	97,778	311,000
Prepaid business and IT services	21,668	-
Other	5,808	5,800
	125,254	316,800

6. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS

For the year ended December 31, 2018

MANITOBA	December 31, 2017	Acquisition	Exploration	December 31, 2018
Makwa	\$ 16,164,594	\$ -	\$ 301,751	\$ 16,466,345
Mayville	10,415,986	-	70,230	10,486,216
Mayville lithium	319,783	-	225,661	545,444
	\$ 26,900,363	-	\$ 597,643	\$ 27,498,006

For the year ended December 31, 2017

MANITOBA	December 31, 2016	Acquisition	Exploration	December 31, 2017
Makwa	\$ 16,133,984	\$ -	\$ 30,610	\$ 16,164,594
Mayville	10,394,562	-	21,424	10,415,986
Mayville lithium	319,783	-	-	319,783
	\$ 26,848,329	\$ -	\$ 52,034	\$ 26,900,363

It is in the normal course of business for the Company to acquire and divest Exploration and evaluation assets claims based on the results of exploration. Certain of the properties are subject to a Net Smelter Return royalty ("NSR") payable on future mineral production.

MANITOBA**MAKWA**

The Makwa property is a nickel copper platinum group metal exploration project located near Lac du Bonnet, in south east Manitoba. During 2004, the Company acquired a 100% interest by acquiring all of the shares of Global Nickel Inc., a federally incorporated company that holds the mineral rights to the Makwa Property. To acquire the shares the Company paid \$500,000 cash and issued 6,679,000 common shares valued at \$0.43 per share, representing the quoted share price of the Company at the time of the transaction.

The mineral rights of the Makwa Property consist of a mineral lease, a surface lease, and Exploration and evaluation assets claims held by the Company. An annual payment of approximately \$10,000 must be made to the province of Manitoba to keep the mineral lease and surface lease in good standing.

MAYVILLE

The Mayville property is a copper nickel platinum group metal exploration project located near Lac du Bonnet, in south east Manitoba. The Company acquired a cumulative 89% interest in the property (consisting of Exploration and

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evaluation assets claims) in 2005. A direct 60% interest was acquired from the vendor for consideration of \$90,000 in cash, a note for \$165,000 due 18 months from closing (which was paid during 2006), and 700,000 common shares of the Company (issued in 2005). This 60% interest is subject to a 2% royalty interest.

The additional 29% interest was acquired through the acquisition of a 72.56% interest in Maskwa Nickel Chrome Mines Limited ("MNCM"), a company which holds the remaining 40% interest in the Mayville property. The shares in MNCM were acquired through the issuance of 400,000 common shares of the Company and a cash payment of \$120,000. A royalty payment in the amount of \$210,000 will be due in five equal annual payments upon the commencement of commercial production on any portion of the MNCM property.

There is a 1.0% NSR royalty on the Mayville property. The Company has the option to purchase 0.5% of the NSR royalty for \$500,000.

MAYVILLE LITHIUM

The Mayville lithium property is a lithium and rare metals exploration project located near Lac du Bonnet, in south east Manitoba adjacent to the Mayville property. On June 30, 2010, the Company entered into an option agreement with Tantalum Mining Corporation of Canada Limited ("Tanco") and acquired a 100% interest in the base and precious metal rights of a property. Pursuant to the terms of the option agreement, the Company made cash option payments totaling \$45,000, and incurred expenditures of \$312,600. The Company acquired rights to lithium and rare metals on the property in 2017 in return for a retained right of Tanco, on normal commercial terms, to purchase products produced from the property.

EAST BULL LAKE

The East Bull Lake property ("EBL") is a platinum group metals ("PGM") - nickel - copper exploration project located in the Sudbury Mining Division, Ontario, Canada. The Company has fulfilled its commitments to earn a 100% interest in the Exploration and evaluation assets claims comprising the EBL property. The property is subject to an NSR of up to 3% to the underlying option holders. All costs on the property have been written off in previous years.

During 2017 the Company sold one of its non-core East Bull Lake claims for \$25,000 cash plus a 0.5% NSR. Certain other claims were optioned to a third party for \$10,000. The carrying value of these claims had been previously written off in previous years.

BANNOCKBURN

The Bannockburn property is a nickel exploration project located in the Sudbury Mining Division, Ontario, Canada. The property package consists of optioned Exploration and evaluation assets claims and staked Exploration and evaluation assets claims. The Company has completed its option commitments to earn a 100% interest in the core claims comprising the Bannockburn property. The core part of the property is subject to a 2% NSR. All costs on the property have been written off in previous years.

