

Cartier Iron Corporation

Financial Statements

December 31, 2019 and 2018

(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cartier Iron Corporation

Opinion

We have audited the financial statements of Cartier Iron Corporation, (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018 and the statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including 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, 2019 and 2018, and financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Company incurred a loss of \$626,509 and had negative cash flows from operations of \$299,130 during the year ended December 31, 2019 and, as of that date, the Company had a working capital deficit of \$734,783. As stated in Note 2, these events or conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

Our opinion on the financial statements does not cover the other information and we will 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 when it becomes available 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.

We obtained the Management 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 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 International Financial Reporting Standards, 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.
- 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.

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

RSM Canada LLP

Cartier Iron Corporation

Statements of Financial Position

(expressed in Canadian dollars)

| | Notes | Years ended December 31, | |
|--|-----------|--------------------------|-------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Assets | | | |
| Current | | | |
| Cash | | 19,614 | 18,489 |
| Receivables | 5 | 15,854 | 71,851 |
| Due from Eloro Resources Ltd. | 6 | 65,804 | - |
| Marketable securities | 7 | - | 36,501 |
| Prepaid expenses | | 33,008 | 36,498 |
| | | 134,280 | 163,339 |
| Investment in associate | 8 | 430,272 | 368,562 |
| Right-of-use asset | 4 and 9 | 84,653 | - |
| Exploration and evaluation | 10 | 978,410 | 942,584 |
| | | 1,627,615 | 1,474,485 |
| Liabilities | | | |
| Current | | | |
| Accounts payable and accrued liabilities | 13 and 18 | 710,053 | 531,256 |
| Due to Eloro Resources Ltd. | 6 | - | 195,617 |
| Due to a related party | 11 | 25,000 | - |
| Current portion of lease liabilities | 4 and 12 | 42,276 | - |
| Unrenounced flow-through share premium | 14 | 91,734 | - |
| | | 869,063 | 726,873 |
| Lease liabilities | 4 and 12 | 44,884 | - |
| | | 913,947 | 726,873 |
| Shareholders' equity | | | |
| Share capital | 13 | 10,107,371 | 9,201,955 |
| Contributed surplus | 13 | 196,149 | 256,000 |
| Warrants | 13 | 371,000 | 624,000 |
| Deficit | | (9,960,851) | (9,334,343) |
| | | 713,669 | 747,612 |
| | | 1,627,615 | 1,474,485 |
| Going concern | 2 | | |
| Commitments | 19 | | |
| Subsequent events | 20 | | |

Approved by the Board:

Thomas G. Larsen
Director

Francis Sauve
Director

Cartier Iron Corporation

Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

| | Notes | Years ended December 31, | |
|---|-------|--------------------------|-------------------|
| | | 2019 | 2018 |
| | | \$ | \$ |
| Expenses | | | |
| Professional fees | | 38,951 | 36,511 |
| Consulting fees | 18 | 320,100 | 328,000 |
| Stock-based compensation | | - | 16,000 |
| General and administrative | | 183,827 | 203,009 |
| Investor relations | | 22,788 | 97,429 |
| Travel | | 25,845 | 13,784 |
| Interest | | 6,535 | - |
| Depreciation | 9 | 42,328 | - |
| Loss on sale of marketable securities | | 5,846 | 1,588 |
| Decrease (increase) in fair value of marketable securities | | (8,570) | 21,190 |
| Impairment of exploration and evaluation | 10 | 18,627 | 15,940 |
| Gain on settlement of accounts payable | | (36,254) | - |
| Other recoveries | | (17,837) | 139 |
| Part XII.6 tax | | - | 516 |
| | | <u>602,186</u> | <u>734,107</u> |
| Loss before loss on investment of an associate | | (602,186) | (734,107) |
| Dilution gain on change in interest in associate | 8 | 29,551 | 56,153 |
| Share of loss of an associate | 8 | (60,745) | (57,974) |
| Loss before income taxes | | <u>(633,380)</u> | <u>(735,928)</u> |
| Deferred income tax recovery | 14 | 6,871 | 90,692 |
| Loss and comprehensive loss | | <u>(626,509)</u> | <u>(645,236)</u> |
| Loss per common share-basic and diluted | | <u>(0.010)</u> | <u>(0.013)</u> |
| Weighted average number of common shares-basic and diluted | | <u>62,045,153</u> | <u>50,382,721</u> |

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

Cartier Iron Corporation

Statements of Changes in Equity

(expressed in Canadian dollars)

| | Share capital \$ | Contributed surplus \$ | Warrants \$ | Deficit \$ | Total \$ |
|---|------------------------|------------------------------|----------------|--------------------|----------------|
| Balance, December 31, 2018 | 9,201,955 | 256,000 | 624,000 | (9,334,343) | 747,612 |
| Private placement of units | 325,000 | - | - | - | 325,000 |
| Private placement of flow-through units | 400,000 | - | - | - | 400,000 |
| Flow-through share premium | (98,605) | - | - | - | (98,605) |
| Fair value of warrants issued | (78,000) | - | 78,000 | - | - |
| Fair value of broker warrants issued | (4,000) | - | 4,000 | - | - |
| Fair value of expired warrants | 335,000 | - | (335,000) | - | - |
| Fair value of cancelled stock options | 59,851 | (59,851) | - | - | - |
| Share issue costs | (33,830) | - | - | - | (33,830) |
| Loss for the year | - | - | - | (626,509) | (626,509) |
| Balance, December 31, 2019 | 10,107,371 | 196,149 | 371,000 | (9,960,851) | 713,669 |
| Balance, December 31, 2017 | 8,056,577 | 240,000 | 335,000 | (8,689,107) | (57,530) |
| Stock-based compensation | - | 16,000 | - | - | 16,000 |
| Private placement of units | 400,000 | - | - | - | 400,000 |
| Private placement of flow-through units | 200,000 | - | - | - | 200,000 |
| Fair value of warrants issued | (289,000) | - | 289,000 | - | - |
| Flow-through share premium | (47,600) | - | - | - | (47,600) |
| Acquisition of exploration and evaluation | 60,500 | - | - | - | 60,500 |
| Settlement of accounts payable to related parties | 848,849 | - | - | - | 848,849 |
| Share issue costs | (27,371) | - | - | - | (27,371) |
| Loss for the year | - | - | - | (645,236) | (645,236) |
| Balance, December 31, 2018 | 9,201,955 | 256,000 | 624,000 | (9,334,343) | 747,612 |

