

CRUZ COBALT CORP.

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

July 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Cruz Cobalt Corp. (formerly Cruz Capital Corp.)

We have audited the accompanying consolidated financial statements of Cruz Cobalt Corp. (formerly Cruz Capital Corp.), which comprise the consolidated statements of financial position as at July 31, 2017 and 2016 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity (deficiency) for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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, these consolidated financial statements present fairly, in all material respects, the financial position of Cruz Cobalt Corp. (formerly Cruz Capital Corp.) as at July 31, 2017 and 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 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Cruz Cobalt Corp.'s (formerly Cruz Capital Corp.) ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

November 24, 2017

CRUZ COBALT CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	ASSETS	July 31, <u>2017</u>	July 31, <u>2016</u>
Current assets			
Cash and cash equivalents – Note 4		\$ 1,926,311	\$ 46,162
Receivables – Note 6		25,332	9,118
Prepaid expenses		54,465	45,178
Total current assets		2,006,108	100,458
Non-current assets			
Equipment – Note 7		-	2,077
Rent deposit		29,620	6,475
Exploration and evaluation assets – Note 8		1,836,204	97,319
		-	-
Total assets		\$ 3,871,932	\$ 206,329
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities – Notes 9 and 14		\$ 709,026	\$ 1,409,884
Loans payable – Note 10		-	169,500
Flow-through share premium liability – Note 11		48,508	-
Total current liabilities		757,534	1,579,384
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital – Note 12		15,544,490	10,176,307
Reserves – Note 12		1,456,951	1,199,091
Accumulated deficit		(13,887,043)	(12,748,453)
Total shareholders' equity (deficiency)		3,114,398	(1,373,055)
Total liabilities and shareholders' equity (deficiency)		\$ 3,871,932	\$ 206,329

Nature and Continuance of Operations (Note 1)
Subsequent Events (Notes 8 and 20)
Commitment (Note 21)

APPROVED BY THE DIRECTORS:

<i>“Seth Kay”</i> Seth Kay	Director	<i>“James Nelson”</i> James Nelson	Director
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CRUZ COBALT CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Years ended July 31,	
	2017	2016
Operating expenses		
Consulting	\$ 188,652	\$ 165,670
Depreciation – Note 7	2,077	520
Finance fees	1,500	-
Management and directors’ fees – Note 14	111,450	20,500
Office and miscellaneous – Note 14	60,256	38,193
Professional fees – Note 14	87,923	36,822
Shareholder information	18,860	7,962
Share-based payments – Notes 12 and 14	363,702	82,668
Transfer agent and filing fees	85,478	24,329
Travel and promotion	450,769	12,188
	<u>(1,370,667)</u>	<u>(388,852)</u>
Interest income	4,438	-
Interest expense	-	(23)
Other income on settlement of flow-through share premium liability – Note 11	24,742	-
Gain on sale of exploration and evaluation assets – Note 8	135,645	-
Realized gain on sale of marketable securities – Note 5	145,990	-
Write-down of exploration and evaluation assets – Note 8	(78,738)	(205,280)
	<u>232,077</u>	<u>(205,303)</u>
Net loss and comprehensive loss for the year	<u>\$ (1,138,590)</u>	<u>\$ (594,155)</u>
Loss per share – basic and diluted – Note 13	<u>\$ (0.02)</u>	<u>\$ (0.04)</u>
Weighted average number of shares outstanding – basic and diluted – Note 13	<u>49,747,023</u>	<u>13,962,810</u>

CRUZ COBALT CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

	Years ended July 31,	
	<u>2017</u>	<u>2016</u>
Operating Activities		
Loss for the year	\$ (1,138,590)	\$ (594,155)
Adjustments for non-cash items:		
Depreciation	2,077	520
Other income on settlement of flow-through share premium liability	(24,742)	-
Share-based payments	363,702	82,668
Realized gain on sale of marketable securities	(145,990)	-
Realized gain on sale of exploration and evaluation assets	(135,645)	-
Write-down of exploration and evaluation assets	78,738	205,280
Changes in non-cash working capital items:		
Receivables	(9,739)	6,160
Prepaid expenses	(9,287)	(42,145)
Rent deposit	(29,620)	-
Accounts payable and accrued liabilities	(764,710)	170,472
Cash used in operating activities	(1,813,806)	(171,200)
Investing Activities		
Exploration and evaluation assets	(320,626)	(5,706)
Proceeds from sale of marketable securities	295,990	-
Cash used in investing activities	(24,636)	(5,706)
Financing Activities		
Proceeds from issuance of share capital	3,994,891	200,000
Share issue costs	(106,800)	(2,130)
Proceeds from loan issuances	-	16,700
Loan repayments	(169,500)	(33,200)
Cash provided by financing activities	3,718,591	181,370
Change in cash during the year	1,880,149	4,464
Cash, beginning of the year	46,162	41,698
Cash, end of the year	\$ 1,926,311	\$ 46,162

