Niocan inc.
NIOBIUM / CANADA

Financial Statements
For the years ended
December 31, 2018 and 2017

# NIOCAN INC.
## MANAGEMENT'S REPORT

### Management's responsibility for financial reporting

The accompanying financial statements have been prepared by management and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The management is responsible for the preparation, integrity and objectivity of the financial statements and other financial information presented in this Report. Other information included in these financial statements are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly in all material respects.

A system of administrative, internal accounting and disclosure controls have been developed and are maintained by management to provide reasonable assurance that assets are safeguarded, and that financial information is accurate and reliable.

(signed) *Hubert Marleau*
Hubert Marleau, President and CEO

(signed) *Bruno Dumais*
Bruno Dumais, CPA, CA, Chief Financial Officer

Guimond Lavallée inc. | Chartered professional accountants corporation

INDEPENDENT AUDITORS' REPORT

To the shareholders of NIOCAN INC.,

**Opinion**
We have audited the accompanying financial statements of NIOCAN INC. (the Company), which comprise the statements of financial position as at December 31, 2018 and December 31, 2017, and the statements of comprehensive loss, statement of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and December 31, 2017, and its financial performance and its cash flows for the year 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 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 financial statements in Canada, and 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.

**Key Audit Matters**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Material uncertainty related to going concern**
Without qualifying our opinion, we draw attention to note 1 in the financial statements which indicates that the Company is still waiting for the authorization and obtaining the permits for the mining property in Oka, and obtaining the financing to operate that property. Also, the Company is still in exploration stage relating to its other property and, as such, no revenue has been yet generated from its operating activities. Accordingly, the Company depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

WWW.CAGL.CA

7055 boul. Taschereau, suite 500, Brossard (Québec) J4Z 1A7
Telephone : **450.466.1313** | Fax : 450.466.0772

801 route Marie-Victorin, Sorel-Tracy (Québec) J3R 1L1
Telephone : **450.855.4646** | Fax : 450.466.0772

**Other Information**
Management is responsible for the other information. The other information comprises the management's discussion and analysis for the year ended December 31, 2018 and December 31, 2017.

Our opinion on the 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 financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 Financial Statements**
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



7055 boul. Taschereau, suite 500, Brossard (Québec) J4Z 1A7
Telephone : **450.466.1313** | Fax : 450.466.0772

801 route Marie-Victorin, Sorel-Tracy (Québec) J3R 1L1
Telephone : **450.855.4646** | Fax : 450.466.0772

- 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 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 financial statements, including the disclosures, and whether the 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.

Guimond Lavallée inc.[1]

The engagement partner on the audit resulting in this independent auditor's report is David Lavallée.

Chartered Professional Accountants Corporation

April 30, 2019
Brossard (Quebec)

[1] CPA auditor, CA permit No. A128130



7055 boul. Taschereau, suite 500, Brossard (Québec) J4Z 1A7
Telephone : 450.466.1313 | Fax : 450.466.0772

801 route Marie-Victorin, Sorel-Tracy (Québec) J3R 1L1
Telephone : 450.855.4646 | Fax : 450.466.0772

NIOCAN INC.
Statements of Financial Position
As at December 31
*(in Canadian dollars)*

