# MAG ONE PRODUCTS INC.

Consolidated Financial Statements

For the Year Ended September 30, 2017

(Expressed in Canadian dollars)

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Mag One Products Inc.,

We have audited the accompanying consolidated financial statements of Mag One Products Inc., which comprise the consolidated statements of financial position as at September 30, 2017 and 2016, and the consolidated statements of comprehensive 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 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.

## Auditor's 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 auditor's 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, the consolidated financial statements present fairly, in all material respects, the financial position of Mag One Products Inc. as at September 30, 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 certain conditions that indicate the existence of a material uncertainty that may cast significant doubt on Mag One Products Inc.'s ability to continue as a going concern.

/s/ DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
January 29, 2018

**MAG ONE PRODUCTS INC.**
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

| | September 30, 2017 $ | September 30, 2016 $ |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | 19,475 | 207,239 |
| Sales tax receivable | 100,747 | 53,357 |
| Due from related parties (Note 10) | 56,000 | - |
| Prepayments | - | 23,172 |
| | 176,222 | 283,768 |
| Construction in progress (Note 6) | - | 26,234 |
| Plant and equipment (Note 6) | 301,863 | 194,194 |
| Intangible asset (Note 4) | 30,250 | - |
| | 508,335 | 504,196 |
| **Liabilities and Shareholders' Equity** | | |
| **Current Liabilities** | | |
| Cheques in excess of funds available | 5,096 | - |
| Accounts payable and accrued liabilities (Note 7) | 334,468 | 160,502 |
| Advance (Note 8) | 148,500 | - |
| Due to related parties (Note 10) | 206,826 | 116,050 |
| Note payable (Note 9) | 100,000 | - |
| | 794,890 | 276,552 |
| **Shareholders' Equity** | | |
| Share capital (Note 11) | 6,807,392 | 5,403,250 |
| Reserves (Note 11) | 8,194,265 | 7,429,485 |
| Subscriptions received in advance (Note 11) | 581,188 | - |
| Subscriptions receivable (Note 11) | (291,527) | - |
| Deficit | (15,577,873) | (12,605,091) |
| | (286,555) | 227,644 |
| | 508,335 | 504,196 |

Nature of operations and going concern (Note 1)
Commitments (Note 14)
Subsequent events (Notes 10 and 16)

Approved by the Board of Directors on January 29, 2018:

*"Nelson Skalbania"*
Director

*"Gillian Holcroft"*
Director

(The accompanying notes are an integral part of these consolidated financial statements)

**MAG ONE PRODUCTS INC.**
Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

| | Year ended September 30, 2017 $ | Year ended September 30, 2016 $ |
|---|---|---|
| **Administrative Expenses** | | |
| Amortization (Note 6) | 63,103 | 26,180 |
| Office and administration | 210,694 | 41,865 |
| Professional and consulting fees (Note 10) | 717,589 | 584,875 |
| Investor communication | 311,931 | 438,313 |
| Research | 708,570 | 530,833 |
| Share-based compensation (Note 11) | 756,992 | 3,741,520 |
| Travel | 40,085 | 74,580 |
| Trust and filing fees | 25,865 | 98,648 |
| | (2,834,829) | (5,536,814) |
| **Other Items** | | |
| Impairment (Note 5) | (208,839) | - |
| Interest income | 7,342 | - |
| Interest expense | (46,576) | (7,442) |
| Gain on settlement of debt (Note 10) | 110,120 | - |
| **Net loss for the year** | (2,972,782) | (5,544,256) |
| **Other comprehensive income (loss)** | | |
| Foreign currency translation adjustment | 7,788 | (1,843) |
| **Comprehensive loss for the year** | (2,964,994) | (5,546,099) |
| Loss per share, basic and diluted | (0.08) | (0.17) |
| Weighted average shares outstanding | 36,019,243 | 33,079,157 |

(The accompanying notes are an integral part of these consolidated financial statements)