Supplemental Disclosure with Respect to Cash Flows (Note 19)

CRUZ COBALT CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)
(Expressed in Canadian Dollars)

	Share Capital		Reserves	Accumulated	Total
	Number of shares	Amount		Deficit	
Balance, July 31, 2015	12,526,746	\$ 9,948,437	\$ 1,116,423	\$ (12,154,298)	\$ (1,089,438)
Shares issued for private placement	6,000,000	200,000	-	-	200,000
Share issue costs	-	(2,130)	-	-	(2,130)
For exploration and evaluation assets	900,000	30,000	-	-	30,000
Stock options issued	-	-	82,668	-	82,668
Loss for the year	-	-	-	(594,155)	(594,155)
Balance, July 31, 2016	19,426,746	10,176,307	1,199,091	(12,748,453)	(1,373,055)
Shares issued for private placement	20,197,500	2,093,000	-	-	2,093,000
Share issue costs	-	(106,800)	-	-	(106,800)
Shares purchase warrants exercised	8,716,800	1,185,286	-	-	1,185,286
Stock options exercised	4,050,000	716,605	-	-	716,605
For exploration and evaluation assets	7,950,000	1,447,500	-	-	1,447,500
Stock options issued	-	-	363,702	-	363,702
Broker warrants issued for private placement	-	(143,497)	143,497	-	-
Flow-through share premium liability	-	(73,250)	-	-	(73,250)
Transfer of reserves on options exercised	-	197,086	(197,086)	-	-
Transfer of reserves on warrants exercised	-	52,253	(52,253)	-	-
Loss for the year	-	-	-	(1,138,590)	(1,138,590)
Balance, July 31, 2017	60,341,046	\$ 15,544,490	\$ 1,456,951	\$ (13,887,043)	\$ 3,114,398

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

CRUZ COBALT CORP.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Expressed in Canadian Dollars)

July 31, 2017 and 2016 – Page 1

1. NATURE AND CONTINUANCE OF OPERATIONS

Cruz Cobalt Corp. (the “Company”; formerly Cruz Capital Corp.) is an exploration stage public company and is listed on the TSX Venture Exchange (“Exchange”) under the symbol "CUZ". The Company’s principal business activities include acquiring and exploring exploration and evaluation assets. At July 31, 2017, the Company had exploration and evaluation assets located in Canada and the U.S.A. During the year ended July 31, 2017, the Company split its share capital, stock options and share purchase warrants on a one pre-split for three post-split basis. These consolidated financial statements reflect the share split. All common shares, stock options, share purchase warrants and per common share amounts have been retroactively restated.

The Company’s head office and principal business address is Suite 1470, 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6. The Company’s registered and records office is located at 900 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. At July 31, 2017, the Company had a working capital of \$1,248,574, had not yet achieved profitable operations and has an accumulated deficit of \$13,887,043 since its inception. The Company expects to incur further losses in the development of its business, all of which cast substantial doubt on the Company’s ability to continue as a going concern. The Company may require additional financing in order to conduct the planned work programs on its exploration and evaluation assets, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these consolidated financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not used then the adjustments required to report the Company’s assets and liabilities on a liquidation basis could be material to these consolidated financial statements.

2. BASIS OF PREPARATION**a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized for issue by the Board of Directors on November 24, 2017.

2. BASIS OF PREPARATION (continued)

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that are initially measured at fair value through profit or loss.

These consolidated financial statements are presented in Canadian dollars, which is also the Company's and its subsidiaries' functional currency.

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates.

These consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout these consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- Whether or not an impairment has occurred in its exploration and evaluation assets;
- The inputs used in the accounting for share-based payments expense; and
- The inputs used in the accounting for finders' warrants and compensation options in share capital and equity reserves.

Critical accounting judgments

A significant judgment, apart from those involving estimation, include:

- Classification of financial instruments

c) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances, transactions, income and expenses have been eliminated upon consolidation.

2. BASIS OF PREPARATION (continued)

d) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over an investee, when the Company is exposed, or has rights, to variable returns from the investee and when the Company has the ability to affect those returns through its power over the investee. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposition or loss of control. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company.

