



NORTHERNSHIELD
RESOURCES INC.

(An Exploration Stage Company)

Condensed Interim Financial Statements

(unaudited and expressed in Canadian Dollars)

For the three and nine-month periods ended September 30, 2018 and 2017

[Note: an auditor has not reviewed these unaudited interim financial statements.]



Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018
and 2017

(unaudited and expressed in Canadian Dollars)

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NORTHERN SHIELD RESOURCES INC.
(An Exploration Stage Company)
Condensed Interim Statements of Comprehensive Loss
for the three and nine-month periods ended September 30, 2018 and 2017
(unaudited and expressed in Canadian Dollars)

	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	(3 months)	(3 months)	(9 months)	(9 months)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Expenses				
Expensed exploration (Note 8)	\$ 7,113	\$ 84,444	\$ 395,615	\$ 146,111
General and administrative (Note 8)	211,074	82,197	637,290	501,637
Stock-based compensation (Note 3)	-	-	-	263,625
Loss before other income (expenses)	(218,187)	(166,641)	(1,032,905)	(911,373)
Other income	158,743	48,439	160,149	116,685
Interest income	3,266	8	3,266	48
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(56,178)	(118,194)	(869,490)	(794,640)
Weighted average common shares outstanding	205,444,921	205,091,075	205,358,108	205,094,005
Basic and diluted loss per share (Note 4)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)

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

APPROVED BY THE BOARD

Ian C. Bliss, Director

Russell Richards, Director



NORTHERN SHIELD RESOURCES INC.
(An Exploration Stage Company)
Condensed Interim Statements of Financial Position
as at September 30, 2018 and December 31, 2017
(unaudited and expressed in Canadian Dollars)

	As at	September 30, 2018 (unaudited)	December 31, 2017 (unaudited)
CURRENT ASSETS			
Cash	\$	329,177	\$ 1,101,275
Unbilled receivables		-	111,022
Amounts receivable		44,090	30,874
Prepaid expenses		25,003	25,324
		398,270	1,268,495
INVESTMENT IN SHARES		833	833
MINERAL PROPERTIES (Note 5)		1,506,912	1,498,130
PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (Note 6)		90,015	106,998
	\$	1,996,030	\$ 2,874,456
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$	106,535	\$ 116,085
Deferred flow-through premium liability (Note 7)		16,366	24,752
		122,901	140,837
SHAREHOLDERS' EQUITY			
Share capital (Note 3)		25,431,829	25,422,829
Reserves		4,914,433	4,914,433
Deficit		(28,473,133)	(27,603,643)
		1,873,129	2,733,619
	\$	1,996,030	\$ 2,874,456

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



NORTHERN SHIELD RESOURCES INC.
(An Exploration Stage Company)
Condensed Interim Statements of Cash Flows
for the nine-month periods ended September 30, 2018 and 2017
(unaudited and expressed in Canadian Dollars)

	September 30, 2018	September 30, 2017
	(9 months)	(9 months)
	(Unaudited)	(Unaudited)
NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	\$ (869,490)	\$ (794,640)
Items not affecting cash and cash equivalents		
Amortization - administrative	9,414	10,521
Stock-based compensation	-	263,625
Regognition of flow-through premium	(8,386)	(116,685)
Changes in non-cash operating working capital items:		
Unbilled receivables	111,022	(436,852)
Amounts receivable	(13,216)	103,836
Prepaid expenses	321	(189,025)
Accounts payable and accrued liabilities	(9,550)	(36,910)
Expensed exploration	395,615	146,111
Interest Income	(3,266)	(48)
	(387,536)	(1,050,067)
INVESTING		
Expenditures on mineral properties	(404,397)	(2,120,509)
Mineral property funding	-	1,681,029
Purchase of property, plant and equipment	-	(38,436)
Amortization charged to exploration	7,569	8,252
	(396,828)	(469,664)
FINANCING		
Interest received	3,266	48
Issuance of share capital, net of issuance costs	9,000	8,016
	12,266	8,064
NET CASH AND CASH EQUIVALENTS INFLOW	(772,098)	(1,511,667)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,101,275	2,411,145
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 329,177	\$ 899,478

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



NORTHERN SHIELD RESOURCES INC.