**MAG ONE PRODUCTS INC.**
Consolidated Statement of Changes in Equity
(Expressed in Canadian dollars)

| | Share Capital | | Reserve | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Common Shares | Amount $ | Warrant $ | Loan $ | Option $ | Translation gain (loss) $ | Subscription s receivable $ | Subscriptio ns received in advance $ | Deficit $ | Total $ |
| September 30, 2015 | 32,309,172 | 3,733,250 | 918,000 | 2,664,963 | - | 7,845 | - | - | (7,060,835) | 263,223 |
| Translation from subsidiaries | - | - | - | - | - | (1,843) | - | - | - | (1,843) |
| Share-based compensation (Note 11) | - | - | - | - | 3,741,520 | - | - | - | - | 3,741,520 |
| Share issuance – warrant exercise (Note 11) | 365,000 | 219,000 | - | - | - | - | - | - | - | 219,000 |
| Share issuance for cash (Note 11) | 1,661,111 | 1,451,000 | 99,000 | - | - | - | - | - | - | 1,550,000 |
| Net loss | - | - | - | - | - | - | - | - | (5,544,256) | (5,544,256) |
| **September 30, 2016** | 34,335,283 | 5,403,250 | 1,017,000 | 2,664,963 | 3,741,520 | 6,002 | - | | (12,605,091) | 227,644 |
| Translation from subsidiaries | - | - | - | - | - | 7,788 | - | - | - | 7,788 |
| Unit issuance for cash (Note 11b) | 5,181,060 | 1,191,892 | - | - | - | - | (291,527) | - | - | 900,365 |
| Private placement subscriptions received in advance (Note 11b) | - | - | - | - | - | - | - | 581,188 | - | 581,188 |
| Share issuance – exploration and evaluation assets (Note 11b) | 90,000 | 20,250 | - | - | - | - | - | - | - | 20,250 |
| Share issuance – warrant exercise (Note 11b) | 95,000 | 57,000 | - | - | - | - | - | - | - | 57,000 |
| Share issuance – settlement of debt | 100,000 | 30,000 | - | - | - | - | - | - | - | 30,000 |
| Share issuance – services | 350,000 | 105,000 | - | - | - | - | - | - | - | 105,000 |
| Stock-based compensation | - | - | - | - | 756,992 | - | - | - | - | 756,992 |
| Net loss | - | - | - | - | - | - | - | - | (2,972,782) | (2,972,782) |
| **September 30, 2017** | **40,151,343** | **6,807,392** | **1,017,000** | **2,664,963** | **4,498,512** | **13,790** | **(291,527)** | **581,188** | **(15,577,873)** | **(286,555)** |

(The accompanying notes are an integral part of these consolidated financial statements)

## MAG ONE PRODUCTS INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

| | Year ended September 30, 2017 $ | Year ended September 30, 2016 $ |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities** | | |
| Net loss for the year | (2,972,782) | (5,544,256) |
| Adjustments for non-cash items | | |
| Share-based compensation | 756,992 | 3,741,520 |
| Accrued interest on note payable | 36,576 | 3,750 |
| Accrued interest on loan receivable | (7,352) | - |
| Amortization | 63,103 | 26,180 |
| Gain on settlement of debt | 130,120 | - |
| Impairment of loan receivable | 208,839 | - |
| Consulting fees paid in shares | 105,000 | - |
| Changes in non-cash operating working capital: | | |
| Other receivables and prepaid | (24,217) | (58,354) |
| Accounts payable and accrued liabilities | (46,859) | 39,919 |
| Due to related parties | (36,000) | (44,014) |
| | (1,813,930) | (1,835,255) |
| **Investing activities** | | |
| Additions to equipment of property | (152,368) | (168,467) |
| Additions to construction in progress | - | (26,234) |
| Intangible asset acquisitions | (10,000) | - |
| Loan receivable | (194,136) | - |
| | (356,504 | (194,701) |
| **Financing activities** | | |
| Proceeds from issuance of promissory note, net of repayments | 280,000 | 100,000 |
| Share issuance for cash, net | 900,685 | 1,769,000 |
| Subscriptions received in advance | 581,188 | - |
| Warrants exercised | 57,000 | - |
| Advance | 148,500 | - |
| Bank indebtedness | 5,096 | - |
| | 1,967,053 | 1,869,000 |
| Effect of foreign currency on cash | 15,609 | 799 |
| **Decrease in cash** | (187,763) | (160,157) |
| **Cash, beginning of year** | 207,239 | 367,396 |
| **Cash, end of year** | 19,476 | 207,239 |

## 1. Nature of Operations and Going Concern

Mag One Products Inc. (the “Company” or “Mag One”) was incorporated on June 18, 2007 in British Columbia, Canada and had its name changed to Mag One Products Inc. on March 18, 2015. The Company’s head office is located at Suite 145 – 925 Georgia Street West, Vancouver, V6C 3L2. The Company’s shares are traded on the Canadian Securities Exchange (“CSE”).