| | Note | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| | 4 | | Adjusted | Adjusted |
| **Assets** | | | | |
| **Current assets** | | | | |
| Cash and cash equivalents | | 81,039 | 142,090 | 158,920 |
| Receivables | 5 | 1,103 | 4,087 | 35,286 |
| Prepaid expenses | 6 | 35,228 | 100,741 | 127,380 |
| **Total current assets** | | 117,370 | 246,918 | 321,586 |
| **Non-current assets** | | | | |
| Prepaid expenses | 6 | 16,643 | — | 90,917 |
| Land | | 506,887 | 506,887 | 506,887 |
| **Total non-current assets** | | 523,530 | 506,887 | 597,804 |
| **Total assets** | | 640,900 | 753,805 | 919,390 |
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable and accrued liabilities | 7 | 576,077 | 350,280 | 385,539 |
| Debentures | 8 | 2,120,000 | 1,970,000 | 1,650,000 |
| **Total current liabilities** | | 2,696,077 | 2,320,280 | 2,035,539 |
| **Equity (deficiency)** | | | | |
| Share capital | 10 | 15,352,101 | 15,352,101 | 15,352,101 |
| Contributed surplus | | 1,247,400 | 1,247,400 | 1,247,400 |
| Warrants | 11 | 231,000 | 231,000 | 231,000 |
| Deficit | | (18,885,678) | (18,396,976) | (17,946,650) |
| **Total equity (deficiency)** | | (2,055,177) | (1,566,475) | (1,116,149) |
| **Total liabilities and equity (deficiency)** | | 640,900 | 753,805 | 919,390 |
| **Going concern** | 1 | | | |
| **Income and mining taxes** | 9 | | | |
| **Subsequent event** | 17 | | | |

The notes are an integral part of these financial statements.

On behalf of the Board:
(signed) Hubert Marleau, Director

(signed) Guy Charette, Director

NIOCAN INC.

Statements of Loss and Comprehensive Loss

For the year ended December 31, 2018 and 2017

*(in Canadian dollars, unless otherwise stated)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| Revenues | | 10,800 | 7,242 |
| Expenses | | | |
| Professional fees | | 43,362 | 49,687 |
| Office and administration | | 65,139 | 53,759 |
| Directors' fees | | 32,520 | 34,059 |
| Mining rights | | 97,700 | 129,867 |
| Stock exchange, authorities and shareholders relations | | 22,403 | 25,915 |
| Rent | | 5,099 | 5,099 |
| Taxes and permits | | 10,414 | 6,659 |
| Travel and business development | | 787 | 1,945 |
| Insurance | | 17,380 | 12,208 |
| Telecommunication & website | | 2,957 | 5,287 |
| Repairs and maintenance | | — | 5,598 |
| Bank charges | | 394 | 541 |
| Total expenses | | 298,155 | 330,624 |
| Other income | | | |
| Gain on settlement of short-term liability | | — | (48,574) |
| Total other income | | — | (48 574) |
| Net loss before net finance expenses | | (287,355) | (274,808) |
| Net finance expenses | | 201,347 | 175,518 |
| Net loss and comprehensive loss | | (488,702) | (450,326) |
| Basic and diluted net loss per outstanding common share | 12 | (0,02) | (0,02) |
| Weighted average number of outstanding common shares | 12 | 25,979,868 | 25,979,868 |

The notes are an integral part of these financial statements.

NIOCAN INC.

Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2018 and 2017

*(in Canadian dollars, unless otherwise stated)*

| | Number of shares | Share Capital | Contributed Surplus | Warrants | Deficit | Total |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| Balance at December 31, 2016 - as previously reported | 25,979,868 | 15,352,101 | 1,247,400 | 231,000 | (12,299,845) | 4,530,656 |
| Cumulative effect – Mining properties and exploration and evaluation assets accounting policy change (note 4) | — | — | — | — | (5,646,805) | (5,646,805) |
| Balance at December 31, 2016 - as adjusted | 25,979,868 | 15,352,101 | 1,247,400 | 231,000 | (17,946,650) | (1,116,149) |
| Net loss and comprehensive loss | — | — | — | — | (450,326) | (450,326) |
| Balance at December 31, 2017 | 25,979,868 | 15,352,101 | 1,247,400 | 231,000 | (18,396,976) | (1,566,475) |
| **Net loss and comprehensive loss** | **—** | **—** | **—** | **—** | **(488,702)** | **(488,702)** |
| **Balance at December 31, 2018** | **25,979,868** | **15,352,101** | **1,247,400** | **231,000** | **(18,885,678)** | **(2,055,177)** |

The notes are an integral part of these financial statements.