(A Development Stage Company)

Condensed Interim Statements of Changes in Equity
for the nine-month periods ended September 30, 2018 and 2017

(unaudited and expressed in Canadian dollars)

	Share Capital		Reserves			Total
	Number of Shares	Amount	Share-based Payments	Warrants	Deficit	
Balance at January 1, 2017	205,044,921	25,414,813	3,871,998	778,810	(26,591,308)	3,474,313
Shares issued for property option	100,000	8,500	-	-	-	8,500
Share issue costs	-	(484)	-	-	-	(484)
Share-based compensation	-	-	263,625	-	-	263,625
Loss for the period	-	-	-	-	(794,640)	(794,640)
Balance at September 30, 2017	205,144,921	25,422,829	4,135,623	778,810	(27,385,948)	2,951,314
Loss for the period	-	-	-	-	(217,695)	(217,695)
Balance at December 31, 2017	205,144,921	25,422,829	4,135,623	778,810	(27,603,643)	2,733,619
Shares issued for property option	300,000	9,000	-	-	-	9,000
Loss for the period	-	-	-	-	(869,490)	(869,490)
Balance at September 30, 2018	205,444,921	25,431,829	4,135,623	778,810	(28,473,133)	1,873,129

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



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Northern Shield Resources Inc. (the "Company" or "Northern Shield"), an exploration stage company, incorporated under the *Canada Business Corporations Act*, is a natural resource company engaged in the business of identifying, acquiring and exploring mineral properties located primarily in Quebec and Nova Scotia.

Exploration on the Company's Shot Rock property in Nova Scotia is conducted through the Company's wholly-owned subsidiary, Seaborne Resources.

The Company's head office is situated at Suite 500, 55 Metcalfe Street, Ottawa, Ontario. The Company's shares trade on the TSX Venture Exchange under the symbol NRN.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 26, 2018.

Going concern

These unaudited consolidated interim financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business. For the nine-month period ended September 30, 2018, the Company incurred a loss of \$869,490 and had negative cash flows from operations of \$387,536. At the end of the period it had an accumulated deficit of \$28,473,133.

These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. The Company is currently looking to raise additional financing. Should this financing not materialize and profitable operations ultimately not be attained, this may cast doubt as to the Company's ability to continue as a going concern. Actual realization values may be substantially different from carrying values as shown in the Consolidated financial statements and the Company's ability to discharge its liabilities in the normal course of business may be in doubt should the Company be unable to continue as a going concern.



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation and Consolidation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting using the same accounting policies and methods of application as the audited annual consolidated financial statements of the Company for the year ended December 31, 2017, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). Accordingly, certain information and footnote disclosure normally included in annual financial statements have been omitted or condensed.

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2017.

The Company has retroactively adopted 9 Financial Instruments ("IFRS 9") effective January 1, 2018. There were no restatements and no material changes resulting from the adoption.

IFRS 16 was issued in January 2016 (effective January 1, 2019) and provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company is in the process of determining the impact the standard is expected to have on its consolidated financial statements.

Use of Judgments and Estimates

In preparing these interim financial statements, management has made judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017.



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

3. SHARE CAPITAL

Authorized and Issued

An unlimited number of voting common shares are authorized for issue and, subject to priority rights of other share classes, are entitled to receive dividends when and if declared by the Board of Directors. There were 205,444,921 voting common shares issued and outstanding at September 30, 2018 (205,144,921 at December 31, 2017).

An unlimited number of preferred shares are authorized for issue in series. There were no preferred shares issued at September 30, 2018 (none at December 31, 2017).

During the nine-month period ended September 30, 2018, 300,000 shares were issued as consideration for maintaining certain property options (2017 – 100,000).