The Company’s principal business is the development and commercialization of technologies for the processing and production of magnesium metal and related compounds and by-products and co-products from serpentinite tailings.

### Going concern

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. As at September 30, 2017, the Company is not able to finance its day to day activities through operations. The Company’s continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. Management intends to finance operating costs over the next twelve months through the issuance of its common and preferred shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

## 2. Statement of Compliance

These consolidated financial statements, including comparatives, 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 approved and authorized by the Board of Directors on January 29, 2018.

### 3. Significant Accounting Policies

(a) Basis of Preparation

These consolidated financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial instruments measured at their fair value, and are presented in Canadian dollars, unless otherwise noted.

These consolidated financial statements incorporate the accounts of the Company and the following controlled subsidiaries:

| | | Ownership Percentage | |
|---|---|---|---|
| **Name** | **Country of incorporation/ formation** | **September 30, 2017** | **September 30, 2016** |
| Mag One Operations Inc. | Canada | 100% | 100% |
| Mag One Operations Inc. ("Mag One USA") | USA | 100% | 100% |
| North American Magnesium Company LLC ("NAMP LLC") | USA | 100% | 100% |

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

(b) Significant estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates where there is significant risk of material adjustments to assets and liabilities in future accounting periods include expected life of plant and equipment, capitalization criteria and valuation of intangible assets, and the recoverability and measurement of deferred tax assets.

(c) Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements are the determination of the functional currency of the parent and its subsidiaries, and the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty.

(d) Government grants

Government grants received on capital expenditure are generally deducted in arriving at the carrying amount of the asset purchased. Grants for revenue expenditure are netted against the costs incurred by the Company. Where retention of a government grant is dependent on the Company satisfying certain criteria, it is initially recognized as deferred income. When the criteria for retention have been satisfied, the deferred income balance is released to the consolidated statement of comprehensive loss.

## 3. Significant Accounting Policies (cont'd)

(e) Loss per share

Basic loss per share is computed by dividing net income loss attributable to common shareholders by the weighted average number of shares outstanding in the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

(f) Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss ("FVTPL") - Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss.
The Company does not have any FVTPL financial assets.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Company has designated its cash and amounts due from related parties as loan and receivables.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company does not hold any held-to-maturity financial assets.

Available-for-sale – These consist of non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company does not hold any available-for-sale financial assets.

## 3. Significant Accounting Policies (cont'd)

(f) Financial instruments (con't)

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. The Company has designated accounts payable, due to related parties and note payable as non-derivative financial liabilities. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities

(g) Functional currency and foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of all of the Company's US subsidiaries, MagOne USA and NAMP LLC, is the US dollar. The functional currency of Mag One Operations Inc. is the Canadian dollar.

Transactions and balances:
Foreign currency transactions will be translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

**3. Significant Accounting Policies (cont'd)**

(g) Functional currency and foreign currency translation (cont'd)

Foreign operations:
The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency will be translated as follows:
- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recorded to the Company's other comprehensive income. These differences are recognized in profit and loss in the period which the operation is disposed of.

(h) Impairment of assets

The carrying amount of the Company's assets (which include plant and equipment) are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

(i) Plant and equipment

Items of plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Depreciation on assets under construction does not commence until they are complete and available for use. Depreciation is provided on all other items of property, plant and equipment so as to write off their carrying value over their expected useful economic lives. It is provided at the following rates:

Plant – straight-line basis over the estimated useful life of 5 years.
Equipment - straight-line basis over the estimated useful life of 10 years.

**3. Significant Accounting Policies (cont'd)**

(j) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's ordinary shares are classified as equity instruments.

Proceeds from issuances of security units by the Company consisting of shares and warrants are allocated based on the residual method. The fair value of the warrants is determined to be the difference between gross proceeds over the fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a fair value of $Nil is assigned to the warrants.

(k) Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received.