DUE DILIGENCE FEES

During the year ended December 31, 2018 the Company entered into negotiations for an option and exploration agreement for a property described as the Cobalt Road Project. After completing due diligence the Company decided not to proceed with the Cobalt Road Project. In the course of carrying out its due diligence the Company incurred fees totalling \$307,612 which have been expensed in these financial statements.

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7. CAPITAL ASSETS

	Equipment \$	Automobile \$	Mill equipment \$	Total \$
Cost				
Balance December 31, 2016, 2017 and 2018	96,956	32,687	2,190,410	2,320,053
Amortization				
Balance December 31, 2016	95,678	31,213	1,989,410	2,116,301
Amortization for the year	260	440	-	700
Impairment charge	-	-	201,000	201,000
Balance December 31, 2017	95,938	31,653	2,190,410	2,318,001
Amortization for the year	204	312	-	516
Balance December 31, 2018	96,142	31,965	2,190,410	2,318,517
Net book value				
Balance December 31, 2017	1,018	1,034	-	2,052
Balance December 31, 2018	814	722	-	1,536

During the year ended December 31, 2017, the Company determined that current market conditions warranted an impairment charge on the mill equipment and as a result an additional impairment allowance of \$201,000 was recorded.

8. CAPITAL STOCK**(a) Common shares****Authorized**

The authorized capital stock of the Company consists of an unlimited number of common shares.

During the year ended December 31, 2018 the following common share activity occurred:

- a. In partial satisfaction of an indemnification provided to flow-through share subscribers (see Note 9), 82,346 common shares were issued. The shares were valued at \$17,704, being the value of the liabilities settled.
- b. In partial satisfaction of a due diligence fee, 300,000 common shares were issued. The shares were valued at \$25,000, being the quoted market value at which the shares traded on the date they were issued.

During the year ended December 31, 2017 the following common share activity occurred:

- c. The Company completed a 10 for 1 share consolidation which commenced trading on a post-consolidation basis on October 26, 2017. All share, option, warrant and per share amounts in these consolidated financial statements have been retroactively restated to reflect this share consolidation.
- d. 500,508 common shares were issued in partial satisfaction of an indemnification provided to flow-through share subscribers (see Note 9). The shares were valued at \$58,713, being the quoted market value at which the shares traded on the date they were issued. A total of 24,113 of these shares were issued to a director and officer of the Company.
- e. On October 26, 2017, the Company issued a total of 8,000,000 units under a private placement for total gross proceeds of \$1,000,000, with each unit consisting of one common share and one warrant. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.15 per share for a period of three (3) years from the date of issuance. A director and officer of the Company subscribed for 80,000 units and a corporation

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controlled by this director and officer subscribed for 800,000 units.

The Company paid cash finder's fees of \$86,435 and issued 446,800 finder's warrants, with each finder's warrant exercisable for one common share in the capital of the Company at the price of \$0.15 per share, expiring three (3) years from the date of closing of the offering.

- f. In three tranches on November 27, December 19, and December 29, 2017, the Company issued 7,586,496 units under a private placement raising a total of \$2,655,274. Each unit was issued at \$0.35 and consisted of one common share in the capital of the Company and one half of one non-transferable common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.45 per share for a period of three years from the closing date.

The Company paid cash finder's fees of \$187,269 and issued 421,236 finder's warrants, with each finder's warrant exercisable for one common share in the capital of the Company at the price of \$0.45 per share, expiring three (3) years from the date of closing of the offering.

- g. The Company issued 300,000 common shares on exercise of warrants for gross proceeds of \$45,000. The original fair value of the warrants was estimated to be \$13,800 which amount was transferred from contributed surplus to capital stock.

(b) Stock option plan and stock-based compensation

The Company has a stock option plan to provide employees, directors, officers and consultants with options to purchase common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock on the day of grant and the maximum term of option is five years. The maximum number of shares which may be issued under the program shall not exceed 10% of the issued and outstanding shares.

The following summarizes the employees, directors, officers and consultants' stock options that have been granted, exercised, expired, vested or cancelled during the years ended December 31, 2018 and 2017. Historic information reflected as follows is adjusted to reflect the 10 for 1 consolidation of the common shares that took place during 2017:

	Number of Options	Weighted Average Exercise Price \$
Balance, December 31, 2016	212,500	1.20
Granted during 2017	1,855,000	0.35
Balance, December 31, 2017	2,067,500	0.44
Expired during 2018	(212,500)	1.20
Balance, December 31, 2018	1,855,000	0.35

During the year ended December 31, 2018, 212,500 options expired. The original fair value of those options was estimated to be \$106,250 which amount was transferred from contributed surplus to deficit.