NIOCAN INC.
Statements of Cash Flows
For the years ended December 31, 2018 and 2017
*(in Canadian dollars, unless otherwise stated)*

| | Note | 2018 | 2017 |
|---|---|---|---|
| | | $ | $ |
| **Cash flows from operating activities:** | | | |
| Net loss and comprehensive loss | | (488,702) | (450,326) |
| Adjustment for: | | | |
| Gain on settlement of short-term liability | | — | 48,574 |
| | | (488,702) | (401,752) |
| Changes in non-cash working capital items | | 277,651 | 64,922 |
| | | (211,051) | (336,830) |
| **Cash flows from financing activities:** | | | |
| Debenture issuance | 8 | 150,000 | 320,000 |
| | | 150,000 | 320,000 |
| **Cash flows from investing activities:** | | — | — |
| (Decrease) Net increase in cash and cash equivalents | | (61,051) | 16,830 |
| Cash and cash equivalents, at beginning | | 142,090 | 158,920 |
| **Cash and cash equivalents, at the end** | | 81,039 | 142,090 |

The notes are an integral part of these financial statements.

## 1. Reporting entity and going concern

Niocan Inc. (the "Company") is domiciled in Canada. The address of the Company's registered office is 1, Place Ville-Marie, Suite 1670, Montréal, Québec. The Company, incorporated under the Québec *Companies Act* on August 29, 1995, holds a niobium property in Oka, Québec and exploration properties in the province of Québec. The Company is a publicly traded company listed on the TSX Venture Exchange (the "TSX-V") under the symbol "NIO".

The Company is in a development stage and has mineral exploration and development properties in the province of Québec. The Company does not capitalize the exploration and evaluation expenses (note 4). The Oka mining property consists of mining rights comprised of one mining lease and 49 claims covering over 2,350 acres and the Great Whale property consists of surface and mining rights comprising 235 claims covering over 26,000 acres on the Hudson Bay territory. Substantially, all the Company's efforts are currently devoted to financing, developing and obtaining permits for its niobium property in Oka.

Financial statements have been prepared on a going concern basis which supposed that the Company will pursue its activities in a foreseeable future and will be able to realize its assets or discharge its obligations in the ordinary course of operations. The Company is in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether its properties and projects contain ore reserves that are economically recoverable. The Company does not have any revenues coming from its operations that would enable the Company to discharge its obligations in the ordinary course of its operations.

With respect to the niobium property in Oka, the Company has determined in 1999 that the property contains ore resources which provide a conceptual indication of the potential of the property. The Company's application is under study with the Québec Ministry of Sustainable Development, Environment and Parks ("MDDEP") and the community of Oka to obtain all permits, certificates and other authorizations to allow the Company to operate the niobium property. Management is currently working to obtain all the required permits and authorization to develop the Oka property.

The $2.12 million debentures are maturing on March 31, 2019 and are secured by all the property and assets of the Company. Management is currently negotiating with the debentures holders to renew or convert the debentures at the best interest of the Company. If no agreements are reached before March 31, 2019, the debentures holders may exercise their rights (see note 17).

The ability of the Company to meet its commitments as they become payable, including the acquisitions of mineral properties and the development of projects, is dependent on its ability to obtain necessary financing. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its obligations in the ordinary course of operations.

Although the Company has taken steps to verify title to mineral properties 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 unregistered prior agreements and non-compliance with regulatory requirements.

## 2. Basis of preparation

### Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were authorized for issue by the Board of Directors on April 30,2019.

**Basis of measurement**
The financial statements have been prepared on the historical cost basis, except for the warrants associated with the Debenture (note 8), which are measured at fair value through profit or loss.

**Functional and presentation currency**
These financial statements are presented in Canadian dollars, unless otherwise stated, which the Company's functional currency is.

**Use of estimates and judgements**
The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Notes 8 and 17 - carrying value of all assets of the Company if no agreements are reached with the debenture holders before March 31, 2019 (see note 17).

