

# **Cartier Iron Corporation**

## **Financial Statements**

**December 31, 2017 and 2016**

(expressed in Canadian dollars)



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## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of Cartier Iron Corporation

We have audited the accompanying financial statements of Cartier Iron Corporation, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016 and the statements of income (loss) and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cartier Iron Corporation as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

#### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

*RSM Canada LLP*

Chartered Professional Accountants  
Licensed Public Accountants  
Toronto, Ontario  
April 30, 2018

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# Cartier Iron Corporation

## Statements of Financial Position

(expressed in Canadian dollars)

	Notes	As at December 31, 2017	2016
		\$	\$
<b>Assets</b>			
Current			
Cash		481,636	132,683
Receivables	5	30,538	11,566
Marketable securities	6	30,994	2,350
Prepaid expenses		18,179	18,180
		561,347	164,779
Investment in associate	7	370,383	533,242
Exploration and evaluation	8	177,518	-
		1,109,248	698,021
<b>Liabilities</b>			
Current			
Accounts payable and accrued liabilities		1,035,518	695,492
Due to Eoro Resources Ltd.	9	88,168	-
Due to Champion Iron Mines Limited	10	-	346,268
Unrenounced flow-through share premium	12	43,092	-
		1,166,778	1,041,760
<b>Shareholders' equity (deficiency)</b>			
Share capital	11	8,056,577	7,290,564
Contributed surplus	11	240,000	240,000
Warrants	11	335,000	-
Deficit		(8,689,107)	(7,874,303)
		(57,530)	(343,739)
		1,109,248	698,021
<b>Going concern</b>	2		
<b>Subsequent event</b>	19		
<b>Approved by the Board:</b>			
	Thomas G. Larsen	Francis Sauve	
	<b>Director</b>	<b>Director</b>	

# Cartier Iron Corporation

## Statements of Income (Loss) and Comprehensive Income (Loss)

(expressed in Canadian dollars)

	Notes	Years ended December 31,	
		2017	2016
		\$	\$
<b>Expenses</b>			
Professional fees		32,696	50,956
Consulting fees	17	338,526	373,386
General and administrative		154,148	221,145
Investor relations		61,124	64,311
Travel		25,755	21,036
Interest	10	7,877	28,684
Gain on sale of marketable securities		-	(8,666)
Increase in fair value of marketable securities		(13,644)	(1,500)
Gain on disposition of interest in associate	7	(447,191)	(802,286)
Property pre-acquisition costs	8	83,732	-
Impairment of exploration and evaluation	8	593,102	80,578
Refundable tax credit and mining tax credit	5	(103,752)	(251,079)
Gain on statute-barred accounts payable	10	-	(48,044)
Gain on settlement of due to Champion		-	(80,000)
Other recoveries		(2,711)	-
		<u>729,662</u>	<u>(351,481)</u>
Income (loss) before gain (loss) on investment of an associate		(729,662)	351,481
Dilution gain on change in interest in associate	7 and 11	67,659	549,841
Share of loss of an associate	7 and 11	(157,709)	(97,037)
Income (loss) before income taxes		<u>(819,712)</u>	<u>804,285</u>
Deferred income taxes		4,908	-
<b>Income (loss) and comprehensive income (loss)</b>		<u>(814,804)</u>	<u>804,285</u>
<b>Income (loss) per common share-basic and diluted</b>		<u>(0.023)</u>	<u>0.024</u>
<b>Weighted average number of common basic and diluted</b>		<u>36,424,091</u>	<u>33,886,656</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 \$
<b>Balance, December 31, 2016</b>	7,290,564	240,000	-	(7,874,303)	(343,740)
Private placement of common shares	800,000	-	-	-	800,000
Private placement of flow-through shares	360,000	-	-	-	360,000
Fair value of warrants issued	(293,000)	-	293,000	-	-
Fair value of broker warrants issued	(42,000)	-	42,000	-	-
Unrenounced flow-through share premium	(48,000)	-	-	-	(48,000)
Acquisition of exploration and evaluation	58,500	-	-	-	58,500
Share issue costs	(69,487)	-	-	-	(69,487)
Loss for the year	-	-	-	(814,804)	(814,804)
<b>Balance, December 31, 2017</b>	<b>8,056,577</b>	<b>240,000</b>	<b>335,000</b>	<b>(8,689,107)</b>	<b>(57,530)</b>
<b>Balance, December 31, 2015</b>	6,606,564	240,000	563,000	(8,678,588)	(1,269,025)
Private placement of common shares	121,000	-	-	-	121,000
Fair value of expired warrants	563,000	-	(563,000)	-	-
Income for the year	-	-	-	804,285	804,285
<b>Balance, December 31, 2016</b>	<b>7,290,564</b>	<b>240,000</b>	<b>-</b>	<b>(7,874,303)</b>	<b>(343,739)</b>