On November 1, 2017, 1,855,000 options were granted, exercisable at \$0.35, and that vested immediately. The options expire on November 1, 2022, and have been valued at \$534,435 using the Black-Scholes option pricing model based on the following weighted average assumptions:

Expected dividend yield	0%
Expected annual volatility	120%
Risk-free interest rate	1.62%
Expected average life	5 years
Share price	\$0.345

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The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

Weighted average exercise price	Number of options outstanding and exercisable	Expiry date
\$0.35	1,855,000	November 1, 2023

(c) Warrants

During 2018 the Company had the following warrant activity:

- a. The Company issued 300,000 warrants in partial satisfaction of due diligence fees during the year ended December 31, 2018. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.175 per share at any time until December 19, 2021. The warrants have been valued at \$15,000 using the Black-Scholes option pricing model based on the following weighted average assumptions:
- | | |
|---------------------------------|---------|
| (i) Expected dividend yield | 0% |
| (ii) Expected annual volatility | 150% |
| (iii) Risk-free interest rate | 1.90% |
| (iv) Expected average life | 3 years |
| (v) Share price | \$0.07 |

During 2017 the Company had the following warrant activity:

- b. In connection with the financing described in 8(a)e. the Company issued 8,000,000 warrants and 446,800 finder's warrants. Each warrant entitles the holder to purchase one common share at an exercise price of \$0.15 per share at any time from October 26, 2017 until October 26, 2020. The warrants and the finder's warrants have been valued at \$390,560 using the Black-Scholes option pricing model based on the following weighted average assumptions:
- | | |
|---------------------------------|---------|
| (i) Expected dividend yield | 0% |
| (ii) Expected annual volatility | 120% |
| (iii) Risk-free interest rate | 1.51% |
| (iv) Expected average life | 3 years |
| (v) Share price | \$0.076 |
- c. In connection with the financing described in 8(a)f. the Company issued 3,793,248 warrants and 421,236 finder's warrants. Each warrant and finder's warrant entitles the holder to acquire one common share at a price of \$0.45 per share for a period of three years from the closing dates, as noted in 8(a)f. The warrants and the finder's warrants have been valued at \$730,369 using the Black-Scholes option pricing model based on the following weighted average assumptions:
- | | |
|---------------------------------|------------------|
| (i) Expected dividend yield | 0% |
| (ii) Expected annual volatility | 120% |
| (iii) Risk-free interest rate | 1.47% to 1.73% |
| (iv) Expected average life | 3 years |
| (v) Share price | \$0.23 to \$0.43 |
- d. A total of 300,000 warrants were exercised for gross proceeds of \$45,000. The original fair value of the warrants was estimated to be \$13,800 which amount was transferred from contributed surplus to capital stock.

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A summary of warrant activity for the years ended December 31, 2018 and 2017 is as follows:

	Note	Number of Warrants	Weighted-average exercise price (\$)
Balance, December 31, 2016		-	-
Warrants issued under a private placement	8(c)b.	8,446,800	0.15
Warrants issued under a private placement	8(c)c.	4,214,485	0.45
Warrants exercised	8(c)d.	(300,000)	0.15
Balance, December 31, 2017		12,361,285	0.25
Warrants issued in partial satisfaction of due diligence fees	8(c)a.	300,000	0.18
Balance, December 31, 2018		12,661,285	0.25

As at December 31, 2018, the following common share purchase warrants were outstanding:

Expiration date	Number of Warrants	Exercise Price (\$)
October 26, 2020	8,146,800	0.150
November 27, 2020	2,102,857	0.450
December 19, 2020	1,842,878	0.450
December 28, 2020	268,750	0.450
December 19, 2021	300,000	0.175
Balance, December 31, 2018	12,661,285	0.250

9. COMMITMENTS AND CONTINGENCIES

At December 31, 2018, the Company has an office lease commitment amounting to \$25,110 per annum through April 30, 2021.

See Note 6 for details of other commitments and contingencies.

The Company's exploration and evaluation activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company has indemnified the subscribers of current and previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments.

During 2015, the Company's flow-through renunciation and related expenditures from 2010 to 2013 were audited by the Canadian Revenue Agency ("CRA"). CRA determined that certain amounts reported as eligible expenditures did not qualify as such and the Company has recorded a liability in the amount of \$200,000 at December 31, 2018 (2017 - \$371,868). A change in the liability has been recorded in the amount of \$165,899 (2017 - \$533,913) in the consolidated statement of operations for the year ended December 31, 2018, based on the Company's best estimate of the amount owing.

An employment contract between the Company and its president provides for the following:

- a) Upon termination without cause the President is entitled to one month's severance for every year since 1998 to a maximum of twenty-four months, plus a prospective bonus equal to the greater of the last bonus paid to the president or 75% of his then annual salary. In this instance the estimated contingent liability would amount

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to approximately \$437,000 (which has not been recorded in these financial statements).