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

Cartier Iron Corporation

Statements of Cash Flows

(expressed in Canadian dollars)

| | Years ended December 31, | |
|--|--------------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash provided by (used in) | | |
| Operating activities | | |
| Loss | (626,509) | (645,236) |
| Items not affecting cash | | |
| Stock-based compensation | - | 16,000 |
| Depreciation | 42,328 | - |
| Interest | 6,535 | - |
| Loss on sale of marketable securities | 5,846 | 1,588 |
| Decrease (increase) in fair value of marketable securities | (8,570) | 21,190 |
| Impairment of exploration and evaluation | 18,627 | 15,940 |
| Gain on settlement of accounts payable | (36,254) | - |
| Dilution gain on change in interest in associate | (29,551) | (56,153) |
| Share of loss of an associate | 60,745 | 57,974 |
| Deferred income tax recovery | (6,871) | (90,692) |
| Changes in non-cash working capital | | |
| Receivables | 55,997 | (41,313) |
| Prepaid expenses | 3,491 | (18,319) |
| Accounts payable and accrued liabilities | 215,057 | 344,587 |
| | <u>(299,130)</u> | <u>(394,434)</u> |
| Financing activities | | |
| Private placement of units | 325,000 | 400,000 |
| Private placement of flow-through units | 400,000 | 200,000 |
| Share issue costs | (33,830) | (27,371) |
| Advances from Eloro Resources Ltd. | (261,421) | 107,448 |
| Advance from a related party | 25,000 | - |
| Interest paid | (6,535) | - |
| Repayment of lease liabilities | (39,820) | - |
| | <u>408,394</u> | <u>680,077</u> |
| Investing activities | | |
| Proceeds on sale of marketable securities | 48,440 | 6,950 |
| Purchase of marketable securities | (9,215) | (35,235) |
| Purchase of interest in associate | (92,911) | - |
| Junior Exploration Assistance grant | 63,839 | - |
| Exploration and evaluation | (118,292) | (720,506) |
| | <u>(108,139)</u> | <u>(748,791)</u> |
| Net increase (decrease) in cash | 1,126 | (463,147) |
| Cash, beginning of period | 18,489 | 481,636 |
| Cash, end of period | <u>19,614</u> | <u>18,489</u> |
| Non-cash transactions | | |
| Issue of common share | | |
| Settlement of accounts payable to shareholders | - | 848,849 |
| Acquisition of exploration and evaluation | - | 60,500 |
| Supplementary information | | |
| Interest paid | 6,535 | - |
| Income taxes paid | - | - |

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

Cartier Iron Corporation

Notes to Financial Statements

Years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

1. Nature of operations

Cartier Iron Corporation (the “Company”) is a public company engaged in the acquisition, exploration and development of iron ore properties in Québec and a gold property in Newfoundland. The Company is incorporated under the laws of Ontario and its registered office is located at 20 Adelaide Street East, Suite 200, Toronto, Ontario, M5C 2T6.

2. Going concern

The Company is in the exploration stage and does not generate revenue. As at December 31, 2019, the Company had a working capital deficit of \$734,783 (2018 - \$563,534) and for the year ended December 31, 2019, the Company recorded a loss of \$626,509 (2018 - \$645,236) and incurred a cashflow deficit from operations of \$299,130 (2018 - \$394,434). The working capital deficit, losses and cashflow deficit limit the Company’s ability to fund its operations and the acquisition, exploration and development of its iron ore properties. As a result, there is significant doubt about the Company’s ability to continue as a going concern.

The continued operation of the Company is dependent upon the Company’s ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of iron ore properties. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

3. Basis of presentation

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations of the IFRS Interpretations Committee.

The financial statements were approved and authorized for issue by the Board of Directors on April 29, 2020.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for marketable securities, which are measured at fair value.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, 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 judgments, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

Going concern

The Company applied judgment in assessing its ability to continue as a going concern for at least 12 months.

Cartier Iron Corporation

Notes to Financial Statements

Years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Determination of significant influence over investment in associate

The Company applied judgment in assessing the level of influence that it has over Eloro Resources Ltd. (“Eloro”) and determined that it has significant influence over Eloro. The Company has a 7.76% interest (2018 - 7.09%) in the voting rights of Eloro and three directors of the Company are also directors of Eloro. The Company concluded that it does not control Eloro as it does not have sufficient rights to exercise control over Eloro.

Impairment of exploration and evaluation

Expenditures on exploration and evaluation are initially capitalized with the intent to establish commercially viable reserves. The Company makes estimates and applies judgment about future events and circumstances in determining whether the carrying amount of exploration and evaluation exceeds its recoverable amount, including the ability to renegotiate option agreements.

Valuation of warrants and broker warrants

The Company uses the Black-Scholes option pricing model in determining the fair value of warrants, which requires a number of assumptions to be made, including the risk-free interest rate, expected life, forfeiture rate and expected share price volatility. See note 13.

Deferred income taxes

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. See note 17.

4. Significant accounting policies

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

Financial instruments

Financial assets are required to be initially measured at fair value and subsequently classified at amortized cost or fair value on the basis of the Company’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Company’s financial assets includes cash, marketable securities and due from Eloro which are classified at amortized cost because the Company’s business model is to hold these financial instruments to maturity to collect contractual cash flows consisting solely of payments of principal and interest on the principal amount outstanding.

Financial liabilities include accounts payable and accrued liabilities, due to Eloro and due to related party which were initially measured at fair value and subsequent classified as amortized cost.