# Cartier Iron Corporation

## Statements of Cash Flows

(expressed in Canadian dollars)

	Years ended December 31,	
	2017	2016
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Income (loss)	(814,804)	804,285
Items not affecting cash		
Interest not paid	-	28,684
Gain on sale of marketable securities	-	(8,666)
Increase in fair value of marketable securities	(13,644)	(1,500)
Gain on sale of disposition of interest in associate	(447,191)	(802,286)
Impairment of exploration and evaluation	593,102	80,578
Gain on statute-barred accounts payable	-	(48,044)
Gain on settlement of term loan due to Champion	-	(80,000)
Dilution gain on change in interest in associate	(67,659)	(549,842)
Share of loss of an associate	157,709	97,037
Deferred income tax recovery	(4,908)	-
Changes in non-cash working capital		
Receivables	(18,972)	123,646
Prepaid expenses	1	27,095
Accounts payable and accrued liabilities	391,647	236,174
	(224,720)	(92,841)
<b>Financing activities</b>		
Repayment of term loan due to Champion	(346,268)	-
Private placement of common shares	748,380	121,000
Private placement of flow-through shares	360,000	-
Advances from Eloro Resources Ltd.	88,168	-
Share issue costs	(69,487)	-
	780,793	121,000
<b>Investing activities</b>		
Proceeds on sale of marketable securities	-	14,532
Purchase of marketable securities	(15,000)	-
Purchase of common shares of associate	-	(13,603)
Exploration and evaluation	(192,120)	(90,330)
	(207,120)	(89,401)
<b>Net increase (decrease) in cash</b>	348,953	(61,242)
<b>Cash, beginning of year</b>	132,683	193,925
<b>Cash, end of year</b>	481,636	132,683
<b>Non-cash transactions</b>		
Issue of common shares		
Acquisition of exploration and evaluation	58,500	-
Settlement of accounts payable	51,620	-
Option payment settled with shares of an associate	400,000	1,000,000
<b>Supplementary information</b>		
Interest paid	-	-
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, 2017 and 2016**

**(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 has no revenue. As at December 31, 2017, the Company had a working capital deficit of \$605,431 (2016 - \$876,983) and for the year ended December 31, 2017, the Company recorded a loss of \$814,804 (2016 - income of \$804,285). The working capital deficit and accumulated losses 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 30, 2018.

##### **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, 2017 and 2016**

**(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 Eoro Resources Ltd. ("Eoro") and determined that it has significant influence over Eoro. The Company has a 7.72% interest (2016 - 10.2%) in the voting rights of Eoro and three directors of the Company are directors of Eoro. The Company concluded that it does not control Eoro as it does not have sufficient rights to exercise control over Eoro.

#### *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 11.

#### *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 15.

#### **4. Significant accounting policies**

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

#### **Financial instruments**

##### ***Non-derivative financial assets***

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that 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.

Financial assets and liabilities are offset and the net amount 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 classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

# Cartier Iron Corporation

## Notes to Financial Statements

### Years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

#### *Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value (i.e. quoted close price) and changes therein are recognized in profit or loss.

The Company has classified marketable securities as fair value through profit or loss.

#### *Held-to-maturity financial assets*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

The Company has not classified any financial asset as held-to-maturity.

#### *Loans and receivables*

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.

The Company has classified cash as loans and receivables.

#### *Available-for-sale financial assets*

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. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Company has not classified any financial asset as available-for-sale.