Warrants

The following continuity summarizes the Company's outstanding warrant obligations over the period covered by these financial statements:

	<u>Quantity</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Expiry Date</u>
Balance, December 31, 2017	6,070,486	\$ 0.23	July 3, 2019
-no activity-	-	-	-
Balance, September 30, 2018	6,070,486	\$ 0.23	July 3, 2019

Additional information regarding warrants outstanding at period-ends:

<u>Issue Date</u>	<u>Exercise Price</u>	<u>Quantity</u>	<u>Expiry Date</u>
<u>As at September 30, 2018 and December 31, 2017:</u>			
June 30, 2016	\$ 0.22	3,125,000	July 1, 2019
July 16, 2016	\$ 0.22	1,385,300	July 16, 2019
September 12, 2016	\$ 0.30	1,136,364	September 12, 2019
November 29, 2016	\$ 0.17	426,822	November 29, 2018
		<u>6,070,486</u>	



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

3. SHARE CAPITAL (continued)

Stock options

The Company has established a Stock Option Plan (the "Plan") to develop the interest and incentive of eligible employees, directors and consultants in the Company's growth and development. The aggregate number of share options which may be issued and outstanding at any time under this plan shall not exceed 10% of the total number of issued and outstanding shares of the Company unless the Company receives the permission of the TSX Venture Exchange and its shareholders. As at September 30, 2018, 20,544,492 common share options were authorized to be issued and outstanding under the Plan (December 31, 2017 – 20,514,492). Stock options are granted with an exercise price equal to the underlying common stock's fair market value at the time of grant.

Once vested, options may be exercised during a period not exceeding five years from the date of grant, subject to earlier termination if the option holder ceases to be a director, officer, employee or consultant of the Company.

The following summarizes the Company's outstanding option obligations over the period covered by these financial statements:

	<u>Quantity</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2017	12,750,000	\$ 0.13
Expiry of options	(600,000)	0.09
Balance, September 30, 2018	12,150,000	\$ 0.13

At September 30, 2018, the remaining pool of options available for grant was 8,394,492 (December 31, 2017 – 7,764,492).

Detail of options outstanding at September 30, 2018 and December 31, 2017:

<u>Issue Date</u>	<u>Exercise Price</u>	<u>Quantity</u>	<u>Expiry Date</u>	<u>Exercisable</u>
As at September 30, 2018:				
June 10, 2016	\$ 0.16	6,450,000	June 10, 2021	6,450,000
July 15, 2016	\$ 0.17	350,000	July 15, 2021	350,000
June 30, 2017	\$ 0.10	5,350,000	June 30, 2022	5,350,000
		12,150,000		12,150,000
As at December 31, 2017:				
June 10, 2016	\$ 0.16	6,850,000	June 10, 2021	6,850,000
July 15, 2016	\$ 0.17	350,000	July 15, 2021	350,000
June 30, 2017	\$ 0.10	5,550,000	June 30, 2022	5,550,000
		12,750,000		12,750,000



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

3. SHARE CAPITAL (continued)

Share-based compensation

During the nine-month period ended September 30, 2018 the Company incurred no share-based compensation expense (2017 - \$263,625).

The Black-Scholes option pricing model, used by the Company to calculate option values, as well as other currently accepted valuation models, were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's option awards. These models require subjective assumptions, including future stock price volatility and expected time until exercise, which affect calculated values, summarized in the table below. Accordingly, management believes that this model does not necessarily provide a reliable single measure of the fair value of the Company's stock option awards.

4. LOSS PER SHARE

The treasury stock method is used for the calculation of diluted loss per share. Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. As the Company has recorded a loss in each of the years presented, the following table presents the anti-dilutive effect of securities excluded from the loss per share computation for the nine-month periods ended September 30, 2018 and 2017:

	2018	2017
Stock options	12,150,000	7,050,000
Stock purchase warrants	6,070,486	6,070,486
	18,220,486	13,120,486

Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

5. MINERAL PROPERTIES

The following table summarizes the exploration expenditures incurred on each of the Company's mineral properties:

	<u>Idefix</u>	<u>Huckleberry</u>	<u>Séquoï</u>	<u>Sé2</u>	<u>Shot Rock</u>	<u>Other</u>	<u>Total</u>
<i>Percent Ownership</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>100%</i>	<i>0%</i>	<i>100%</i>	
At December 31, 2016	\$ 86,331	\$ 69,751	\$ 831,751	\$ 85,743	\$ -	\$ 26,859	\$ 1,100,435
Expenditures							
Acquisition	5,289	2,645	-	-	18,060	34,250	60,244
Exploration	1,182	1,790,445	55,555	205,784	3,719	152,775	2,209,460
Total Expenditures	6,471	1,793,090	55,555	205,784	21,779	187,025	2,269,704
External Funding	-	(1,713,548)	-	-	-	-	(1,713,548)
Government assistance	-	-	-	-	-	-	-
Expensed current exploration	-	-	-	-	-	(158,461)	(158,461)
Property write-down	-	-	-	-	-	-	-
At December 31, 2017	\$ 92,802	\$ 149,293	\$ 887,306	\$ 291,527	\$ 21,779	\$ 55,423	\$ 1,498,130
Expenditures							
Acquisition	-	12,034	8,903	-	25,490	5,392	51,819
Exploration	-	42,872	3,383	1,266	202,235	102,821	352,577
Total Expenditures	-	54,906	12,286	1,266	227,725	108,213	404,396
Expensed current exploration	-	-	-	-	-	(102,821)	(102,821)
Property write-down	-	-	-	(292,793)	-	-	(292,793)
At September 30, 2018	\$ 92,802	\$ 204,199	\$ 899,592	\$ -	\$ 249,504	\$ 60,815	\$ 1,506,912

During the year ended December 31, 2017 the Company entered into a property exploration option agreement with a prospector that gives the Company the right to acquire up to an 80% interest in the Shot Rock property in Nova Scotia.

Under the terms of the Option Agreement, the Company may earn a 50% interest in the property by incurring \$500,000 in expenditures on the property within two years. The option agreement also contains cash payments totaling \$50,000, \$12,000 of which was paid during the nine-month period ended September 30, 2018 (during 2017, \$10,000 was also paid) and share issuances totaling 650,000 shares to the prospector over three installments during the initial two-year period, 300,000 of which were issued during the six-month period ended September 30, 2018 (2017 – nil).

Over an additional two-year period, the Company can increase its interest to 80% by incurring an additional \$1,500,000 in expenditures, while making an additional \$50,000 in cash payments and issuing an additional 500,000 Company shares to the Prospector.

The Prospector will retain a 1% NSR of which half (0.5%) can be bought back by the Company for \$1,000,000.

Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Field Equipment	Furniture/ Fixtures	Office Equipment	Software	Total
Cost					
December 31, 2016	\$ 201,182	\$ 29,980	\$ 113,070	\$ 33,207	\$ 377,439
Additions	7,400	-	18,585	12,451	38,436
December 31, 2017	208,582	29,980	131,655	45,658	415,875
Additions	-	-	-	-	-
September 30, 2018	\$ 208,582	\$ 29,980	\$ 131,655	\$ 45,658	\$ 415,875
Accumulated Amortization					
December 31, 2016	\$ (144,469)	\$ (23,992)	\$ (84,012)	\$ (31,171)	\$ (283,644)
Amortization	(11,045)	(1,110)	(7,771)	(5,307)	(25,233)
December 31, 2017	(155,514)	(25,102)	(91,783)	(36,478)	(308,877)
Amortization	(7,569)	(696)	(5,687)	(3,031)	(16,983)
September 30, 2018	\$ (163,083)	\$ (25,798)	\$ (97,470)	\$ (39,509)	\$ (325,860)
Carrying Values					
December 31, 2016	\$ 56,713	\$ 5,988	\$ 29,058	\$ 2,036	\$ 93,795
December 31, 2017	\$ 53,068	\$ 4,878	\$ 39,872	\$ 9,180	\$ 106,998
September 30, 2018	\$ 45,499	\$ 4,182	\$ 34,185	\$ 6,149	\$ 90,015

Exploration-related asset amortization of \$7,569 was allocated to mineral properties during the nine-month period ended September 30, 2018 (2017 - \$8,252).

7. DEFERRED FLOW-THROUGH PREMIUM LIABILITY

This is the amount of unrecognized premium on flow-through share purchases related to the unspent flow-through dollars.