Investment in associate

Associates are entities over which the Company has significant influence, but not control. Significant influence is generally presumed to exist where the Company has between 20 percent and 50 percent of the voting rights of the associate. The Company accounts for its investment in associate using the equity method, under which, the investment in associate was initially recognized at cost and the carrying amount is increased or decreased to recognize the investor’s share of profit or loss of the associate. Dilution gains and losses arising from changes in the interest in investment in associates where significant influence is retained are recognized in the statement of loss and comprehensive loss.

At each reporting date, the Company determines whether there is any objective evidence that the investment in associate is impaired. If impairment is determined to exist, the amount of the impairment is recognized in the statement of income (loss). The amount of impairment is calculated as the difference between the recoverable amount of the investment in associate and its carrying value.

Cartier Iron Corporation

Notes to Financial Statements

Years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Exploration and evaluation

Recognition and measurement

Exploration and evaluation, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as exploration and evaluation. The costs are accumulated by property pending the determination of technical feasibility and commercial viability. Pre-license costs are expensed when incurred. Pre-exploration costs are expensed unless it is considered probable that they will generate future economic benefits.

Refundable mining tax credits earned in respect of costs incurred in Quebec are recorded as a reduction to exploration and evaluation when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits.

The recoverability of amounts shown for exploration and evaluation is dependent upon the ability of the Company to obtain financing to complete the exploration and development of its mineral resource properties, the existence of economically recoverable reserves and future profitable production, or alternatively, upon the Company's ability to recover its costs through a disposition of its mineral resource properties. The amounts shown for exploration and evaluation do not necessarily represent present or future value. Changes in future conditions could require a material change in the amount recorded for exploration and evaluation.

The technical feasibility and commercial viability of extracting a mineral resource from a property is considered to be determinable when proved and/or probable reserves are determined to exist and the necessary permits have been received to commence production. A review the technical feasibility and commercial viability of each property is carried out at least annually. Upon determination of technical feasibility and commercial viability, exploration and evaluation is first tested for impairment and then reclassified to property, plant and equipment and/or intangibles or expensed to the statement of income (loss) and comprehensive income (loss) to the extent of any impairment. As at December 31, 2019 and 2018, the Company had no property, plant and equipment.

Impairment

Exploration and evaluation is assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

An impairment loss is recognized in the statement of loss and comprehensive loss if the carrying amount of a property exceeds its estimated recoverable amount. The recoverable amount of property used in the assessment of impairment of exploration and evaluation is the greater of its value in use ("VIU") and its fair value less costs of disposal ("FVLCTS"). VIU is determined by estimating the present value of the future net cash flows at a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the property. FVLCTS refers to the price that would be received to sell the property in an orderly transaction between market participants. For a property that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the property belongs. Impairment losses previously recognized 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 only to the extent that the property's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognized.

Decommissioning liabilities

The Company's activities may give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of site restoration. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the date of the statement of financial position. The fair value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligation is subsequently adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established. As at December 31, 2019 and 2018, the Company had no decommissioning liabilities.

Cartier Iron Corporation

Notes to Financial Statements

Years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

Share capital

Share capital is 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. In situations where the Company issues units, the value of the warrants is included as a separate reserve of the Company's equity. The value of the warrants is calculated using the Black-Scholes option pricing model with the residual being allocated to shares.

Flow-through shares

Canadian tax legislation permits the Company to issue flow-through shares. Flow-through shares are securities whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by the investors rather than the Company, subject to a renouncement process. Renouncement may occur prospectively (the flow-through shares are issued, renouncement then occurs and eligible expenditures are incurred subsequently) or retrospectively (the flow-through shares are issued, eligible expenditures are then incurred and renouncement occurs subsequently).

The issue of flow-through shares is treated as an issue of shares and the sale of tax deductions. The Company uses the residual method to measure the sale of tax deductions. At the time the flow-through shares are issued, the sale of tax deductions is deferred and presented as unrenounced flow-through share premium on the statements of financial position. When the Company fulfills its obligation to pass on the tax deduction to the investors, the sale of tax deductions is recognized as a reduction of deferred tax expense in the statement of loss and comprehensive loss and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base.

If the renouncement is prospective, the obligation is fulfilled when eligible expenditures are incurred. If the renouncement is retrospective, the obligation is fulfilled when the paperwork to renounce is filed.

Share-based payments

The Company offers a stock option plan for its officers, directors, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation or asset and contributed surplus. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of options that vest. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital. In the event that vested stock options expire, previously recognized share-based compensation is not reversed. In the event that stock options are forfeited, previously recognized share-based compensation associated with the unvested portion of the stock options forfeited is reversed.

The fair value of share-based payment transactions to non-employees and other share-based payments including shares issued to acquire exploration and evaluation are based on the fair value of the goods and services received. If the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or services.

Provisions

A provision is recognized if, as a result 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 finance cost. No provisions were recorded as at December 31, 2019 and 2018.

Income tax

Income tax expense comprises current and deferred taxes. Current tax and deferred tax is 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. Current tax payable also includes any tax liability arising from the declaration of dividends.

Cartier Iron Corporation

Notes to Financial Statements

Years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

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:

- temporary differences on 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;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- 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, tax credits 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.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is determined by adjusting the 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 ordinary shares, which comprise share options granted.

Change in accounting standards

On January 1, 2019, the Company adopted *IFRS 16, Leases* ("IFRS 16"). According to IFRS 16, a contract is, or contains a lease when the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. With exceptions for certain short-term leases and leases of low-value assets, IFRS 16 requires a lessee to recognize lease contracts as a right-of-use asset representing its right to use an identified asset for a period of time and a lease liability representing its obligation to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information which continues to be reported under *IAS 17, Leases*.

The right-of-use asset is initially measured at cost, which comprises the amount of the initial measurement of the lease liability and any lease payments made at or before the commencement date. Right-of-use assets are subsequently depreciated from the commencement date of the lease to the earlier of the end of the lease term or the end of the useful life of the asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability.