## 3. Significant accounting policies

The accounting policies set out below were applied consistently to all years presented in these financial statements.

a) Financial instruments:

*Non-derivative financial assets and liabilities*
The Company initially recognizes loans and receivables, investment in equity securities, debt issued, and subordinated liabilities on the date that they are originated. All other financial assets and liabilities (including assets designated at fair value through income or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged or cancelled or expired.

Financial assets and liabilities are offset, and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The Company has classified non-derivative financial assets into the following categories: loans and receivables and available-for-sale financial assets.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and other receivables.

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an available-for-sale financial asset is derecognized, the gain or loss accumulated in the fair value reserve is reclassified to income or loss. The Company has not recorded any available-for-sale financial assets.

The Company has the following non-derivative financial liabilities: accounts payable and accrued liabilities and Debenture. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

*Derivative financial instruments*
The Company has derivative financial instruments in regard to the warrants included in the Debenture which are classified as financial instruments at fair value through profit and loss. Derivative instruments are initially recorded at fair value and subsequent to initial recognition, they are measured at fair value with changes in fair value included in the statement of comprehensive loss at each reporting date as a component of net finance costs.

*Transaction costs*
Transaction costs related to financial assets and liabilities held for trading are expensed as they are incurred. Transactions costs related to financial assets held to maturity, loans and receivables, and other financial liabilities are taken into account in the carrying value of the asset and liability and subsequently amortized over the expected useful life of the instrument using the effective interest method. Transaction costs related to available-for-sale assets are capitalized upon initial recognition and then transferred to other comprehensive income immediately thereafter.

*Fair value hierarchy*
The following fair value hierarchy, which reflects the significance of the inputs, is used in making the measurements of fair value of financial assets and liabilities.
Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 - 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); and
Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

b) Share capital:

*Common shares*
Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

*Warrants*
Warrants that are derivatives over the Company's own equity that will be settled only by the Company exchanging a fixed amount of cash for a fixed number of the Company's own equity instruments are classified as equity.

Warrants that include a contractual obligation to deliver cash or do not meet the fixed requirements of IAS 32 are classified as financial liabilities.

c) Mining properties and exploration and evaluation expenses:
Mining properties and exploration and evaluation expenses include mining properties and other exploration and evaluation costs. Mining properties correspond to acquired interests in mining exploration permits / claims which include the rights to explore for, mine, extract and sell all minerals from such claims. Costs incurred include appropriate technical and administrative overheads.

All exploration and evaluation costs are expensed as incurred.

When technical feasibility and commercial viability of extracting a mineral resource are demonstrable for an area of interest, the Company stops expensing exploration and evaluation costs for that area and record the amounts either as tangible or intangible mining assets under development according to the nature of the assets.

d) Impairment:

*Financial assets*
Financial assets are assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). The level identified by the group for the purposes of testing exploration and evaluation assets for impairment corresponds to the mining property.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

e) Provisions:
A provision is recognized if, because of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will

be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as net finance expenses.

f) Refundable credit on mining duties and refundable tax credit related to resources:
The Company is eligible for a refundable credit on mining duties under the Québec Mining Duties Act. This refundable credit on mining duties is equal to 16% on 50% of the eligible expenses. The accounting treatment for refundable credit on mining duties depends on management's intention to go into production in the future or to sell its mining properties to another mining producer once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property.

In the first case, the credit on mining duties is recorded as an income tax recovery under IAS 12, Income Taxes, which generates a deferred tax liability and deferred tax expense simultaneously, since the exploration and evaluation assets have no more tax basis following the Company's election to claim the refundable credit. In the second case, it is expected that no mining duties will be paid in the future; accordingly, the credit on mining duties is recorded as a government grant under IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, which is recorded against exploration and evaluation expenses. Currently, it is management's intention to have the Company become a producer in the future, as such, credits on mining duties are recorded in compliance with IAS 12, Income Taxes.

The Company is also eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred. The refundable tax credit related to resources is recorded as a government grant against exploration and evaluation expenses.