#### ***Non-derivative financial liabilities***

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified accounts payable and accrued liabilities, due to Eloro Resources Ltd. and due to Champion Iron Mines Limited as other financial liabilities.

# **Cartier Iron Corporation**

## **Notes to Financial Statements**

### **Years ended December 31, 2017 and 2016**

**(expressed in Canadian dollars)**

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

A financial asset is 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.

#### ***Financial assets carried at amortized cost***

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. The carrying amount of the financial asset is reduced by the amount of the impairment loss and the impairment loss is recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### ***Available-for-sale financial assets***

An impairment loss in respect of a financial asset classified as available-for-sale is calculated as the difference between the acquisition cost and the current fair value, less any impairment loss recognized previously in profit or loss. The impairment loss is recognized when there is objective evidence that the impairment is other than temporary by reclassifying the loss from equity to profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss, except in the case where the decrease in impairment loss is recognized in other comprehensive income.

#### **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 income (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.

#### **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.

Non-repayable 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.

# **Cartier Iron Corporation**

## **Notes to Financial Statements**

### **Years ended December 31, 2017 and 2016**

**(expressed in Canadian dollars)**

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, 2017 and 2016, 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, 2017 and 2016, the Company had no decommissioning liabilities.

#### **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

# **Cartier Iron Corporation**

## **Notes to Financial Statements**

### **Years ended December 31, 2017 and 2016**

**(expressed in Canadian dollars)**

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, 2017 and 2016.

#### **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.

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.

# Cartier Iron Corporation

## Notes to Financial Statements

### Years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

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.

#### Income (loss) per share

The Company presents basic and diluted income (loss) per share data for its common shares. Basic income (loss) per share is calculated by dividing the income (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 income (loss) per share is determined by adjusting the income (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.

#### New standards and interpretations not yet adopted

The following amendment to standards will be effective for periods beginning on or after January 1, 2018:

##### *IFRS 9, Financial Instruments ("IFRS 9")*

This standard will replace *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The Company does not expect IFRS 9 to have a material impact, however, has not completed its assessment on the extent of the impact of IFRS 9 on its financial statements.

The following new standard will be effective for periods beginning on or after January 1, 2019:

##### *IFRS 16, Leases ("IFRS 16")*

This standard will replace *IAS 17, Leases*. IFRS 16 provides an updated definition of a lease contract, including guidance on the combination and separation of contracts. The standard requires lessees to recognize a right-of-use asset and a lease liability for substantially all lease contracts. The accounting for lessors is substantially unchanged from IAS 17. The Company has not determined the extent of the impact of IFRS 16 on its financial statements.

#### 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 et Faune Québec.

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	In respect returns filed for years ended December 31,			
	2016	2015	2014	2013
	\$	\$	\$	\$
<b>Refundable Tax Credits</b>				
As filed	22,476	251,079	177,164	639,693
As assessed	–	251,079	177,248	613,898
Received	–	(251,079)	(177,248)	(613,898)
Included in receivables at December 31, 2017	–	–	–	–
<b>Credit on Duties</b>				
As filed	4,641	71,699	30,254	103,052
As assessed	–	–	23,977	79,775
Received during the period	–	–	(23,977)	(79,775)
Included in receivables at December 31, 2017	–	–	–	–

**6. Marketable securities**

Marketable securities consist of the following investments:

	December 31, 2017		December 31, 2016	
	Fair value	Cost	Fair value	Cost
	\$	\$	\$	\$
Champion Iron Limited	6,400	3,373	2,350	3,373
Tartisan Resources Corp.	24,594	15,000	–	–
	30,994	18,373	2,350	3,373

One director of the Company is also a director of Champion Iron Limited.

**7. Investment in associate**

As at December 31, 2017, the Company held 2,543,500 Eloro common shares (2016 - 3,043,500) with a fair value of \$2,696,110 (2016 - \$1,247,835), representing 7.72% of the outstanding Eloro common shares (2016 - 10.2%). 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 have significant influence in Eloro as three directors (2016 - two directors) of the Company are also directors of Eloro.