The lease liability is initially recognized as the present value of future lease payments discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the lessee's applicable incremental borrowing rate. The incremental borrowing rate is the rate which the Company would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset. The lease liability is subsequently measured by reducing the carrying amount to reflect lease payments made and to reflect any reassessments or modifications.

The Company is a party to a lease for offices premises until December 31, 2021. At January 1, 2019, the Company used its incremental borrowing rate of 6% to measure its lease liabilities.

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| | |
|---|----------|
| | \$ |
| Lease commitments at December 31, 2018 | 139,068 |
| Discount using the incremental borrowing rate of 6% | (12,087) |
| Lease liabilities recognized at January 1, 2019 | 126,981 |

At January 1, 2019, the impact of adopting IFRS 16 on the Company's statement of financial position was as follows:

| | |
|--------------------------------------|---------|
| | \$ |
| Assets | |
| Right-of-use asset | 126,981 |
| Liabilities | |
| Current | |
| Current portion of lease liabilities | 39,820 |
| Non-current | |
| Lease liabilities | 87,160 |
| | 126,981 |

5. Receivables

The Company files a Québec Corporation Income Tax Return claiming a refundable tax credit on eligible exploration expenditures incurred in Québec ("Refundable Tax Credits") and a Québec Mining Duties Return claiming a credit on duties refundable for losses ("Credit on Duties"). It is the Company's policy to record an estimate of amounts to be received for unassessed claims for Refundable Tax Credits and Credits on Duties as a receivable and a reduction to exploration and evaluation assets when there is reasonable assurance that the Company has complied with all conditions needed to obtain the credits. The amounts of the unassessed claims are subject to audit by Revenu Québec and Ressources naturelles de la Faune Québec.

| | In respect returns filed for years ended December 31, | | | |
|---|---|---------|--------|-----------|
| | 2018 | 2017 | 2016 | 2015 |
| | | \$ | \$ | \$ |
| Refundable Tax Credits | | | | |
| As filed | – | 166,069 | 22,476 | 251,079 |
| As assessed | – | – | – | 251,079 |
| Received | – | – | – | (251,079) |
| Included in receivables at December 31, 2019 and 2018 | – | – | – | – |
| Credit on Duties | | | | |
| As filed | – | 34,162 | 4,641 | 71,699 |
| As assessed | – | – | – | – |
| Received during the period | – | – | – | – |
| Included in receivables at December 31, 2019 and 2018 | – | – | – | – |

Notices of assessment

On November 8, 2018, the Company received notices of assessments from Revenu Québec for the repayment of \$135,750 ("Notices") for the return of refunds of \$79,754 and \$34,818 received by the Company for the refundable tax credit on eligible exploration expenditures incurred in Québec in respect of 2014 and 2015, respectively and interest thereon of \$21,178.

The Company has filed notices of objection with respect to the Notices and it is not yet possible for the Company to make any realistic prediction about the outcome of the Notices. Accordingly, no amount has been recorded as a liability in these consolidated financial statements.

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6. Due to/from Eloro

The amount due to/from Eloro is unsecured, non-interest bearing and payable on demand.

7. Marketable securities

Marketable securities consist of the following investments:

| | December 31, 2019 | | December 31, 2018 | |
|--------------------------|-------------------|------|-------------------|--------|
| | Fair value | Cost | Fair value | Cost |
| | \$ | \$ | \$ | \$ |
| Champion Iron Limited | – | – | 5,350 | 3,373 |
| Tartisan Resources Corp. | – | – | 31,151 | 41,697 |
| | – | – | 36,501 | 45,070 |

During the year, the Company sold its marketable securities and realized a loss of \$5,846.

8. Investment in associate

As at December 31, 2019, the Company held 3,000,000 Eloro common shares (2018 - 2,543,500) with a fair value of \$650,900 (2018 - \$1,144,575), representing 7.76% of the outstanding Eloro common shares (2018 - 7.09%). The Company continues to account for its investment in Eloro as an investment in associate. Although the Company holds less than 20% of the voting rights of Eloro, the Company continues to have significant influence in Eloro as three directors (2018 - three directors) of the Company are also directors of Eloro.

| | Number of Eloro common shares held | \$ |
|------------------------------|--|----------|
| Balance at December 31, 2017 | 2,543,500 | 370,383 |
| Dilution gain | – | 56,153 |
| Share of loss | – | (57,974) |
| Balance at December 31, 2018 | 2,543,500 | 368,562 |
| Purchases | 456,500 | 92,904 |
| Dilution gain | – | 29,551 |
| Share of loss | – | (60,745) |
| Balance at December 31, 2019 | 3,000,000 | 430,272 |

The following is a summary of the balance sheet of Eloro and a reconciliation to carrying amounts as at December 31, 2019:

| | \$ |
|---|-----------|
| Assets | |
| Cash | 74,408 |
| Other current assets | 139,212 |
| | 213,620 |
| Right-of-use asset | 95,930 |
| Exploration and evaluation | 4,914,384 |
| | 5,223,934 |
| Liabilities and shareholders' equity | |
| Current liabilities | 304,925 |
| Due to Cartier | 65,804 |
| Lease liability | 56,310 |
| Shareholders' equity | 4,796,895 |
| | 5,223,934 |

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Reconciliation to carrying value:

| | |
|--|---------|
| Share percentage ownership of Eloro | 7.76% |
| | \$ |
| Company's share of net assets of Eloro | 405,377 |
| Difference between the Company's share of net assets of Eloro and carrying value | 24,895 |
| Carrying value of investment in Eloro | 430,272 |

The following is a summary of the statement of loss of Eloro for the 9 months ended December 31, 2019:

| | |
|---|-----------|
| | \$ |
| Expenses | |
| Expenses | 360,586 |
| Depreciation | 21,318 |
| Foreign exchange loss | 11,733 |
| Interest | 3,270 |
| Loss on sales of marketable securities | (23,130) |
| Unrealized gain on marketable securities | 88,375 |
| Impairment of exploration and evaluation | 27,255 |
| Pre-acquisition exploration and evaluation | 86,980 |
| Refundable tax credit notices of assessment | 20,000 |
| Other | (7,348) |
| | 589,039 |
| Loss | (589,039) |
| Other comprehensive loss | (29,500) |
| Comprehensive loss | (618,539) |