(l) Income taxes

Current income tax:
Current income tax assets and liabilities for the period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**3. Significant Accounting Policies (cont'd)**

(l) Income taxes (cont'd)

Deferred tax:
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(m) Externally acquired intangible assets

Externally acquired intangible assets are initially recognized at cost. The intangible recognized by the Company, is amortized on a straight-line bases over the useful economic life (24 months).

(n) Accounting Standards Issued by Not Yet Adopted

IFRS 9, *Financial Instruments* – The IASB intends to replace IAS 39, *Financial Instruments: Recognition and Measurement* in its entirety with IFRS 9 which is intended to reduce the complexity in the classification and measurement of financial instruments. In February 2014, the IASB tentatively determined that the revised effective date for IFRS 9 would be January 1, 2018. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*. This new standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not expect any significant impact from the adoption of IFRS 15.

IFRS 16, *Leases*. IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, lessees are no longer classifying leases as either operating leases or finance leases as it is required by IAS 17. The standard is effective for annual periods beginning on or after January 1, 2019. The

Company has not yet evaluated the impact of this standard on the Company's consolidated financial statements.

## 4. Intangible assets

On May 19, 2017, the Company entered into a purchase agreement with Dundee Sustainable Technologies Inc. ("DST") to purchase a technical report. The terms of the agreement are:

- Payment of $5,000 in cash and 40,000 common shares of the Company upon signing;
- $20,000 in cash and $30,000 in common shares
- If the Company does not commence commercial production of product(s) by processing the Tailings within twenty four months of signing, the Company is required to sell back the technical report for consideration of $1.00 to DST

During the year ended September 30, 2017, $5,000 in cash was paid to DST and 40,000 common shares were issued with a fair value of $9,000.

In connection with the SPA the Company entered into an Option Agreement ("OA"). The terms of the OA include:

- The option to purchase up to 60,000,000 tonnes of the tailings, as identified in the technical report, for a term of six months from signing, for consideration of 50,000 shares of the Company as a non-refundable deposit; and
- Upon exercise of the option, the Company would be required to pay $100,000 in cash, $1.00/tonne of Tailings used as a royalty, and would have access to a minimum of five acres of the land for necessary plant and equipment.

During the period, $5,000 in cash was paid to ACL and 50,000 common shares were issued with a fair value of $11,250.

## 5. Loan Receivable

On July 21, 2016, the Company entered an initial joint venture agreement with MagBoard LLC ("MagBoard"), a private US company, to form a new company ("MBE") in Quebec for the manufacturing of magnesium based wallboard.

The Company will earn its 50% interest of MBE by:

- Providing $500,000 start-up capital to MBE;
- Providing a minimum 10,000 square feet serviced facility to house the MagBoard assembly operation; and
- Providing up to US$200,000 to purchase a convertible debenture in MagBoard. The convertible debenture would have a coupon of 5% per annum and be convertible into shares of Magboard at $0.50 per share,

As at September 30, 2017, the Company has loaned Magboard $201,487 (US$150,000) (2016: $nil), and had accrued interest of $7,352 (2016: $nil). On September 30, 2017, management identified objective evidence that a financial instrument has been impaired, and recognized an impairment loss of $208,839 (2016: $nil).

(Expressed in Canadian dollars)

## 6. Plant and Equipment

| | Laboratory $ | Equipment $ | Total $ |
|---|---|---|---|
| **Cost:** | | | |
| September 30, 2015 | - | - | - |
| Additions | 149,084 | 71,024 | 220,108 |
| September 30, 2016 | 149,084 | 71,024 | 220,108 |
| Additions | - | 152,368 | 152,368 |
| Transfer from construction in progress | 26,234 | - | 26,234 |
| Foreign currency translation | (1,771) | (2,412) | (4,183) |
| September 30, 2017 | 173,547 | 220,980 | 394,527 |
| **Accumulated Amortization:** | | | |
| September 30, 2015 | - | - | - |
| Additions | 22,363 | 3,551 | 25,914 |
| September 30, 2016 | 22,363 | 3,551 | 25,914 |
| Amortization | 44,430 | 18,673 | 63,103 |
| Foreign currency translation | 3,320 | 327 | 3,647 |
| September 30, 2017 | 70,113 | 22,551 | 92,664 |
| **Net book value:** | | | |
| September 30, 2016 | 126,721 | 67,473 | 194,194 |
| **September 30, 2017** | 103,434 | 198,429 | 301,863 |