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

8. NATURE OF EXPENSES

General and administrative expenses during nine-month periods ended September 30:

	2018	2017
Remuneration and consulting fees	\$ 280,895	\$ 283,637
Office expenses	197,492	191,904
Travel expenses	22,664	66,212
Marketing expenses	20,567	22,896
Professional fees	64,420	51,116
Public company expenses	37,819	40,551
Insurance expenses	13,433	13,424
	637,290	669,740
General and administrative recovery	-	(168,103)
	\$ 637,290	\$ 501,637

Expensed exploration during nine-month periods ended September 30:

	2017	2016
Expensed prospecting activities	\$ 102,822	\$ 146,111
Property write-downs	292,793	-
	\$ 395,615	\$ 146,111

9. RELATED PARTY TRANSACTIONS

The Company incurred legal fees with a law firm at which one of the Company's directors is a partner. All transactions were made on terms equivalent to those that prevail in arm's length transactions.

During the nine-month period ended September 30, 2018 the Company incurred \$58,460 in fees from the related party (2017 - \$40,983).

At September 30, 2018, the Company owed nothing to the related party (December 31, 2017 - \$2,484).



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

10. KEY MANAGEMENT COMPENSATION

Benefits earned by key management during nine-month periods ended September 30:

	2018	2017
Salaries	\$ 174,908	\$ 170,347
Benefits	5,118	4,445
Share-based compensation	-	66,500
	\$ 180,026	\$ 241,292

11. COMMITMENTS

The Company is committed to operating leases as follows:

	2018	2019	2020	2021	Total
Premises lease	\$ 16,686	\$ 66,744	\$ 66,744	\$ 50,058	\$ 200,232

12. EMPLOYEE COMPENSATION

The following table presents the compensation earned by the employees (including key management) during the nine-month periods ended September 30, noted below:

	2018	2017
Salaries	\$ 365,843	\$ 420,772
Benefits	25,991	23,294
Share-based compensation	-	130,625
	\$ 391,834	\$ 574,691

All the expenses in the above table were partially recorded as General and Administration expenses and partially capitalized to Mineral Properties.



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

13. SEGMENT INFORMATION

The Company has one operating segment involved in the exploration of resource properties. All the Company's assets are located in Canada.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market risk

Market risk is the risk that changes in market prices, such as equity prices; interest rates and foreign exchange rates will affect the Company's income (loss) or the value of its financial instruments.

It is in management's opinion that the Company is not exposed to significant equity price, currency or interest rate risks arising from its financial instruments.

Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

Foreign exchange risk

The Company is not exposed to significant foreign exchange risk due to the low volume of foreign currency transactions.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's unbilled receivables.

a) Concentration of credit risk

Counterparties expose the Company to credit-related losses in the event of non-performance. By dealing with only creditworthy counterparties, the Company's credit exposure is minimized.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Credit risk (continued)

b) Credit risk exposure

The carrying amounts of the cash, unbilled receivables and amounts receivable represent the maximum exposure to credit risk. The maximum exposure to credit risk at September 30, 2018 was \$373,267 (December 31, 2017 - \$1,243,171). The cash is held by the Company's banks, two of the large Canadian chartered banks.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to manage liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. As at September 30, 2018, the Company had a cash balance of \$329,177 (December 31, 2017 - \$1,101,275). To date, the Company has incurred significant operating losses. The Company's ability to continue as a going concern is dependent on its ability to generate sufficient capital through either revenues or through further financings.

The Company accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. As at September 30, 2018, 100% of accounts payable are under sixty days.

Fair values

- a) The fair value of cash, unbilled receivables, amounts receivable, long-term deposit, accounts payable and accrued liabilities is approximately equal to their carrying value due to their short-terms to maturity.
- b) Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;



Notes to the Condensed Interim Financial Statements

For the three and nine-month periods ended September 30, 2018 & 2017
(unaudited and expressed in Canadian Dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Fair values (continued)

b) Fair value hierarchy (continued)

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The fair value of the investment in private company is determined based on recent market transactions for similar instruments issued by that company.

15. CAPITAL MANAGEMENT

The Company aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to fund future exploration and maintain the ability to continue as a going concern. Capital is defined as the Company's shareholders' equity. The Company does not have any long-term debt and the Company does not intend to assume any until any given development project warrants it. The Board of Directors does not establish quantitative capital criteria for management; but rather promotes the use of periodic equity financing events as the primary method of funding administrative operations and exploration and development. Other methods open to management to fund exploration include extending joint venture or earn-in opportunities to other parties relating to specific properties.

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