The principal subsidiaries of the Company as of July 31, 2017 are as follows:

Name of subsidiary	Principal activity	Place of Incorporation	Ownership Interest July 31, 2017	Ownership Interest July 31, 2016
Cobalt Locators Inc.	Holding company	Canada	100%	-
Cruz Capital (US) Corp.	Holding company	USA	100%	100%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

a) Foreign currency transactions

Foreign currency accounts are translated into Canadian dollars, the presentation and functional currency of the Company, as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars using the exchange rate in effect at that date. At the reporting period end date, unsettled monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect at that date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Exploration and evaluation assets

Pre-exploration costs

Costs incurred prior to acquiring the right to explore an area of interest are expensed as incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, and payments made to contractors during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed as incurred.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of loss and comprehensive loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

c) Equipment

Computer and office equipment is carried at cost less accumulated depreciation. The cost of an item of computer and office equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and, where appropriate, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded on a declining balance basis at the rate of 20% per annum. Depreciation is recorded at one-half the rate in the year of acquisition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Equipment (continued)

Items of computer and office equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

d) Impairment of tangible and intangible assets

Tangible and intangible assets with finite useful lives are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the assets' cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to profit or loss except to the extent it reverses gains previously recognized in other comprehensive loss/income. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized in profit or loss.

e) Rehabilitation provision

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Rehabilitation provision (continued)

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

f) Financial instruments

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Financial assets at fair value through profit or loss ("FVTPL")

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 as FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

Held-to-maturity ("HTM")

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial instruments (continued)

Available-for-sale (“AFS”)

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company classified its financial assets as follows:

- Cash and cash equivalents are classified as FVTPL; and
- Receivables are classified as loans and receivables.

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities

Fair value through profit or loss

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities

This category consists of liabilities carried at amortized cost using the effective interest method.

The Company classified its financial liabilities as follows:

- Accounts payable and accrued liabilities, and loans payable are classified as other financial liabilities.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investments have been impacted.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Financial instruments (continued)

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

g) Income taxes

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Income taxes (continued)

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 only to the extent that it is probable that future taxable profits will be available against which the asset 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.

h) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and ii) share capital.

Upon expenses being renounced and incurred, the Company derecognizes the liability and the premium is recognized as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

i) Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measured component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in a private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as a warrant reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Investment tax credit

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of loss and comprehensive loss depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collections from the Canada Revenue Agency.

k) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is calculated by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

l) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment, using the Black-Scholes option pricing model.

m) Accounting standards issued but not yet effective

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

IFRS 9 – Financial Instruments (“IFRS 9”)

In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity’s business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Accounting standards issued but not yet effective (continued)

recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. The amended standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 – Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16 *Leases (“IFRS 16”)* which replaces IAS 17, *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4. CASH AND CASH EQUIVALENTS

The Company’s cash and cash equivalents are denominated in Canadian Dollars and include the following components:

	July 31, <u>2017</u>	July 31, <u>2016</u>
Cash at bank	\$ 1,376,311	\$ 46,162
Short-term deposits	550,000	-
	<u>\$ 1,926,311</u>	<u>\$ 46,162</u>

5. MARKETABLE SECURITIES

The Company's marketable securities are recorded at fair market value as they are classified as at fair value through profit or loss ("FVTPL") financial instruments.

Marketable securities comprise the following:

	Common shares	Market value	Costs
Balance, July 31, 2016	-	\$ -	\$ -
Addition	500,000	150,000	150,000
Sale	(500,000)	(295,990)	(150,000)
Realized gain on sale	-	145,990	-
Balance, July 31, 2017	-	\$ -	\$ -

The Company held equity securities in a publicly traded company, US Cobalt Inc. (formerly Scientific Metals Corp.; "Scientific"). In January 2017, Scientific consolidated its share capital on a one-new-for-four-old basis. The disclosure in Note 5 and Note 8 reflects the share consolidation. During the year ended July 31, 2017, the Company sold 500,000 Scientific shares for gross proceeds of \$295,990. Accordingly, the Company recorded a realized gain of \$145,990 (year ended July 31, 2016: \$Nil) which was included in profit or loss.

6. RECEIVABLES

The Company's receivables comprise of goods and services tax ("GST") receivable due from Canadian government taxation authorities and reimbursements from three public companies with common directors for recoverable office and administrative expenses.

	July 31, <u>2017</u>	July 31, <u>2016</u>
Accounts receivable	\$ 18,282	\$ 3,197
GST recoverable	7,050	5,921
Total receivables	<u>\$ 25,332</u>	<u>\$ 9,118</u>

All amounts are short-term and the net carrying value of receivables is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against receivables. The Company's receivables are all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets.

7. EQUIPMENT

	Computer and office equipment
Cost, July 31, 2017, 2016 and 2015	<u>\$ 7,816</u>
Accumulated depreciation, July 31, 2015	5,219
Depreciation for the year	<u>520</u>
Accumulated depreciation, July 31, 2016	5,739
Depreciation for the year	<u>2,077</u>
Accumulated depreciation, July 31, 2017	<u>\$ 7,816</u>
Net book value, July 31, 2016	<u>\$ 2,077</u>
Net book value, July 31, 2017	<u>\$ -</u>

8. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets consist of the following mineral properties:

	Yukon Quartz Claims	ON Kenagami Property	BC War Eagle Cobalt	BC Purcell Cobalt Prospect	ON Cobalt Prospects	ON Albany East	Quebec Gaspé Bay	Idaho Star Cobalt Prospect	Montana Chicken Hawk Cobalt Prospect	Nevada Clayton Valley W. Lithium Property	Total
Balance, July 31, 2015	\$ 23,570	\$ 45,900	\$ -	\$ -	\$ -	\$ 194,311	\$ 3,110	\$ -	\$ -	\$ -	\$ 266,891
Acquisition costs	-	-	3,496	-	-	-	-	-	-	32,000	35,496
Deferred exploration expenditures											
Geological report	-	-	-	-	-	2	-	-	-	-	2
Claim maintenance fees	210	-	-	-	-	-	-	-	-	-	210
Write-down of exploration and evaluation assets	(7,857)	-	-	-	-	(194,313)	(3,110)	-	-	-	(205,280)
Balance, July 31, 2016	15,923	45,900	3,496	-	-	-	-	-	-	32,000	97,319
Acquisition costs											
Cash	-	-	-	6,666	13,334	-	-	39,964	-	-	59,964
Staking costs	-	-	-	-	23,068	-	-	-	25,426	-	48,494
Share issuance	-	31,500	-	272,000	544,000	-	-	-	600,000	-	1,447,500
Deferred exploration expenditures											
Geological expenses	-	-	-	-	25,350	-	-	-	-	-	25,350
Claim maintenance fees	210	1,338	10,016	3,366	-	-	-	-	-	2,701	17,631
Prospecting costs	-	-	-	-	4,055	-	-	-	-	-	4,055
Sampling	-	-	-	-	-	-	-	26,413	105,653	-	132,066
Travel & misc	-	-	-	-	30,455	-	-	-	-	-	30,455
Advance for exploration	-	-	-	-	52,108	-	-	-	-	-	52,108
Write-down of exploration and evaluation assets	-	(78,738)	-	-	-	-	-	-	-	-	(78,738)
Balance, July 31, 2017	\$ 16,133	\$ -	\$ 13,512	\$ 282,032	\$ 692,370	\$ -	\$ -	\$ 66,377	\$ 731,079	\$ 34,701	\$ 1,836,204

8. EXPLORATION AND EVALUATION ASSETS (continued)

Title to Interests in Exploration and Evaluation Assets

Title to exploration and evaluation asset interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many exploration and evaluation assets. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

Yukon Quartz Claims – Purchase Agreement

During the year ended July 31, 2010, the Company acquired a 100% interest in certain quartz mineral claims located in the Yukon Territory.

During the year ended July 31, 2013, the Company decided not to continue with certain claims. In September 2013, the Company decided not to continue with certain other claims, and the Company allowed these claims to lapse. Accordingly, the related acquisition costs of \$577,085 and exploration costs of \$26,475 associated with these lapsed claims were written off as of July 31, 2013.

In September 2015, the Company decided not to continue with certain claims and allowed them to lapse when they became due. Prior acquisition costs of \$86,563 and exploration costs of \$7,720 associated with these claims were written off as of July 31, 2015.

During the year ended July 31, 2016, the Company decided to drop one claim and allowed it to lapse when it became due. Prior acquisition costs of \$7,214 and exploration costs of \$643 associated with this lapsed claim were written off.

As at July 31, 2017, the Company had spent a total of \$1,497 in exploration expenditures on the remaining Yukon Quartz claims.

Ontario Kenagami Hydrothermal Graphite Prospect – Purchase Agreement

On November 13, 2013, the Company entered into a purchase agreement with an arm's length vendor (the "Vendor") to acquire a 100% interest in certain mineral claims located in Ontario. The Company was required to make a cash payment of \$20,000 and issued 300,000 common shares (issued at a value of \$71,500) in set payments on or before September 25, 2017.

Subsequent to July 31, 2017, the Company decided not to continue with this property. Accordingly, prior acquisition costs of \$73,000 and exploration costs of \$5,738 were written off as of July 31, 2017.

8. EXPLORATION AND EVALUATION ASSETS (continued)

BC War Eagle Cobalt Prospect – Staking

In June 2016, the Company acquired a 100% interest in certain mineral claims in British Columbia for staking costs of \$3,496.

As at July 31, 2017, the Company had spent a total of \$10,016 in claim maintenance fees on this prospect.

BC and ON Cobalt Prospects – Share Purchase Agreement and Staking

On July 22, 2016, the Company entered into a share purchase agreement (the “Agreement”) with four arm’s length vendors (the “Vendors”) to purchase 100% of the issued and outstanding shares of Cobalt Locators Inc., which holds a 100% interest in two cobalt prospects in B.C. (“BC Purcell Cobalt Prospect”) and a 50% interest in four cobalt prospects in Ontario (“ON Coleman Cobalt Prospect”, “ON Bucke Cobalt Prospect”, “ON Hector Cobalt Prospect”, and “ON Johnson Cobalt Prospect”). The acquisition has been accounted for as an asset acquisition. In August 2016, the Company paid \$20,000 cash and issued 4,800,000 shares (issued at a value of \$816,000) to the Vendors pursuant to the Agreement. Cobalt Locators Inc. became a wholly-owned subsidiary of the Company. The acquisition costs had been split evenly between these six cobalt properties.