9. Right-of-use assets

| | December 31, 2019 \$ | January 1, 2019 \$ |
|--------------------------|----------------------------|--------------------------|
| Right-of-use assets | 126,981 | 126,981 |
| Accumulated depreciation | (42,328) | — |
| | 84,653 | 126,981 |

10. Exploration and evaluation

| | December 31, 2018 \$ | Acquisition costs \$ | Exploration expenditures \$ | Junior Exploration Assistance Program grant received \$ | Writedowns \$ | December 31, 2019 \$ |
|-----------------|----------------------------|----------------------------|-----------------------------------|--|------------------|----------------------------|
| Property | | | | | | |
| Gagnon | — | — | 18,627 | — | (18,627) | — |
| Big Easy | 942,584 | — | 99,437 | (63,839) | — | 978,182 |
| | 942,584 | — | 118,064 | (63,839) | (18,627) | 978,182 |

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| | December 31, 2017 \$ | Acquisition costs \$ | Exploration expenditures \$ | Junior Exploration Assistance Program grant received \$ | Writedowns \$ | December 31, 2018 \$ |
|-----------------|----------------------------|----------------------------|-----------------------------------|--|------------------|----------------------------|
| Property | | | | | | |
| Gagnon | — | — | 15,940 | — | (15,940) | — |
| Big Easy | 177,518 | 60,500 | 704,566 | — | — | 942,584 |
| | 177,518 | 60,500 | 720,506 | — | (15,940) | 942,584 |

Gagnon, Quebec

The Company owns a 55% interest in Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie) and Jeannine, consisting of 126 claims covering 66.73 square kilometres in the Fermont Iron Ore District in the Labrador Trough in northeastern Québec ("Gagnon").

A joint venture was formed between the Company and Champion to incur additional exploration expenditures. If a joint venture partner does not fund its proportionate interest in the joint venture, its interest will be diluted and, when its interest is reduced below 10%, its interest would be reduced solely to a 1% royalty. The other joint venture partner will have the option to reduce the royalty from 1% to 0.5% by making a payment of \$3,000,000.

In the event that a joint venture partner proposes to acquire any property within 10 kilometres of Gagnon, the acquirer must offer the property at cost to the other party for inclusion in Gagnon.

As at December 31, 2019, facts and circumstances suggested that the carrying amount of Gagnon may exceed its recoverable amount. As required by International Financial Reporting Standard 6, *Exploration for and Evaluation of Mineral Resources* ("IFRS 6"), the Company assessed Gagnon for impairment. The Company concluded that there were a number of indicators of impairment, and accordingly, recorded an impairment of exploration and evaluation of \$18,627 (2018 - \$15,490).

The Company has incurred the following cumulative exploration and evaluation expenditures on Gagnon:

| | |
|----------------------------|-----------|
| | \$ |
| Balance, December 31, 2018 | 3,877,545 |
| Expenditures | 18,627 |
| Balance, December 31, 2019 | 3,896,172 |

As at December 31, 2019, Champion held 14,644,971 common shares of the Company (2018 - 14,644,971), representing 22.35% of the outstanding common shares of the Company (2018 - 25.48%). Pursuant to a standstill agreement, Champion may not sell or transfer more than 2,000,000 common shares during any 30-day period.

Big Easy, Newfoundland and Labrador

The Company owns a 100% interest in Big Easy consisting of 507 mining claims (2018 - 507) covering 126.8 square kilometres (2018 - 126.8) located in Newfoundland and Labrador.

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Pursuant to the definitive agreement, in order to complete the acquisition of Big Easy, the Company must issue common shares and incur exploration expenditures, as follows:

| | Common shares | Exploration expenditures |
|--|----------------------|---------------------------------|
| | | \$ |
| Upon signing of definitive agreement (issued) | 500,000 | – |
| November 21, 2018 (issued and incurred) | 500,000 | 500,000 |
| November 21, 2019 (extended)(see note 20 for subsequent event) | 500,000 | 800,000 |
| November 21, 2020 | 1,000,000 | 1,200,000 |
| | 2,500,000 | 2,500,000 |

On April 24, 2019, the Company and the vendors of Big Easy amended the terms of the definitive agreement so that the Company's commitments have been waived and postponed for the length of the period from the dates set forth in the definitive agreement and the date on which permitting issues related to the Big Easy watershed encumbrances are resolved to the Company's satisfaction(see note 20 for subsequent event) .

Upon completion of the acquisition, the Company agreed to issue 100,000 common shares as a finder's fee, of which, 50,000 common shares with a fair value of \$4,500 have been issued and 50,000 common shares will be issued.

In the event that the Company does not issue common shares or incur exploration expenditures, the definitive agreement will terminate and the Company will transfer the mining licences and claims to the vendor.

The property was subject to a 3% net smelter royalty ("NSR"). On November 21, 2017, the Company exercised an option to reduce the NSR from 3% to 2% by electing to make a payment of \$200,000, as follows:

| Due date | \$ |
|---|-----------|
| November 21, 2017 (paid) | 25,000 |
| December 31, 2017 (paid) | 25,000 |
| February 21, 2019 (extended from November 21, 2018 in consideration of the issue of 50,000 common shares) | 75,000 |
| November 21, 2019 | 75,000 |

The Company did not make the payment of \$75,000 due on February 21, 2019 and the option terminated.

The Company has options to further reduce the NSR by:

- a) 0.25% until November 21, 2021 by making a payment of \$250,000; and
- b) a further 0.25% until November 21, 2022 by making a payment of \$250,000.

In the event that the Company wishes to sell any or all of the property prior to November 21, 2020, the Company must obtain the permission of the vendor.