Credits related to resources and credits on mining duties recognized against exploration and evaluation expenditures are recorded when there is reasonable assurance that they will be received, and the Company will comply with the conditions associated with the credits. They will be recognized in profit or loss statement upon recognition.

g) Share-based payments:
The grant date fair value of share-based payment awards granted to employees and directors is recognized as an employee expense, with a corresponding increase in contributed surplus, over the year that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company. The Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, except when that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted.

h) Leases:
All leases are classified as operating leases and as such the leased assets are not recognized in the Company's statements of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

i) Net finance costs:
Net finance costs comprise interest income on funds invested, interest expense using the effective interest method, and changes in the fair value of the warrants associated with the Debenture.

j) Income tax:
Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

k) Earnings per share:
The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise warrants and share options granted to employees.

l) Warrants:
The Company accounts for warrants using the fair value method. Under this method, the value of warrants is measured at fair value at the grant date using the Black-Scholes option pricing model, using management’s assumptions and recorded as share capital when the warrants are exercised.

m) Contributed Surplus:
Contributed surplus is used to record the accumulated fair value of stock options recognized as share-based payments. Contributed Surplus is increased by the fair value of these items on vesting and is reduced by the corresponding amounts when options are exercised.

n) Cash and Cash Equivalents:
Cash and cash equivalents include cash on hand, deposits with banks and other highly liquid short-term investments with original maturities of three months or less.

o) Future accounting standards:
Several new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2019 and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below.

*IFRS 9 - Financial Instruments* ("IFRS 9")
In November 2009, the IASB issued IFRS 9, Financial Instruments ("IFRS 9 (2009)"), and in October 2010, the IASB published amendments to IFRS 9 ("IFRS 9 (2010)"). In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9, Financial Instruments (2013). The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. The mandatory effective date is not yet determined; however, early adoption of the new standard is still permitted. The Company intends to adopt IFRS 9 (2009), IFRS 9 (2010) or IFRS 9 (2013) in its financial statements for the annual period beginning on January 1, 2019.

*IFRS 16, Leases ("IFRS 16")*
IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. This standard 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is not expected to have a material impact on amounts recorded in the financial statements of the Company.

*IAS 12 – Income taxes*
On January 19, 2016, the IASB published and amendment to IAS-12 "Income Taxes". The amendments to this standard relate to the recognition of deferred tax assets and liabilities, with the latter also being subject to a 'probable profits' test. The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application being permitted. Management has yet to assess the potential impact of these amendments on its financial statements.

*IAS 1 – Presentation of Financial Statements*
*IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors*
In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments make minor changes to the definition of the term "material" and align the definition across all IFRS Standards. Materiality is used in making judgments related to the preparation of financial statements. The amendments are effective January 1, 2020 with earlier adoption permitted. The Company is assessing the impact of these amendments on its financial statements.

*(in Canadian dollars, unless otherwise stated)*

## 4. Change in accounting policy

The Company has historically capitalized expenditures from mining properties and exploration and evaluation activities after they had reached a certain stage under IFRS 6 – Exploration and Evaluation of Mineral Resources.

In the fourth quarter of the year ended December 31, 2018, the Company adopted a voluntary change in accounting policy with respect to mining properties and explorations and evaluations expenses. The Company's new policy is to expense mining properties and exploration and evaluation expenses in the statement of income (loss) and comprehensive income (loss) until such time as the technical feasibility and commercial viability has been established that supports the future development of the property, and such development receives the Board of Directors approval.

The Company has determined that such voluntary change in accounting policy results in financial statements providing more relevant information as well as bringing the Company in line with a similar accounting policy adopted by its peers.

This change has been applied to all the Company's mining properties and exploration and evaluation activities.

Under the previous accounting policy, the Company was required to perform an impairment assessment on the carrying value of the exploration and evaluation assets. As of December 31, 2018, certain impairment indicators were noted, and may have resulted in an impairment charge, however, no impairment test was required given the change in policy adopted by the Company.