In September 2016, the Company acquired a 100% interest in certain mineral claims in Ontario to increase the holdings in its Johnson Cobalt Prospect, Bucke Cobalt Prospect and Hector Cobalt Prospect for staking costs of \$19,500.

In December 2016, the Company acquired a 100% interest in certain mineral claims in Ontario to increase the holdings in its Coleman Cobalt Prospect for staking costs of \$2,300.

In June 2017, the Company acquired a 100% interest in certain mineral claims in Ontario to increase the holdings in its Coleman Cobalt Prospect for staking costs of \$1,268.

As at July 31, 2017, the Company had spent a total of \$111,968 in exploration expenditures on the ON Cobalt Prospects.

Idaho Star Cobalt Prospect – Staking

In October 2016, the Company acquired a 100% interest in the Idaho Star Cobalt Prospect in Idaho, U.S.A. for staking costs of \$39,964.

As at July 31, 2017, the Company had spent a total of \$26,413 in exploration expenditures on this prospect.

Montana Chicken Hawk Cobalt Prospect – Agreement and Staking

On February 27, 2017, the Company entered into an agreement with an arm's length vendor (the "Montana Vendor") to acquire a 100% interest in the Chicken Hawk Cobalt Prospect located in Deer Lodge County, Montana, U.S.A. In consideration, the Company issued 3,000,000 common shares (issued at a value of \$600,000) to the Montana Vendor.

8. EXPLORATION AND EVALUATION ASSETS (continued)

Montana Chicken Hawk Cobalt Prospect – Agreement and Staking (continued)

In July 2017, the Company acquired a 100% interest in certain mineral claims in Montana to increase the holdings in its Chicken Hawk Cobalt Prospect for staking costs of \$25,426.

As at July 31, 2017, the Company had spent a total of \$105,653 in exploration expenditures on this prospect.

Nevada Clayton Valley West Lithium Prospect – Purchase Agreement

On September 15, 2015, the Company entered into a purchase agreement with an arm's length vendor (the "Vendor") to acquire a 100% interest in certain mineral claims in the Clayton Valley in Nevada, U.S.A. In consideration, the Company was to issue 1,200,000 common shares to the Vendor.

On October 7, 2015, the Company amended the purchase agreement with the Vendor at no additional cost or share issuance, to acquire a 100% interest in additional mineral claims.

On October 21, 2015, the Company further amended the purchase agreement and the amendment dated October 7, 2015 with the Vendor. The new terms are for the Company to issue 900,000 common shares to the Vendor. During the year ended July 31, 2016, these shares were issued to the Vendor valued at \$30,000.

As of July 31, 2017, the Company had incurred a total of \$2,701 in claim maintenance fees on this prospect.

Sale of Idaho Cobalt Prospect

In September 2016, the Company partnered with three non related parties (the "Vendors") to acquire prospective cobalt assets and properties through a private British Columbia corporation (the "BC Company"). The BC Company and the Company were related as they have one common director. The Company held a 20% equity interest and the Vendors held an 80% equity interest in the BC Company, respectively. The BC Company indirectly acquired certain mineral claims located in the State of Idaho through its wholly-owned subsidiary (the "Idaho Subco") for \$71,774. The Company paid 20% of the acquisition costs, being \$14,355. On September 9, 2016, the Company and the Vendors entered into a share purchase agreement with Scientific, an arm's length party, to sell their equity interest in the BC Company. In consideration, Scientific issued 500,000 common shares to the Company valued at \$150,000 (Note 5) and 2,000,000 common shares to the Vendors. Accordingly, the Company recorded a realized gain of \$135,645 (year ended July 31, 2016: \$Nil) for the sale of this asset, which was included in profit or loss.

Ontario Albany East Hydrothermal Graphite Prospect - Purchase Agreement

On July 7, 2013, the Company entered into a purchase agreement with two arm's length vendors (the "Vendors") to acquire a 100% interest in certain mineral claims located in Ontario. In consideration, the Company paid \$10,000 cash and issued 300,000 common shares at a value of \$160,000 to the Vendors.

8. EXPLORATION AND EVALUATION ASSETS (continued)

Ontario Albany East Hydrothermal Graphite Prospect - Purchase Agreement (continued)

During the year ended July 31, 2016, the Company decided to drop this property and fully wrote off the carrying value in the amount of \$194,313.

Quebec Gaspé Bay Aluminous Clay and Rare Earth Prospect - Staking

During the year ended July 31, 2012, the Company acquired a 100% interest in additional claims (the “Staking Claims”) for staking costs of \$4,164.