- b) In the event of a change of control if the president is terminated, or constructively dismissed, within six months of the change of control the President is entitled to two year's remuneration plus a prospective bonus equal to the greater of two times the average annual bonus paid to the president or one year's annual remuneration. In this instance the estimated contingent liability would amount to approximately \$525,000 (which has not been recorded in these financial statements).

10. RELATED PARTY TRANSACTIONS

Director's fees, professional fees and other compensation of directors and key management personnel were as follows for the years ended December 31:

	2018	2017
	\$	\$
Short-term compensation and benefits	258,996	179,497
Share-based payments (stock option grants)	-	450,950
Total key management compensation	258,996	630,447

As at December 31, 2018, accounts payable and accrued liabilities include \$4,520 (2017 - Nil) owing to key management personnel.

Legal fees were charged by a legal firm during the year ended December 31, 2018, of which an officer of the Company is an employee, for legal and corporate secretarial services in the amount of \$113,230 (2017 - \$55,926). Accounts payable and accrued liabilities includes \$1,800 owing to the legal firm (2017 - the legal firm owed the Company \$282,956).

Amounts due to related parties included in accounts payable, are unsecured, non-interest bearing, and have no fixed terms of re-payment.

See also Note 8.

11. INCOME TAXES

- a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2017 - 26.5%) were as follows:

	2018	2017
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
Loss before income taxes	(1,083,527)	(496,516)
Expected income tax recovery based on statutory rate	(291,000)	(132,000)
Adjustment to expected income tax benefit:		
Expenses not deductible for tax purposes	45,000	(28,000)
Benefits of tax losses not recognized	449,000	-
Other	(246,000)	(303,000)
Deferred income tax recovery	(43,000)	(463,000)

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b) The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at December 31, 2018 and 2017 are as follows:

	2018	2017
	\$	\$
Deferred tax assets (liabilities):		
Capital assets	825,000	825,000
Share issue costs	68,000	92,000
Non-capital losses carried forward	2,686,000	2,343,000
Cumulative eligible capital	15,000	15,000
Benefits of tax losses not recognized	(262,000)	-
Exploration and evaluation assets	(3,332,000)	(3,318,000)
Net deferred income tax liability	-	(43,000)

c) Losses Carried Forward

As at December 31, 2018, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$9,053,000 (2017 - \$7,507,000) available to use against future taxable income. The non-capital losses expire between 2025 and 2038 as follows.

Expiry	Canada \$
2025	487,000
2026	804,000
2027	1,153,000
2028	1,055,000
2029	843,000
2030	935,000
2031	61,000
2033	1,000
2034	101,000
2035	1,328,000
2036	267,000
2037	681,000
2038	1,337,000
	<u>9,053,000</u>

12. FINANCIAL INSTRUMENTS

The carrying amounts for cash, amounts receivable, and accounts payable and accrued liabilities approximate their estimated fair value due to the short-term nature of these financial instruments.

Cash and amounts receivable are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Marketable securities are classified as FVPL, are measured at their fair value, and are classified as level 1 within the fair value hierarchy. Changes in fair value are included in profit and loss.

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Accounts payable and accrued liabilities are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

The Company's risk exposures and the impact on its financial investments, as summarized below, have not changed significantly for the periods ended December 31, 2018 and 2017.

Credit Risk

The Company's credit risk is primarily attributable to amounts receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to the financial instruments included in accounts receivable is remote.

Liquidity Risk

The Company's main source of liquidity is derived from its common stock issuances. As at December 31, 2018, the Company had current assets of \$1,667,975 (December 31, 2017 - \$3,482,564) to settle current liabilities of \$236,671 (December 31, 2017 - \$428,309). All of the Company's financial liabilities have contractual maturities that are subject to normal trade terms.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company monitors its cash balances and is satisfied with the creditworthiness of its banks. As a result, the Company's exposure to interest rate risk is minimal.

Market Risk

Foreign Currency Risk

The Company's functional and reporting currency is the Canadian dollar and all expenditures are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. As the Company's properties are in the exploration and evaluation stage and to date do not contain any identified mineral resources or reserves, the Company does not hedge against commodity price risk.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period:

- (i) The Company receives low interest rates on its cash and cash equivalent balances and, as such, the Company does not have significant interest rate risk.
- (ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

13. CAPITAL MANAGEMENT

Capital management is reflected by the manner in which the Company manages its capital stock. The Company's objectives when managing capital are:

- a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;
- b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and
- c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

There were no significant changes in the Company's approach to capital management during the years ended December 31, 2018 and 2017.

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As at December 31, 2018, the Company's capital stock was \$49,440,113 (December 31, 2017 - \$49,397,409). The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or equity or similar instruments, reduce debt levels from, or make adjustments to, its capital expenditure program.

The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than the TSX Venture Exchange ("TSXV") which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.