In accordance with IAS 8 – Accounting policies, changes in accounting estimates and errors, the change in accounting policy has been made retrospectively and the comparatives have been adjusted accordingly to all periods presented, as if the policy had always been applied. The change also considers impact from deferred tax liability aspects.

The following tables summarises the impact of the change in accounting policy on affected line items within the Company's financial statements:

**Adjustments to the Statements of Financial Position**

| | As at December 31, 2016 | Adjustments | As at December 31, 2016 |
|---|---|---|---|
| | Previously stated | | Adjusted |
| | $ | $ | $ |
| Mining properties | 845,000 | (845,000) | — |
| Explorations and evaluation assets | 5,527,056 | (5,527,056) | — |
| Total assets | 7,291,446 | (6,372,056) | 919,390 |
| Deferred tax liability | 725,251 | (725,251) | — |
| Total liabilities | 2,760,790 | (725,251) | 2,035,539 |
| Deficit | (12,299,845) | (5,646,805) | (17,946,650) |
| Total equity (deficiency) | 4,530,656 | (5,648,805) | (1,116,149) |
| Total liabilities and equity (deficiency) | 7,291,446 | (6,372,056) | 919,390 |

*(in Canadian dollars, unless otherwise stated)*

| | As at December 31, 2017 | Adjustments | As at December 31, 2017 |
|---|---|---|---|
| | Previously stated | | Adjusted |
| | $ | $ | $ |
| Mining properties | 845,000 | (845,000) | — |
| Explorations and evaluation assets | 5,527,056 | (5,527,056) | — |
| Total assets | 7,125,861 | (6,372,056) | 753,805 |
| Deferred tax liability | 725,251 | (725,251) | — |
| Total liabilities | 3,045,531 | (725,251) | 2,320,280 |
| Deficit | (12,750,171) | (5,646,805) | (18,396,976) |
| Total equity (deficiency) | 4,080,330 | (5,646,805) | (1,566,475) |
| Total liabilities and equity (deficiency) | 7,125,861 | (6,372,056) | 753,805 |

## 5. Receivables

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Sales taxes | 1,103 | 987 |
| Other receivables | — | 3,100 |
| | 1,103 | 4,087 |

## 6. Prepaid expenses

Prepaid expenses consist mostly of payment of rights on mining properties.

*Oka property:*
The Oka mining property consists of mining rights comprised of one mining lease and 49 claims covering over 2,350 acres.

*Great Whale property:*
The Company owns surface and mining rights for the iron property of Great Whale comprising 235 (528 in 2017) claims covering over 26,000 (61,516 in 2017) acres on the Hudson Bay territory.

## 7. Accounts payable and accrued liabilities

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Accounts payable | 4,051 | — |
| Accrued liabilities | 46,928 | 25,493 |
| Accrued interest | 513,340 | 312,559 |
| Payroll benefits payable | 11,758 | 12,228 |
| | 576,077 | 350,280 |

## 8. Debentures

On February 19, 2013, the Company completed a private placement with Nio-Metals Holdings LLC ("Nio-Metals") pursuant to which Nio-Metals subscribed for a unit comprising of $1,200,000 aggregate principal amount of secured subordinated debentures of the Company (the "Debenture") and 1,000,000 warrants to purchase common shares, representing aggregate gross proceeds of $1,200,000. The Debenture bear interest at an annual rate of 10%, payable quarterly as originally set to mature August 19, 2015 and got extended until March 31, 2019 (see note 17), subject to the ability of the Company to repay them at any time without penalty. The warrants expired on February 19, 2015. The Debenture is secured by all property and assets of the Company.

*(in Canadian dollars, unless otherwise stated)*

In 2016, the Company amended the debentures to consider a $450,000 cash injection to support the working capital and allow renewal of mining claims. The amendments also considered payment of the interest in shares instead of cash, starting in March 31, 2016. In 2017, the Company amended the debentures to consider a $320,000 cash injection to support the working capital.