## 7. Accounts Payable and Accrued Liabilities

| | September 30, 2017 $ | September 30, 2016 $ |
|---|---|---|
| Trade payables | 328,204 | 146,002 |
| Accrued liabilities | 6,264 | 14,500 |
| | 334,468 | 160,502 |

## 8. Advance

As at September 30, 2017, the Company has received $148,500 as an advance payment in connection with $495,000 in government funding approved for the Company by Investissement Quebec. The terms of the funding approved allow for 44.09% of qualified expenditures being eligible for a non-refundable reimbursement by Investissement Quebec. The Company is in the process of submitting a claim to obtain formal non-refundable status for the $148,500 advanced to date.

## 9. Note Payable

As at September 30, 2017, the Company had a promissory note of $100,000 (September 30, 2016 - $Nil) due to an arm's length party. This note payable is unsecured, non-interest bearing and was due on February 7, 2017. This promissory note is now in default and is payable on demand. Demand has not been made as of the date of the financial statements.

(Expressed in Canadian dollars)

## 10. Related Party Transactions

Compensation paid to key management and directors

The following are the remuneration of the Company's related parties:

| Year ended September 30, | **2017**<br>$ | **2016**<br>$ |
|---|---|---|
| Chairman of the Board | 418,797 | 96,000 |
| President and CEO of a subsidiary | 160,862 | 96,000 |
| Directors | 75,700 | 3,000 |
| Family members of key management | 73,050 | - |
| Companies with common directors | - | 6,000 |
| Former directors, chairperson, and CEO | - | 2,409,361 |
| | 728,407 | 2,610,361 |

Amounts due from related parties

| | **September 30, 2017**<br>$ | **September 30, 2016**<br>$ |
|---|---|---|
| Chairman of the Board | 56,000 | - |

Amounts due to related parties

| | **September 30, 2017**<br>$ | **September 30, 2016**<br>$ |
|---|---|---|
| Former CEO | - | 6,000 |
| Companies with common directors and management | 56,300 | 6,300 |
| Notes payable to related parties (see below) | 150,526 | 103,750 |
| | 206,826 | 116,050 |

Except for the notes payable to related parties below, all amounts owing to related parties do not bear any interest, are unsecured and are due on demand.

Notes payable

During the year ended September 30, 2016, the Company had a promissory note payable of $100,000 owing to a Company controlled by the former CEO. This note payable was unsecured, was bearing interest at 5% per annum, and was payable on demand.

During the year ended September 30, 2017, the Company issued another promissory note of $400,000 owing to the spouse of the Company's former CEO. This note payable was secured by a corporate guarantee provided by the Company and a personal guarantee from a director of the Company, was bearing interest of 10% per annum, and was due on March 19, 2017.

## 10. Related Party Transactions (cont'd)

On August 29, 2017, the Company settled amounts due to related parties in the amount of approximately $539,800 ($500,000 of promissory note and $39,800 accrued interests) by:

- A cash payment of $250,000;
- Issuance of a four month note payable in the amount of $150,000 secured by 1,500,000 common shares of the Company, with interest at 10% per annum along with a four month term (paid subsequent to year end); and
- Issuance of 100,000 common shares. The market price on the date of settlement of $0.215 was used for accounting purposes.

## 11. Share Capital

(a) Authorized

Unlimited number of Class A common shares without par value.
Unlimited number of non-voting Class B preferred without par value.

(b) Common shares – Issued and outstanding

During the year ended September 30, 2017, the Company issued:

95,000 common shares as a result of the exercise of warrants at $0.60 per share for gross proceeds of $57,000.

312,000 units at $0.70 per unit for gross proceeds of $218,400. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at $1.40 per share for one year. The warrants were assigned no value under the residual method.

90,000 common shares for acquisition of intangible assets as discussed in Note 4, valued at $20,250 using the closing market price of the Company's common shares on the date of issuance.

4,869,060 units at $0.20 per unit for gross proceeds of $973,812 pursuant to the first tranche of a non-brokered private placement. Each unit consists of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at $0.50 per share for two years. The Company incurred share issuance costs of $320 in relation to this private placement. The warrants were assigned no value under the residual method.

100,000 common shares with a fair value of $30,000 as a settlement of debt due to related parties (Note 12).