During the year ended July 31, 2013, the Company decided not to renew certain of the Staking Claims and allowed them to lapse as they became due. Prior acquisition costs of \$3,956 associated with these claims were written off.

During the year ended July 31, 2016, the Company decided to drop this property and fully wrote off the carrying value in the amount of \$3,110.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities recognized in the statement of financial position can be analyzed as follows:

	July 31, <u>2017</u>	July 31, <u>2016</u>
Trade payables	\$ 688,126	\$ 1,397,584
Accrued liabilities	<u>20,900</u>	<u>12,300</u>
Total payables	<u>\$ 709,026</u>	<u>\$ 1,409,884</u>

All amounts are short-term. The carrying value of trade payables and accrued liabilities is considered a reasonable approximation of fair value.

10. LOANS PAYABLE

In October 2014, the Company entered into agreements (the “Agreements”) with three arm’s length parties (the “Lenders”). Pursuant to the terms of the Agreements, the Lenders agreed to convert a total of \$336,000 in consulting fees payable into loans payable, bearing no interest and are payable upon demand. During the year ended July 31, 2015, the Company repaid a total of \$150,000 to the Lenders. During the year ended July 31, 2016, the Company repaid a total of \$16,500 to one Lender. During the year ended July 31, 2017, the Company fully repaid all the outstanding loans.

As at July 31, 2017, there was \$Nil (July 31, 2016: \$169,500) outstanding in loans payable.

11. FLOW-THROUGH SHARE PREMIUM LIABILITY

Balance at July 31, 2016	\$ -
Liability incurred on flow-through shares issued	73,250
Liability derecognized due to exploration expenditures renounced to shareholders	<u>(24,742)</u>
Balance at July 31, 2017	\$ 48,508

In August 2016, the Company closed a private placement of 2,197,500 flow-through units at \$0.133 per unit for gross proceeds of \$293,000. Each flow-through unit consisted of one flow-through common share and one share purchase warrant. The premium received on the flow-through shares issued was determined to be \$73,250 and was recorded as a share capital reduction. An equivalent premium liability was also recorded.

During the year ended July 31, 2017, the Company renounced and incurred the exploration expenditures. Accordingly, the Company derecognized the flow-through share premium liability of \$24,742 and recognized it as other income.

12. SHARE CAPITAL AND RESERVES

Authorized: An unlimited number of common shares, without par value

(a) Private placements

Year ended July 31, 2017:

In August 2016, the Company closed a private placement consisting of 18,000,000 non flow-through units at \$0.10 per unit and 2,197,500 flow-through units at \$0.133 per unit for gross proceeds of \$2,093,000. Each non flow-through unit consisted of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the Company at a price of \$0.15 per share until August 24, 2019. Each flow-through unit consisted of one flow-through common share and one share purchase warrant which entitles the holder to purchase one additional non flow-through common share of the Company at a price of \$0.167 per share until August 24, 2019. In connection with the financing, the Company incurred filing fees of \$12,948, paid aggregate finder's fees of \$93,852 and issued 801,762 non flow-through broker warrants ("NFT Broker Warrants") and 102,600 flow-through broker warrants ("FT Broker Warrants"). Each NFT Broker Warrant will be exercisable at \$0.15 per share into one common share until August 24, 2019. Each FT Broker Warrant will be exercisable at \$0.167 per share into one common share until August 24, 2019. The NFT Broker Warrants and the FT Broker Warrants were valued at \$127,224 and \$16,273, respectively, using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 303.4%, risk-free interest rate 0.57% and an expected life of three years.

12. SHARE CAPITAL AND RESERVES (continued)

(a) Private placements (continued)

Year ended July 31, 2016:

In June 2016, the Company closed a non-brokered private placement consisting of 6,000,000 units at \$0.033 per unit for gross proceeds of \$200,000. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the Company at a price of \$0.05 per share until June 13, 2021. In connection with the financing, the Company incurred filing fees of \$2,130.

(b) Share purchase warrants

The following is a summary of changes in share purchase warrants from July 31, 2015 to July 31, 2017:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Balance, July 31, 2015	7,809,390	\$0.71
Issued	6,000,000	\$0.05
Balance, July 31, 2016	<u>13,809,390</u>	\$0.43
Issued	21,101,862	\$0.15
Exercised	(8,716,800)	\$0.14
Expired	<u>(716,865)</u>	\$3.36
Balance, July 31, 2017	<u>25,477,587</u>	\$0.22

At July 31, 2017, the Company had 25,477,587 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
802,275	\$1.33	January 28, 2018
11,738,542	\$0.15	August 24, 2019
1,931,520	\$0.17	August 24, 2019
6,290,250	\$0.33	December 18, 2019
<u>4,715,000</u>	\$0.05	June 13, 2021
<u>25,477,587</u>		

(c) Share-based payments

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options vest at the discretion of the Board of Directors and may be granted for a maximum term of five years from the date of grant.