	Number of Eloro common shares held	\$
Balance at December 31, 2015	5,010,000	184,549
Shares purchased	33,500	13,603
Share of loss	–	(97,036)
Dilution gain	–	549,841
Settlement of amount due to Champion (note 10)	(2,000,000)	(117,715)
Balance at December 31, 2016	3,043,500	533,242
Settlement of amount due to Champion (note 8)	(500,000)	(72,809)
Dilution gain	–	67,659
Share of loss	–	(157,709)
Balance at December 31, 2017	2,543,500	370,383

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The following is a summary of Eoro's balance sheet and reconciliation to carrying amounts as at December 31, 2017:

	<b>\$</b>
<b>Assets</b>	
Cash	377,613
Due from Cartier	88,168
Other current assets	547,787
	1,013,568
Exploration and evaluation	4,155,351
	5,168,919
<b>Liabilities and shareholders' equity</b>	
Current liabilities	984,739
Shareholders' equity	4,184,180
	5,168,919
Reconciliation to carrying value:	
Share percentage ownership of Eoro	7.72%
	<b>\$</b>
Company's share of net assets of Eoro	323,019
Difference between the Company's share of net assets of Eoro and carrying value	47,304
Carrying value of investment in Eoro	370,383

The following is a summary of the statement of loss of Eoro for the period April 1, 2017 to December 31, 2017:

	<b>\$</b>
<b>Expenses</b>	
Expenses	507,449
Unrealized gain on marketable securities	78,932
Writedown of exploration and evaluation	95,963
	862,344
<b>Loss</b>	(862,344)
Other comprehensive loss	(2,046)
<b>Comprehensive loss</b>	(864,390)

**8. Exploration and evaluation**

	December 31, 2016 \$	Acquisition costs \$	Exploration expenditures \$	Writedowns \$	December 31, 2017 \$
<b>Property</b>					
Gagnon	—	570,000	23,102	(593,102)	—
Big Easy	—	140,709	36,809	—	177,518
	—	710,709	59,911	(593,102)	177,518

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	December 31, 2015 \$	Acquisition costs \$	Exploration expenditures \$	Writedowns \$	December 31, 2016 \$
<b>Property</b>					
Gagnon	–	–	80,578	(80,578)	–

**Gagnon**

The Company had an option from Champion Iron Mines Limited (“Champion”), a wholly-owned subsidiary of Champion Iron Limited, to earn a 55% interest in Round Lake (formerly known as Penguin Lake, Black Dan and Aubrey-Ernie) and Jeannine, consisting of 199 claims covering 105.38 square kilometres in the Fermont Iron Ore District in the Labrador Trough in northeastern Québec (“Gagnon”). In order to earn its 55% interest, the Company must make option payments, issue common shares and incur exploration expenditures, as follows:

	Option payment \$	Common shares Number	Fair value \$	Exploration expenditures \$
Upon execution of agreement	–	1,000,000	250,000	–
Upon conditional approval from a stock exchange for the listing of the common shares of Cartier	100,000	–	–	–
December 10, 2013	150,000	500,000	80,000	500,000
December 10, 2014	–	500,000	80,000	750,000
Extended from December 10, 2014 to the date that Cartier received its refundable tax credit on eligible expenditures incurred in Québec for the year ended December 31, 2013	250,000	–	–	–
December 10, 2015	50,000	500,000	12,500	–
December 10, 2016	–	–	–	1,800,000
December 31, 2017	450,000	–	–	–
	1,000,000	2,500,000	422,500	3,050,000

On May 17, 2016, the Company and Champion amended the option agreement to:

- a) reduce the acreage covered by the option agreement by approximately 40% in order to reduce land maintenance expenditure commitments;
- b) reduce the interest to be earned under the option agreement from a 65% interest to a 55% interest;
- c) defer the due date of the unpaid option payment of \$200,000 from December 10, 2015 to December 10, 2016;
- d) reduce the required exploration expenditures from \$6,000,000 to \$3,050,000.

On November 15, 2016, the Company and Champion amended the option agreement to extend the due date for the option payment of \$450,000 from December 10, 2016 to December 31, 2017.