With respect to the common shares issued or to be issued to the vendor:

- a) the vendor will not grant a security interest in the common shares;
- b) the vendor has the right to sell tranches of less than 300,000 common shares;
- c) until November 21, 2021, the Company has a right of first refusal in the event that the vendor receives a third party offer to acquire any tranche of more than 300,000 common shares; and
- d) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote against any resolution put before the shareholders of the Company upon the recommendation of the Board of Directors
- e) until November 21, 2021, the vendor shall not vote or encourage anyone else to vote in favour of:
 - (i) the election of board nominees that have not been proposed by the then Board of Directors, or
 - (ii) any shareholder resolution or proposal unless the Board of Directors recommends voting in favour of such shareholder resolution or proposal.

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11. Due to related party

The amount due to a related party, advanced by a director and officer, is unsecured, non-interest bearing and has no fixed terms of repayment.

12. Lease liabilities

| | \$ |
|--------------------------------------|---------------|
| Balance, January 1, 2019 | 126,981 |
| Accretion of interest | 6,535 |
| Lease payments | (46,356) |
| Balance, December 31, 2019 | 87,160 |
| Current portion of lease liabilities | 42,276 |
| Long-term lease liabilities | 44,884 |
| | 87,160 |

The lease for premises is a joint and several commitment with Eloro. The remaining lease term is 2 years.

13. Share capital

Authorized

An unlimited number of common shares.

An unlimited number of Class A preferred shares 5% voting, redeemable, convertible, non-cumulative dividend, which are redeemable at \$0.10 per share and convertible on the basis of one common share for each Class A preferred share.

Issued

| | Number of common shares | \$ |
|--|----------------------------|-------------------|
| Balance, December 31, 2017 | 47,222,721 | 8,056,577 |
| Private placement of units | 5,000,000 | 400,000 |
| Fair value of warrants issued | – | (212,000) |
| Private placement of flow-through units | 2,000,000 | 200,000 |
| Fair value of warrants issued | – | (77,000) |
| Unrenounced flow-through share premium | – | (47,600) |
| Acquisition of exploration and evaluation | 550,000 | 60,500 |
| Settlement of accounts payable to shareholders | 2,700,000 | 848,849 |
| Share issue costs | – | (27,371) |
| Balance, December 31, 2018 | 57,472,721 | 9,201,955 |
| Private placement of units | 4,062,500 | 325,000 |
| Private placement of flow-through units | 4,000,000 | 400,000 |
| Unrenounced flow-through share premium | – | (98,605) |
| Fair value of cancelled stock options | – | 59,851 |
| Fair value of warrants issued | – | (78,000) |
| Fair value of broker warrants issued | – | (4,000) |
| Fair value of expired warrants | – | 320,000 |
| Share issue costs | – | (32,830) |
| Balance, December 31, 2019 | 65,535,221 | 10,092,371 |

Private placement of units

On September 19, 2018, the Company completed a private placement of 5,000,000 units at a price of \$0.08 per unit for gross proceeds of \$400,000. Each unit consisted of one common share and one warrant entitling the holder to purchase one common share for \$0.12 until March 19, 2020.

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The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following inputs and assumptions:

| | |
|--|-----------|
| Warrants issued | 5,000,000 |
| Exercise price | \$0.12 |
| Share price | \$0.08 |
| Risk-free interest rate | 2.17% |
| Expected volatility based on historical volatility | 139% |
| Expected life of warrants | 1.5 years |
| Expected dividend yield | 0% |
| Fair value | \$212,000 |
| Fair value per warrant | \$0.04 |

Of the private placement, directors of the Company purchased 150,000 units and Champion purchased 3,125,000 units. In connection with the private placement, the Company paid a 7% cash commission of \$5,075.

Private placement of flow-through units

On September 19, 2018, the Company completed a private placement of 2,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$200,000. Each unit consisted of one flow-through common share issued pursuant to the *Income Tax Act (Canada)* and one warrant entitling the holder to purchase one common share for \$0.15 until March 19, 2020.

The fair value of the warrants was calculated using the Black-Scholes option pricing model with the following inputs and assumptions:

| | |
|--|-----------|
| Warrants issued | 2,000,000 |
| Exercise price | \$0.15 |
| Share price | \$0.08 |
| Risk-free interest rate | 2.17% |
| Expected volatility based on historical volatility | 139% |
| Expected life of warrants | 1.5 years |
| Expected dividend yield | 0% |
| Fair value | \$77,000 |
| Fair value per warrant | \$0.04 |

In connection with the private placement, the Company paid a 7% cash commission of \$1,050.

Settlement of accounts payable to related parties

On August 1, 2018, after receiving shareholder and regulatory approval, the Company settled unpaid management fees of \$848,849 owed to current and former officers or companies controlled by them as at March 31, 2018 through a combination of debt forgiveness of \$511,349 and the issue of 2,700,000 common shares at a deemed price of \$0.125 per common share in settlement of the remaining debt of \$337,500.

Private placement of units and flow-through units

On June 7, 2019, the Company completed a private placement of 4,062,500 units at a price of \$0.08 per unit for gross proceeds of \$325,000. Each unit consisted of one common share and one-half of warrant, with each whole warrant entitling the holder to purchase one common share for \$0.12 until December 7, 2020. If the closing price of the common shares is over \$0.25 for 20 consecutive trading days following the expiry of the 4-month hold period, the warrants must be exercised within 10 business days of the Company providing written notice, or they will be cancelled.

Private placement of units and flow-through units

On June 7, 2019, the Company completed a private placement of 4,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$400,000. Each unit consisted of one common share and one-half of warrant, with each whole warrant entitling the holder to purchase one common share for \$0.15 until December 7, 2020. If the closing price of the common shares is over \$0.25 for 20 consecutive trading days following the expiry of the 4-month hold period, the warrants must be exercised within 10 business days of the Company providing written notice, or they will be cancelled.

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In connection with the private placements, the Company paid cash commissions and share issue costs of \$33,830 and issued 95,375 broker warrants entitling the holder to purchase one common share for \$0.12 until December 7, 2020 and 91,000 broker warrants entitling the holder to purchase one common share for \$0.15 until December 7, 2020. In the absence of a reliable measure of services received, services in respect of the private placements have been measured at the fair value of the broker warrants issued.