12. SHARE CAPITAL AND RESERVES (continued)

(c) Share-based payments (continued)

The following is a summary of changes in share purchase options from July 31, 2015 to July 31, 2017:

	<u>Number</u>	<u>Weighted Average Exercise Price</u>
Outstanding and exercisable, July 31, 2015	526,725	\$0.79
Granted	1,500,000	\$0.12
Expired	(9,000)	\$1.73
Forfeited	(134,325)	\$0.81
Outstanding and exercisable, July 31, 2016	<u>1,883,400</u>	\$0.25
Granted	8,200,000	\$0.23
Exercised	(4,050,000)	\$0.18
Expired	<u>(1,699,275)</u>	\$0.24
Outstanding and exercisable, July 31, 2017	<u><u>4,334,125</u></u>	\$0.28

At July 31, 2017, 4,334,125 employee and director share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>	
4,000,000	\$0.25	October 9, 2017	(Note 20)
4,350	\$1.33	October 11, 2017	(Note 20)
<u>329,775</u>	\$0.67	September 3, 2018	
<u><u>4,334,125</u></u>			

During the year ended July 31, 2017, 1,125,000 stock options were exercised at a price of \$0.12 per share and 2,925,000 stock options were exercised at a price of \$0.20 per share for total proceeds of \$716,605 (year ended July 31, 2016: Nil stock options were exercised). The previously recognized share-based payment expense relating to these stock options were reclassified from share-based payment reserve to share capital in the amount of \$197,086 (year ended July 31, 2016: \$Nil).

During the year ended July 31, 2017, the Company granted a total of 8,200,000 stock options with exercise prices ranging from \$0.20 to \$0.35 per share and expiry dates ranging from December 9, 2016 to October 9, 2017 (year ended July 31, 2016: 1,500,000 stock options were granted with an exercise price of \$0.117 per share and an expiry date of January 25, 2017). The weighted average fair value of the options issued in the year ended July 31, 2017 was estimated at \$0.04 (year ended July 31, 2016: \$0.06) per option at the grant date using the Black-Scholes option pricing model with the following assumptions:

12. SHARE CAPITAL AND RESERVES (continued)

(c) Share-based payments (continued)

	<u>Year ended July 31, 2017</u>	<u>Year ended July 31, 2016</u>
Weighted average expected dividend yield	0.0%	0.0%
Weighted average expected volatility *	99.42%	144.22%
Weighted average risk-free interest rate	0.71%	0.56%
Weighted average expected term	0.33 year	0.5 year

* Expected volatility has been based on historical volatility of the Company's publicly traded shares.

Total expenses arising from share-based payment transactions recognized during the year ended July 31, 2017 were \$363,702 (year ended July 31, 2016: \$82,668).

13. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

	<u>Years ended July 31,</u>	
	<u>2017</u>	<u>2016</u>
Net Loss	<u>\$ (1,138,590)</u>	<u>\$ (594,155)</u>
Weighted average number of common shares for the purpose of basic and diluted loss per share	<u>49,747,023</u>	<u>13,962,810</u>

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and share purchase warrants currently issued (see Note 12) were anti-dilutive for the year ended July 31, 2017 and 2016.

The loss per share for the year ended July 31, 2017 was \$0.02 (year ended July 31, 2016: \$0.04).

14. RELATED PARTY TRANSACTIONS

Key management personnel compensation

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

	Years ended July 31,	
	<u>2017</u>	<u>2016</u>
Management and directors' fees	\$ 111,450	\$ 20,500
Professional fees	19,500	500
Share-based payments *	<u>22,563</u>	<u>8,267</u>
	<u>\$ 153,513</u>	<u>\$ 29,267</u>

* Share-based payments are the fair value of options granted to key management personnel as at the grant date.

Related party balances

At July 31, 2017, accounts payable and accrued liabilities include \$7,794 (July 31, 2016: \$37,377) payable to three directors and an officer for unpaid fees. These amounts are unsecured, non-interest bearing and payable on demand.

During the year ended July 31, 2017, office and miscellaneous expenses included \$Nil (year ended July 31, 2016: \$3,000), which was for reimbursement of accounting overhead to a public company with two common directors.

During the year ended July 31, 2017, the Company reimbursed a public company with two common directors and an officer in the amount of \$18,396 (year ended July 31, 2016: \$12,991) for the service provided by the Chief Financial Officer.