On December 22, 2017, the Company earned its 55% interest in Gagnon by making the final option payment of \$450,000 with a cash payment of \$50,000 and 500,000 common shares of Eoro with a deemed value of \$400,000. The common shares of Eoro had a fair value of \$520,000 and a gain on disposition of interest in associate of \$447,191.

Upon the Company earning its 55% interest, a joint venture was formed 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 the Company or Champion 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.

# Cartier Iron Corporation

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As December 31, 2016 and December 31, 2017, 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 impairment losses of \$80,578 for the year ended December 31, 2016 and \$593,102 for the year ended December 31, 2017.

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

	\$
Balance, December 31, 2015	3,662,756
Exploration expenditures	80,578
Refundable tax credit	(251,079)
<hr/>	
Balance, December 31, 2016	3,492,255
Acquisition costs	450,000
Exploration	21,525
Mining tax credits	(103,752)
<hr/>	
Balance, December 31, 2017	3,860,028

One director of the Company is a director of Champion Iron Limited, the parent company of Champion.

#### Incienso, Chile

On June 16, 2017, the Company signed a letter agreement for an option to earn a 55% interest in Incienso, a gold property comprising 31 mining concessions covering 4,112 hectares located in the Coquimbo District, III Region, Chile.

On August 11, 2017, the Company decided not to proceed with the negotiation and execution of a definitive agreement, thereby terminating the option at no further cost to the Company. Exploration and evaluation expense includes \$41,805 representing the option payment of US\$15,000 and due diligence costs related to Incienso.

#### Acquisition of Big Easy

On November 21, 2017, the Company completed a definitive agreement to acquire a 100% interest in Big Easy consisting of 1 Mineral Rights Licence, which includes 278 mining claims covering 69.5 square kilometres located in Newfoundland and Labrador.

In order to complete the acquisition, 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	500,000	500,000
November 21, 2019	500,000	800,000
November 21, 2020	1,000,000	1,200,000
<hr/>		
	2,500,000	2,500,000

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 upon completion of the acquisition.

The Company issued 100,000 common shares with a fair value of \$9,000 in consideration for the continued assistance of a geologist with knowledge of Big Easy.

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.

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The property is 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:

<b>Due date</b>	<b>\$</b>
November 21, 2017 (paid)	25,000
December 31, 2017 (in accounts payable and accrued liabilities and paid subsequent to December 31, 2017)	25,000
November 21, 2018	75,000
November 21, 2019	75,000

The Company also 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 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.

Exploration and evaluation expense includes \$41,927 representing costs incurred before the Company obtained the legal right to explore Big Easy.

See note 19 for subsequent event.

**9. Due to Eloro Resources Ltd.**

The amount due to Eloro is unsecured, non-interest bearing and payable on demand. Three directors of the Company are directors of Eloro.

**10. Due to Champion Iron Mines Limited**

At December 31, 2015, the amount due to Champion was a demand loan, which was unsecured, bearing interest at the rate of LIBOR plus 2% and was due 6 months after Champion demanded repayment (the “Demand Loan”). Champion had the right to convert the Demand Loan plus accrued but unpaid interest into common shares of the Company at a conversion price equal to the lowest subscription price per common share paid for the most recent capital raising undertaken by the Company at the time of the conversion, subject to the minimum pricing rules and stock exchange approval.

On May 17, 2016, the Company and Champion agreed to convert the Demand Loan into a term loan with the same terms and conditions as the Demand Loan and an original due date of September 30, 2017.

On November 15, 2016, the Company made a partial repayment of \$1,000,000 of the Term Loan by delivering 2,000,000 common shares of Eloro at a deemed value of \$1,000,000 (“Eloro Shares”). The Eloro Shares had a fair value of \$920,000 and the Company recorded a gain of \$80,000 on the partial repayment of the Term Loan. On November 15, 2016, the Company and Champion agreed to extend the due date for the Term Loan from September 30, 2017 to December 31, 2017. On December 22, 2017, the Company repaid the Term Loan.

For the year ended December 31, 2017, interest of \$7,877 was accrued (2016 - \$28,684). One director of the Company is a director of Champion Iron Limited, the parent company of Champion.