In 2018, the Company amended the debentures to consider a $150,000 cash injection to support the working capital.

## 9. Income and mining taxes

Effective income tax expense differs from income tax expense computed based on the combined federal and provincial income tax rate of 26.8% (2017 – 26.8%) as a result of the following:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Loss before income and mining tax | (488,702) | (450,326) |
| Tax recovery using the Company's domestic tax rate | (130,972) | (120,687) |
| Tax effect of temporary differences and others | 9 | (2,674) |
| Current year losses for which no deferred tax asset is recognized | 130,963 | 123,361 |
| **Deferred income and mining taxes expense** | — | — |

Unrecognized deferred tax assets:
Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize benefits therefrom.

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Non-capital losses carry forwards | 2,056,360 | 1,925,388 |
| Tax basis of exploration assets in excess of carrying value | 885,263 | 885,263 |
| Tax basis of capital assets in excess of carrying value | 8,114 | 8,114 |
| Capital losses carry forwards | 1,031 | 1,031 |
| | 2,950,768 | 2,819,796 |

*(in Canadian dollars, unless otherwise stated)*

The non-capital losses expire as follows:

| | Federal | Quebec |
|---|---|---|
| | $ | $ |
| 2026 | 227,582 | 227,582 |
| 2027 | 328,025 | 328,025 |
| 2028 | 461,358 | 461,358 |
| 2029 | 449,845 | 449,845 |
| 2030 | 430,422 | 430,422 |
| 2031 | 1,051,711 | 1,051,711 |
| 2032 | 951,827 | 951,827 |
| 2033 | 910,315 | 910,315 |
| 2034 | 737,928 | 737,928 |
| 2035 | 660,158 | 660,158 |
| 2036 | 514,841 | 514,841 |
| 2037 | 460,302 | 460,302 |
| 2038 | 488,669 | 488,669 |
| | 7,672,983 | 7,672,983 |

The Company also has available unrecognized exploration tax credits of $164,208 (2017 – $164,208), which will expire between 2023 and 2033.

## 10. Share capital

The number of shares issued and outstanding as at December 31, 2018 was 25,979,868 (2017 – 25,979,868). The Company is authorized to issue an unlimited number of common shares, without par value.

## 11. Warrants

The number of warrants outstanding as at December 31, 2018 was 3,000,000 (2017 – 3,000,000). During the period, no warrants were issued nor expired.

The weighted average remaining contractual life for the warrants outstanding as at December 31, 2018 was 1.72 years (2017 – 2.72 years).

The weighted average exercisable price for the warrants outstanding as at December 31, 2018 was $0.15 (2017 - $0.15).

## 12. Net loss per share

The calculation of basic net loss per share at December 31, 2018 was based on the loss attributable to common shareholders which corresponds to the loss for the period of $488,702 (2017 – loss of $450,326), and a weighted average number of common shares of 25,979,868 (2017 – 25,979,868).

The calculation of diluted net loss per share at December 31, 2018 is the same as the basic net loss per share as all options had an anti-dilutive effect (same at December 31, 2017).

## 13. Share-based payments

Under the stock option plan, the Company may grant options to directors, officers and consultants to purchase common shares provided that the aggregate number of shares subject to such option may not exceed 10% of the issued and outstanding common shares at the time of any option grant on a rolling basis. The exercise price of each option is determined by the Board of Directors and is required not to be lower than the discounted market price based on last closing market price of the common shares before the date of the grant of the option. The options vest immediately upon issuance and their life may not exceed 5 years. All options are recorded at fair value when granted.