The fair values of the warrants and broker warrants were calculated using the Black-Scholes option pricing model with the following assumptions:

| | Warrants | | Broker warrants | |
|--|-----------------|------------------|------------------------|-----------------|
| | Units | FT Units | Units | FT Units |
| Date of issue | | June 7, 2019 | | |
| Expiry date | | December 7, 2020 | | |
| Warrants issued | 2,031,250 | 2,000,000 | 95,375 | 91,000 |
| Exercise price | \$0.12 | \$0.15 | \$0.12 | \$0.15 |
| Share price | | \$0.08 | | |
| Risk-free interest rate | | 1.47% | | |
| Expected volatility based on historical volatility | | 82% | | |
| Expected life of warrants | | 1.5 years | | |
| Expected dividend yield | | 0% | | |
| Fair value | \$44,000 | \$34,000 | \$2,000 | \$2,000 |
| Fair value per warrant | \$0.02 | \$0.02 | \$0.02 | \$0.02 |

Of the private placements, one director acquired 100,000 units for gross proceeds of \$8,000.

Stock options

The Company may grant options to its directors, officers, employees and consultants for up to 10% of the number of common shares outstanding. Options granted vest immediately and the maximum term of each option is 5 years. The exercise price shall not be less than the closing price of the common shares on a stock exchange in Canada on the last trading day immediately preceding the date of the grant, less any discount permissible under the rules of the principal stock exchange on which the common shares are listed for trading. In the event that the common shares are not listed for trading on any stock exchange, the exercise price shall be the fair market value as determined by the Board of Directors. As at December 31, 2019, there were 6,553,522 stock options (2018 - 5,747,272) authorized to be issued under the stock option plan, of which, 2,375,000 stock options (2018 - 3,225,000) were outstanding.

A summary of the Company's stock options is presented below:

| | Weighted- average exercise price | Number of stock options outstanding and exercisable |
|----------------------------|---|--|
| Balance, December 31, 2017 | 0.10 | 3,025,000 |
| Granted | 0.15 | 200,000 |
| Balance, December 31, 2018 | 0.10 | 3,225,000 |
| Cancelled | 0.10 | (850,000) |
| Balance, December 31, 2019 | 0.10 | 2,375,000 |

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A summary of the Company's outstanding stock options is presented below:

| | Expiry date | Number of stock options outstanding and exercisable |
|--------|----------------|--|
| \$0.10 | July 9, 2020 | 2,175,000 |
| \$0.15 | April 10, 2023 | 200,000 |
| | | 2,375,000 |

Grant of stock options

On April 10, 2018, the Company granted 200,000 stock options to a consultant, with each stock option entitling the holder to purchase one common share for \$0.15 until April 10, 2023. The stock options vested on the date of grant.

The fair value of the stock options granted was calculated using the Black-Scholes option pricing model with the following assumptions:

| | |
|--|----------------|
| Date of issue | April 10, 2018 |
| Expiry date | April 10, 2023 |
| Stock options granted | 200,000 |
| Exercise price | \$0.15 |
| Share price | \$0.09 |
| Risk-free interest rate | 2.03% |
| Expected volatility based on historical volatility | 154% |
| Expected life of stock options | 5 years |
| Expected dividend yield | 0% |
| Fair value | 16,000 |
| Fair value per stock option | \$0.08 |

Warrants

A continuity of the Company's warrants is presented below:

| | Weighted-average exercise price \$ | Number of warrants |
|----------------------------|--|-----------------------|
| Balance, December 31, 2017 | 0.21 | 5,780,467 |
| Issued | 0.13 | 7,000,000 |
| Balance, December 31, 2018 | 0.17 | 12,780,467 |
| Issued | 0.13 | 4,217,625 |
| Expired | 0.21 | (5,780,467) |
| Balance, December 31, 2019 | 0.13 | 11,217,625 |

A summary of the Company's outstanding warrants is presented below:

| Exercise price | Expiry date | Number of warrants |
|------------------------------------|------------------|-----------------------|
| \$0.12 (expired on March 19, 2020) | March 19, 2020 | 5,000,000 |
| \$0.15 (expired on March 19, 2020) | March 19, 2020 | 2,000,000 |
| \$0.12 | December 7, 2020 | 2,126,625 |
| \$0.15 | December 7, 2020 | 2,091,000 |
| | | 11,217,625 |

The weighted average remaining contractual life of the outstanding warrants is 0.5 years.

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14. Deferred income tax recovery

During the year ended December 31, 2018, the Company issued \$200,000 of flow-through common shares pursuant to the Income Tax Act (Canada). The deductions for income tax purposes of the related expenditures were renounced to the subscribers of the flow-through shares. As the renouncement was prospective, a flow-through share premium of \$47,600 representing the income tax benefits the expenditures renounced by the Company to the subscribers, was recorded in the statement of financial position as an increase to unrenounced flow-through share premium and a reduction of share capital. During the year ended December 31, 2018, flow-through expenditures were incurred reducing unrenounced flow-through share premium by \$47,600 which was recorded as a deferred income tax recovery.

During the year ended December 31, 2019, the Company issued \$400,000 of flow-through common shares pursuant to the Income Tax Act (Canada). The deductions for income tax purposes of the related expenditures were renounced to the subscribers of the flow-through shares. As the renouncement was prospective, a flow-through share premium of \$80,000 representing the income tax benefits the expenditures renounced by the Company to the subscribers, was recorded in the statement of financial position as an increase to unrenounced flow-through share premium and a reduction of share capital. During the year ended December 31, 2019, flow-through expenditures of \$34,357 were incurred reducing unrenounced flow-through share premium by \$6,781 which was recorded as a deferred income tax recovery.

15. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Cash, due from Eloro, accounts payable and accrued liabilities and due to a related party

The fair values of cash, due from Eloro, accounts payable and accrued liabilities and due to a related party at December 31, 2019 approximated their respective carrying value due to their short term to maturity.