350,000 common shares pursuant to a consulting contract dated August 17, 2017 with a third party for corporate finance and corporate and development services. The shares had a fair value of $105,000. On December 14, 2017, the consulting agreement was terminated.

(Expressed in Canadian dollars)

## 11. Share Capital (cont'd)

On September 25, 2017, the Company received subscriptions for 2,905,940 units at $0.20 per unit for gross proceeds of $581,188 pursuant to the second tranche of a non-brokered private placement. However, as the share units were not issued, the amount has been shown in equity as subscriptions received. Once issued, each unit will consist of one common share and one share purchase warrant. Each share purchase warrant can be exercised into one common share at $0.50 per share for two years. Subsequently on October 10, 2017 the units were issued to the subscribers.

(b) Common shares – Issued and outstanding (cont'd)

During the year ended September 30, 2016, the following shares and units were issued:

365,000 warrants were exercised into common shares at $0.60 per share for $219,000.

1,111,111 units were issued in May 2016 at $0.90 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into one common share at $1.10 per share in one year after issuance. The exercise is subject to an acceleration clause of thirty days in the event the Company's share traded at $2.00 per share over ten consecutive trading days. In accordance with the residual method adopted by the Company, no value was attributed to these warrants.

550,000 units were issued at $1.00 per unit. Each unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into one common share at $1.10 per share for two years after issuance. In accordance with the residual method adopted by the Company, $99,000 has been allocated from the share capital to warrant reserve to account for the issuance of these 550,000 warrants in connection with these security units.

**Warrants**

| | **Year ended September 30, 2017** | | | Year ended September 30, 2016 | | |
|---|---|---|---|---|---|---|
| | Warrants | Weighted Average Exercise Price | | Warrants | Weighted Average Exercise Price | |
| Opening | **2,958,611** | **$** | **0.95** | 1,662,500 | $ | 0.70 |
| Granted | **5,181,060** | | **0.55** | 1,661,111 | | 1.10 |
| Exercised | **(95,000)** | | **0.60** | (365,000) | | 0.60 |
| Expired | **(1,901,111)** | | **0.89** | - | | |
| Ending | **6,143,560** | **$** | **0.64** | 2,958,611 | $ | 0.95 |

Warrants expiring on August 26, 2017 were extended to August 26, 2020.

As at September 30, 2017, warrants outstanding have an average life of 1.78 years and average exercise price of $0.64.

(Expressed in Canadian dollars)

## 11. Share Capital (cont'd)

**Options**

On June 22, 2017, all previously outstanding stock options were cancelled.

On September 14, 2017, the Company granted a total of 4,000,000 stock options to certain officers, directors and/or consultants of the Company exercisable at $0.30 for a period of two years. The fair value of the stock options was determined to be $756,992 calculated using the Black-Scholes Option Pricing Model with the following assumptions: expected life of options – 2 years; expected volatility – 125%; expected dividend yield – 0%; and risk-free rate – 1.58%.

As at September 30, 2017, 4,000,000 stock options remain outstanding. The weighted average life was 1.96 years.

## 12. Financial Instruments

(a) Classification of Financial Instruments

The Company has classified its financial instruments as follows:

| | September 30, 2017 $ | September 30, 2016 $ |
|---|---|---|
| Financial assets: | | |
| Loans and receivables: | | |
| Cash | 19,475 | 207,239 |
| Amounts due from related parties | 56,000 | - |
| | 75,475 | 207,239 |
| Financial liabilities | | |
| Cheques in excess of funds available | 5,096 | - |
| Accounts payable | 334,468 | 146,002 |
| Due to related parties | 206,826 | 116,050 |
| Notes payable | 100,000 | - |
| Advances by Investissement Quebec | 148,500 | - |
| | 794,890 | 262,052 |

(b) Fair Values

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
Level 3: Valuations based on significant inputs that are not derived from observable

## 12. Financial Instruments (cont'd)

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The Company does not have any Level 2 or 3 fair value measurements.

As at September 30, 2017, the fair values of the Company's financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

(c) 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 primary exposure to credit risk is on its cash which is held in bank accounts. As most of the Company's cash is held by two banks, there is a concentration of credit risk. This risk is low, and is managed by using major banks that are high credit quality financial institutions as determined by rating agencies. The maximum exposure to credit risk is the carrying amount of the Company's financial instruments. The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consists primarily of refundable government goods and services taxes.