*(in Canadian dollars, unless otherwise stated)*

The plan must receive shareholder and TSX-V approval annually at the Company's annual general meeting of shareholders. No stock options were issued during the year. The number of exercisable stock options outstanding fluctuated as follows:

| | As at December 31, 2018 | | As at December 31, 2017 | |
|---|---|---|---|---|
| | Number of stock options | Weighted average exercisable price | Number of stock options | Weighted average exercisable price |
| | # | $ | # | $ |
| Balance at beginning | 484,000 | 0.30 | 624,000 | 0.37 |
| Expired | (324,000) | 0.28 | (140,000) | 0.63 |
| **Balance at the end** | 160,000 | 0.33 | 484,000 | 0.30 |

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

| | Options outstanding | | Options exercisable |
|---|---|---|---|
| Exercise prices | Number of options | Weighted average remaining contractual life | Number of options |
| $ 0.31 – $ 0.39 | 160,000 | 0.57 | 160,000 |

Share-based compensation expense for the period ended December 31, 2018 totaled $ nil (2017 – $ nil).

## 14. Financial instruments and financial risk management

a) Financial instruments fair value:
The carrying values of cash and cash equivalents, other receivables, accounts payable and accrued liabilities and debentures approximate their fair value because of the short-term nature of these items.

b) Risks overview:

The Company has exposure to the following risks from its use of financial instruments:

i) Credit risk:
Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and other receivables. Cash is maintained with high-credit, quality financial institutions.

ii) Liquidity risk:
Management serves to maintain a sufficient amount of cash and cash equivalents, and to ensure that the Company has at its disposal sufficient sources of financing such as private placements. The Company establishes cash budgets to ensure it has the necessary funds to fulfill its obligations. Being able to obtain new funds allows the Company to pursue its activities and even though the Company was successful in the past, there is no guarantee that it will succeed in the future.

*(in Canadian dollars, unless otherwise stated)*

The following are the contractual maturities of the financial liabilities amounts:

| | 0 - 6 months | 7 - 12 months | 13 - 36 months |
|---|---|---|---|
| | $ | $ | $ |
| Accounts payable and accrued liabilities | 576,077 | — | — |
| Debentures | 2,120,000 | — | — |
| **Total contractual liabilities** | 2,696,077 | — | — |

The $2.12 million debentures matured on August 19, 2015 and got extended until October 30, 2017 (then subsequently until March 31, 2019) and are secured by all the property and assets of the Company. Management is currently negotiating with the debentures holders to renew or convert the debentures at the best interest of the Company. If no agreements are reached before March 31, 2019, the debentures holders may exercise their rights (see note 17).

## 15. Related party transactions

*Key management personnel compensation*

Key management personnel correspond to the directors of the Company, including the Chief Executive Officer who is remunerated through a salary agreement.

During the year, the Company incurred the following expenses with key management personnel:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Management fees included in office and administration | 65,139 | 53,759 |
| Directors' fees | 32,520 | 34,059 |

The Company has the following amounts owing to related parties as at December 31:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Debentures - Major shareholder | 2,120,000 | 1,970,000 |

During the year, interest expenses of $201,347 (2017 - $175,518) were incurred on the debentures, of which $ nil were paid (2017 - $ nil).

## 16. Capital disclosures

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern to support ongoing exploration programs and development of its mining assets, to provide sufficient working capital to meet its ongoing obligations and to pursue potential investments.

The Company’s capital items are the following as at December 31:

| | 2018 | 2017 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 81,039 | 142,090 |
| Debentures | 2,120,000 | 1,970,000 |
| Share capital | 15,352,101 | 15,352,101 |

The Company manages its capital structure and adjusts it in accordance with the objectives, as well as considering changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments. There is no dividend policy. The Company is not subject to externally imposed capital requirements. The Company's management of capital remained unchanged since the last year.

## 17. Subsequent event

On April 1, 2019, the Company announced that it had amended its $2.12 million secured non-convertible debenture with Nio-Metals Holdings LLC (“Nio-Metals”) dated February 19, 2013 to extend the maturity date from March 30, 2019 to October 31, 2019, subject to no other condition (the “Amended Secured Debenture”). Except for the maturity date, the other material terms and conditions of the Amended Secured Debenture have remained the same. Discussions between the Company and Nio-Metals regarding a financing to replace the Amended Secured Debenture at maturity remain on-going.