# Cartier Iron Corporation

## Notes to Financial Statements

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#### Relationship with Champion

As at December 31, 2017, Champion held 11,519,971 common shares of the Company (2016 - 11,519,971), representing 24.4% of the outstanding common shares of the Company (2016 - 32.4%).

The holdings of Champion in the Company were subject to the terms of a pre-emptive rights agreement and an agreement respecting board representation rights and standstill obligations which expired on December 31, 2017.

#### 11. Share capital

##### Authorized

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.

An unlimited number of common shares.

##### Issued

	Number of common shares	\$
Balance, December 31, 2015	33,844,150	6,606,564
Private placement of common shares	1,728,571	121,000
Fair value of expired warrants	–	563,000
Balance, December 31, 2016	35,572,721	7,290,564
Acquisition of exploration and evaluation	650,000	58,500
Private placement of units	8,000,000	800,000
Private placement of flow-through units	3,000,000	360,000
Fair value of warrants issued	–	(293,000)
Fair value of broker warrants issued	–	(42,000)
Unrenounced flow-through share premium	–	(48,000)
Share issue costs	–	(69,487)
Balance, December 31, 2017	47,222,721	8,056,577

##### Private placement of common shares

On December 22, 2016, the Company completed a private placement of 1,728,571 common shares at a price of \$0.07 per share for gross proceeds of \$121,000. Of the private placement, a company controlled by a director acquired 150,000 shares.

##### Private placement of units and flow-through units

On December 6, 2017, the Company completed a private placement of 8,000,000 units at a price of \$0.10 per unit for gross proceeds of \$800,000 ("Units"). Each Unit consisted of one common share and one-half of one warrant with each whole warrant entitling the holder to purchase one common share for \$0.20 until June 6, 2019.

On December 6, 2017, the Company completed a private placement of 3,000,000 flow-through units at a price of \$0.12 per unit for gross proceeds of \$360,000 ("FT Units"). Each FT Unit consisted of one common share and one-half of one warrant with each whole warrant entitling the holder to purchase one common share for \$0.25 until June 6, 2019.

In connection with the private placements, the Company paid cash commissions of \$29,820 and issued 178,500 broker warrants entitling the holder to purchase one common share for \$0.20 until June 6, 2019 and 101,967 broker warrants entitling the holder to purchase one common share for \$0.25 until June 6, 2019. 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.

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

	<b>Warrants</b>		<b>Broker warrants</b>	
	<b>Units</b>	<b>FT Units</b>	<b>Units</b>	<b>FT Units</b>
Date of issue			December 6, 2017	
Expiry date			June 6, 2019	
Warrants issued	4,000,000	1,500,000	178,500	101,967
Exercise price	\$0.20	\$0.25	\$0.20	\$0.25
Share price			\$0.20	
Risk-free interest rate			1.47%	
Expected volatility based on historical volatility			204%	
Expected life of warrants			1.5 years	
Expected dividend yield			0%	
Fair value	\$202,000	\$91,000	\$27,000	\$15,000
Fair value per warrant	\$0.05	\$0.06	\$0.05	\$0.06

Of the private placements, two directors and a company controlled by a director acquired 300,000 Units and an officer acquired 56,667 FT Units.

**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, 2017, there were 4,722,272 stock options (2016 - 3,557,272) authorized to be issued under the stock option plan, of which, 3,025,000 stock options (2016 - 3,025,000) were outstanding.

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

	<b>Expiry date</b>	<b>Weighted-average exercise price</b>	<b>Number of stock options outstanding and exercisable</b>
Balance, December 31, 2015, 2016 and 2017	July 9, 2020	0.10	3,025,000

**Warrants**

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

	<b>Weighted-average exercise price</b>	<b>Number of warrants</b>
Balance, December 31, 2015	0.26	6,661,683
Expired	0.26	(6,661,683)
Balance, December 31, 2016	—	—
Issued	0.21	5,780,467
Balance, December 31, 2017	0.21	5,780,467

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

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<b>Exercise price</b>	<b>Expiry date</b>	<b>Number of warrants</b>
\$0.20	June 6, 2019	4,178,500
\$0.25	June 6, 2019	1,601,967
		<b>5,780,467</b>

The weighted average remaining contractual life of the outstanding warrants is 1.4 years.