(d) Foreign currency exchange rate risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

(e) 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's exposure to interest rate risk is minimal.

(f) Liquidity Risk

Liquidity risk is the risk that the Company may be unable to meet its financial obligations as they fall due. The Company reviews its working capital position regularly to ensure there is sufficient capital in order to meet short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash.

(Expressed in Canadian dollars)

## 13. Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the development of its projects and to sustain future development of the business. The capital structure of the Company consists of working and share capital. There are no restrictions on the Company's capital. There were no changes in the Company's approach to capital management during the year.

## 14. Commitments

a) During the year ended September 30, 2015, the Company, through its wholly-owned subsidiary MagOne USA, entered into a definitive agreement to acquire 100% of North American Magnesium Products, LLC ("NAMP LLC"), a LLC formed by Orion Laboratories, LLC.

The members of Orion Laboratories LLC will receive up to 40,000,000 common shares of the Company based on the operating performance of the Company at one common share for $1.00 operating profit of the Company earned.

b) On August 31, 2017 the Company entered into an agreement to purchase 100% of the shares of MagPower Systems Inc. ('MagPower"). MagPower is a private company whose focus is the development of magnesium air batteries. The terms of the acquisition include:

- $100 for all of the issued and outstanding shares;
- 2% royalty ("royalty obligation') based on gross cash flow generated by MagPower up to $2 million;
- An option for the Company to buy the royalty obligation for $1 million for a period of 24 months; and
- Warrants issued on a prorata basis to existing MagPower shareholders with a term of two years, at a price of $1.00 for the first year, and $1.25 for the second year.

As at September 30, 2017 the acquisition has not been finalized, no consideration has been paid, and ownership had not been transferred.

## 15. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Net loss for the year | **$** | **(2,962,782)** | $ | (5,544,254) |
| Statutory tax rate | | **26%** | | 26% |
| Expected income tax recovery at the statutory tax rate | | **(770,323)** | | (1,465,304) |
| Non-deductible items and other | | **321,220** | | 972,795 |
| Adjustment to prior year provision | | **-** | | (57.721) |
| Foreign exchange and other | | **-** | | 136,450 |
| Temporary differences not recognized | | **449,103** | | 413,780 |
| Income tax recovery | **$** | **-** | $ | - |

(Expressed in Canadian dollars)

### 15. Income Taxes (cont'd)

The Company has the following tax effected deductible temporary differences for which no deferred tax asset has been recognized:

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Non-capital loss carry-forwards | **$** | **1,081,037** | $ | 629,752 |
| Exploration and evaluation assets | | **7,000** | | 9,182 |
| | | **1,088,037** | | 638,934 |
| Unrecognized deferred tax assets | | **(1,088,037** | | (638,934) |
| Net deferred tax assets | **$** | **-** | $ | - |

The Company has non-capital losses in Canada totalling $3,658,000 that expire between 2032 and 2037. The Company also has non-capital losses available in the United States of America totalling $499,000 that expire in various amounts until 2037.

### 16. Subsequent Events

Subsequent to September 30, 2017 the following events occurred:

On October 27, 2017, a company controlled by the CEO exercised 400,000 options with an exercise price of $0.30 for total proceeds of $120,000.

On October 27, 2017, the CEO of the Company exercised 100,000 warrants with an exercise price of $0.50 for total proceeds of $50,000.

On November 23, 2017, a company controlled by the CEO exercised 200,000 options with an exercise price of $0.30 for total proceeds of $60,000.

On November 23, 2017, a consultant for the Company exercised 80,000 options with an exercise price of $0.30 for total proceeds of $24,000.

On November 30, 2017, a company controlled by the CEO exercised 100,000 options with an exercise price of $.30 for total proceeds of $30,000.

On November 30, 2017, the CEO of the Company exercised 40,000 options with an exercise price of $12,000 for total proceeds of $.30.

On December 6, 2017, the CEO of the Company exercised 100,000 options with an exercise price of $.30 for total proceeds of $30,000.

On December 21, 2017, the CEO of the Company exercised 70,000 options with an exercise price of $.30for total proceeds of $21,000.

On January 11, 2018 the Company received $256,467 from IQ in connection with a reimbursement of eligible expenditures incurred on its Phase 1 Pilot Plant.