Classification of fair value of financial instruments

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1: quoted prices in active markets for identical assets and liabilities;
- Level 2: inputs, other than the quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data

16. Financial risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration and financing activities, including credit risk, liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's maximum exposure to credit risk is equal to the Company's cash and due from Eloro. The Company limits its exposure to credit risk on its cash by holding deposits with high credit quality Canadian chartered bank.

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Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities as they come due, other than amounts owing to related parties. The continued operation of the Company is dependent upon the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of oil and properties. Accounts payable and accrued liabilities are subject to normal trade terms.

The following table sets out financial liabilities by remaining contractual maturity (contractual and undiscounted cash flows):

| | Accounts payable and accrued liabilities \$ | Due to a related party \$ | Lease liability \$ | Total \$ |
|------------------------------|---|-------------------------------------|------------------------------|--------------------|
| Less than 1 year | 710,053 | 25,000 | 42,276 | 777,329 |
| 1-5 years | — | — | 44,884 | 44,884 |
| More than 5 years | — | — | — | — |
| Balance at December 31, 2019 | 710,053 | 25,000 | 87,160 | 822,213 |

Market risk

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

Equity price risk

Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from its marketable securities within acceptable parameters for equity price risk. At December 31, 2019, the Company owned shares of Eloro (note 8).

Currency risk

Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. As all of the Company's purchases are in Canadian dollars, the Company limits its exposure to currency risk by maintaining its cash in Canadian dollars.

Interest rate risk

The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

Capital management

Capital of the Company consists of share capital, contributed surplus, warrants and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not established quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company and has no revenues, its principal source of capital is from the issuance of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

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17. Income taxes

The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 26.5% (2018 - 26.5%) to the net loss for the year. The reasons for the difference are as follows:

Provision for income taxes

| | 2019 | 2018 |
|--|----------------|-----------------|
| | \$ | \$ |
| Expected income tax recovery based on statutory rate | (166,025) | (195,021) |
| Increase (decrease) resulting from: | | |
| Renunciation of flow-through expenditures | (6,781) | (90,692) |
| Non-deductible expenses | 108,662 | 8,388 |
| Share issue costs and other | (16,334) | 98,767 |
| Change in deferred tax assets not recorded | 73,698 | 87,866 |
| Deferred income tax recovery | <u>(6,781)</u> | <u>(90,692)</u> |

Deferred income tax balances

The Company's deferred income tax assets are as follows:

| | 2019 | 2018 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Non-capital loss carryforward | 1,703,000 | 1,539,000 |
| Capital loss carryforward | 2,527,000 | 2,519,000 |
| Canadian exploration and evaluation | 1,008,000 | 1,109,000 |
| Foreign exploration and evaluation | 376,000 | 376,000 |
| Share issue costs | 19,000 | 17,000 |
| | <u>5,633,000</u> | <u>5,560,000</u> |
| Benefit of deferred tax assets not recorded | <u>(5,633,000)</u> | <u>(5,560,000)</u> |
| | - | - |

Due to losses incurred in the current year and expected future operating results, management determined that it is unlikely that the deferred income tax assets will be realized. Accordingly, the future income tax assets have not been recorded.

Losses carried forward

At December 31, 2019, the Company had non-capital loss carryforwards which expire as follows:

| | \$ |
|------|------------------|
| 2026 | 306,000 |
| 2028 | 304,000 |
| 2029 | 455,000 |
| 2030 | 269,000 |
| 2032 | 996,000 |
| 2033 | 248,000 |
| 2034 | 354,000 |
| 2035 | 970,000 |
| 2036 | 539,000 |
| 2037 | 653,000 |
| 2038 | 714,000 |
| 2039 | 619,000 |
| | <u>6,427,000</u> |

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As at December 31, 2019, the Company had resource deductions of \$6,198,000 which may be carried forward indefinitely to reduce taxable income in future years and capital losses of approximately \$19,220,000 which may be carried forward indefinitely to be applied against capital gains in future years.

18. Related party transactions

| | Years ended December 31, | | Outstanding at December 31, | |
|--|--------------------------|------|-----------------------------|--------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Exploration and evaluation | | | | |
| Paid or payable to a company, of which, a former director is a shareholder | – | – | – | 38,171 |

Compensation of key management personnel

The Company considers its directors and officers to be key management personnel. Transactions with key management personnel are set out as follows:

| | Years ended December 31, | | Outstanding at December 31, | |
|-----------------|--------------------------|---------|-----------------------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | \$ | \$ | \$ | \$ |
| Consulting fees | 312,000 | 312,000 | 454,477 | 209,778 |

Additional related party transactions are disclosed in notes 6, 8, 10, 11 and 13. These transactions were in the normal course of business.

19. Commitments

Flow-through expenditures

Pursuant to a flow-through financing completed on June 7, 2019 (see note 13), the Company is committed to make eligible Canadian Exploration Expenditures of \$365,643 by December 31, 2020.

20. Subsequent events

Big Easy

On February 10, 2020, the Company resolved permitting issues related to the Big Easy watershed encumbrances and received a permit for development. Accordingly, the deadline to issue the 500,000 common shares and incur exploration expenditures of \$800,000 has been extended from November 21, 2019 to September 6, 2020.

On March 4, 2020, the Company announced plans to commence a drilling program at Big Easy, however, as a result of the COVID-19 epidemic and deteriorating field conditions, the drill program was suspended and it was not possible to carry out an environmental sound and cost-effective program. The Company is evaluating its options for rescheduling the program.

COVID-19

Since December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

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Canada Emergency Business Account loan

The Government of Canada announced that it will be providing the Canada Emergency Business Account (“CEBA”) to support Canadian businesses that have been adversely affected by COVID-19. On April 20, 2020, the Company received a \$40,000 CEBA term loan. The term loan is government guaranteed, interest-free until December 31, 2022, and if not repaid by December 31, 2022, it will be extended for an additional 3-year term bearing interest at the rate of 5%. The term loan can be repaid at any time without penalty, and if, \$30,000 is repaid by December 31, 2022, the remaining \$10,000 will be forgiven.