**12. Deferred income tax recovery**

During the year ended December 31, 2017, the Company issued \$360,000 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 \$48,000 representing the income tax benefits the expenditures renounced by the Company to the subscribers, was recorded in the statement of financial position as a reduction of share capital and an increase to other liabilities. During the year ended December 31, 2017, flow-through expenditures of \$36,809 were incurred reducing other liabilities by \$4,908 which was recorded as a deferred income tax recovery.

**13. 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, accounts payable and accrued liabilities, due to Eoro and due to Champion*

The fair values of cash, accounts payable and accrued liabilities, due to Eoro and due to Champion at December 31, 2017 approximated their respective carrying value due to their short term to maturity.

*Marketable securities*

The fair value of marketable securities is estimated based on observable inputs.

*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

Marketable securities are classified as Level 1 financial assets.

**14. 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.

# **Cartier Iron Corporation**

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#### ***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. Credit risk arises principally from the Company's cash and due from Eloro. The Company's limits its exposure to credit risk on its cash by holding deposits with high credit quality Canadian chartered bank.

#### ***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. Accounts payable and accrued liabilities and due to Eloro are subject to normal trade terms.

#### ***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. The Company estimates that if the fair value of its marketable securities as at December 31, 2017 had changed by 25%, with all other variables held constant, the income would have increased or decreased by \$7,749.

#### ***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.

#### **15. 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% (2016 - 26.25%) to the net loss for the year. The reasons for the difference are as follows:

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**Provision for income taxes**

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Expected income tax recovery based on statutory rate	(215,923)	233,141
Increase (decrease) resulting from:		
Non-deductible expenses	(37,365)	(247,559)
Share issue costs and other	5,196	(41,047)
Change in valuation allowance	253,000	75,465
Deferred income tax recovery	4,908	—

**Deferred income tax balances**

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

	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Non-capital loss carryforward	1,348,000	1,147,000
Capital loss carryforward	2,516,000	2,625,000
Canadian exploration and evaluation	1,201,000	1,061,000
Foreign exploration and evaluation	387,000	376,000
Share issue costs	20,000	10,000
	5,472,000	5,219,000
Benefit of deferred tax assets not recorded	(5,472,000)	(5,219,000)
	—	—

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, 2017, the Company had non-capital loss carryforwards which expire as follows:

	<b>\$</b>
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	646,000
	5,087,000

As at December 31, 2017, the Company had resource deductions of \$6,172,000 which may be carried forward indefinitely to reduce taxable income in future years and capital losses of approximately \$19,213,000 which may be carried forward indefinitely to be applied against capital gains in future years.

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**16. Comparative amounts**

The comparative amounts for dilution gain on change is interest in associate and share of loss of an associate have been reclassified to conform to the current year's presentation.

**17. Related party transactions**

	Years ended December 31,		Outstanding at December 31,	
	2017	2016	2017	2016
	\$	\$	\$	\$
<b>Exploration and evaluation</b>				
Paid or payable to a company, of which, a director is a shareholder	—	21,843	37,527	37,527

**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,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Consulting fees	370,800	360,000	823,129	566,325

Additional related party transactions are disclosed in notes 6, 7, 8, 9, 10, 11 and 16. These transactions were in the normal course of business.

**18. Commitments**

**Flow-through expenditures**

Pursuant to a flow-through financing completed on December 6, 2017 (see note 11), the Company is committed to make eligible Canadian Exploration Expenditures of \$323,191 by December 31, 2018.

**Lease commitment**

The Company has a joint and several commitment with Eloro for annual basic premises rent, as follows:

	\$
Less than 1 year	92,653
1-5 years	277,958
More than 5 years	—
	<u>370,610</u>

**19. Subsequent event**

On January 22, 2018, the Company staked an additional 91 claims at Big Easy, thereby increasing its interest to 396 mining claims (December 31, 2017 - 278) covering 92.3 square kilometres (December 31, 2017 - 69.5).