15. SEGMENTAL REPORTING

The Company operates in one business segment, being the acquisition and exploration of mineral properties. The Company's equipment is located in Canada and its exploration and evaluation assets are distributed by geographic location as follows:

	July 31, <u>2017</u>	July 31, <u>2016</u>
Canada	\$ 1,004,047	\$ 65,319
U.S.A.	<u>832,157</u>	<u>32,000</u>
	<u>\$ 1,836,204</u>	<u>\$ 97,319</u>

16. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Years ended July 31,	
	2017	2016
Loss before income taxes	\$ (1,138,590)	\$ (594,155)
Expected income tax (recovery)	\$ (296,000)	\$ (154,000)
Change in statutory rate and other	(1,000)	2,000
Permanent difference	-	21,000
Impact of flow through shares	26,000	-
Share issue costs	(28,000)	(1,000)
Change in unrecognized deductible temporary differences	299,000	132,000
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's unrecognized deferred tax assets are as follows:

	2017	2016
Exploration and evaluation assets	\$ 1,292,000	\$ 1,298,000
Share issue costs	24,000	3,000
Capital assets	20,000	1,000
Non-Capital losses	1,749,000	1,486,000
Net unrecognized deferred tax assets	\$ 3,087,000	\$ 2,788,000

No net deferred tax asset has been recognized in respect of the above for the years ended July 31, 2017 and 2016 because the amount of future taxable profit that will be available to realize such assets is not probable.

The Company has non-capital losses for Canadian income tax purposes of approximately \$6,720,000 (2016: \$5,717,000) which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through to 2037.

17. CAPITAL DISCLOSURE

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity (deficiency), which at July 31, 2017 was an equity of \$3,114,398 (July 31, 2016: deficiency of \$1,373,055).

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt and acquire or dispose of assets. As at July 31, 2017, the Company has not entered into any debt financing with any financial institution.

17. CAPITAL DISCLOSURE (continued)

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements. There has been no change in the Company's approach to capital management during the year ended July 31, 2017.

18. FINANCIAL INSTRUMENTS AND RISK

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The fair value of the Company's receivables, accounts payable and accrued liabilities, and loans payable approximates their carrying values due to the short-term nature of the financial instruments. The Company's cash and cash equivalents are measured at fair value using Level 1 inputs.

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at July 31, 2017, the Company has a minimal exposure to the US\$ that is subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. The Company considers this risk to be insignificant and therefore does not hedge its foreign exchange risk.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash and receivables are exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at July 31, 2017, the Company is not exposed to any significant credit risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has non-interest bearing debt instruments and is therefore not exposed to risk in the event of interest rate fluctuations. As at July 31, 2017, the Company is not exposed to any significant interest rate risk.

18. FINANCIAL INSTRUMENTS AND RISK (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

Price Risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by foreign exchange risk, credit risk, interest rate risk and price risk.

19. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows. The following transactions were excluded from the statements of cash flows:

Year ended July 31, 2017:

- a) The Company accrued exploration and evaluation assets of \$71,323 in accounts payable and accrued liabilities.
- b) The Company issued 4,800,000 common shares valued at \$816,000 pursuant to the share purchase agreement with Cobalt Locators.
- c) The Company issued 150,000 common shares valued at \$31,500 pursuant to the Ontario Kenagami Hydrothermal Graphite Prospect purchase agreement.
- d) The Company issued 3,000,000 common shares valued at \$600,000 pursuant to the Montana Chicken Hawk Cobalt Agreement.

Year ended July 31, 2016:

- a) The Company accrued exploration and evaluation assets of \$7,471 in accounts payable and accrued liabilities.
- b) The Company issued 900,000 common shares valued at \$30,000 pursuant to the Nevada Clayton Valley West Lithium Prospect purchase agreement.

20. SUBSEQUENT EVENTS

Subsequent to July 31, 2017, the following occurred:

- a) The Company granted 6,000,000 incentive stock options to directors, officers and consultants at an exercise price of \$0.20 per share for a period of one year.
- b) The Company issued 1,250,041 common shares for share purchase warrants exercised at a price of \$0.15 per share and issued 35,000 common shares for share purchase warrants exercised at a price of \$0.05 per share.
- c) The Company issued 1,200,000 common shares for stock options exercised at a price of \$0.20 per share.
- d) The Company closed a non-brokered private placement (the "Offering") consisting of 2,619,047 flow-through shares at \$0.21 per share for gross proceeds of \$550,000. The Company incurred filing fees of \$4,100 and legal fees of \$7,170, paid an aggregate finders' fees of \$38,500, and issued 183,333 broker warrants (the "Broker Warrants") in connection with the Offering. Each Broker Warrant is exercisable at \$0.21 per share into one common share until August 11, 2020.
- e) 4,000,000 stock options at a price of \$0.25 and 4,350 stock options at a price of \$1.33 expired unexercised.

21. COMMITMENT

During the year ended July 31, 2017, the Company entered into a lease agreement (the "Agreement") for office premises for a three-year period beginning August 1, 2017 and ending July 31, 2020. As of July 31, 2017, amounts under the Agreement terms (net of taxes) are as follows:

	<u>Amounts</u>
July 31, 2018	\$ 82,161
July 31, 2019	83,073
July 31, 2020	<u>84,622</u>
	<u>\$ 249,856</u>