MAG ONE PRODUCTS INC.

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED DECEMBER 31, 2019

(Expressed in Canadian Dollars)

Mag One Products Inc.
Condensed Interim Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	As at December 31 2019	As at September 30 2019
ASSETS		
Current Assets		
Cash	51,305	42,747
Other receivable	28,944	20,925
Sales tax receivable	13,382	10,261
Prepayments	80	6,080
Assets classified as held for sale (Note 5)	-	57,750
	93,711	137,763
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (Note 6)	358,506	386,403
Due to related parties (Note 9)	262,794	209,591
Notes payable (Note 8)	2,688	2,722
Advance from Investissement Québec (Note 7)	519,213	514,285
Proceeds from convertible debentures (Note 16)	158,249	155,499
Subscriptions received in advance (Note10)	100,000	100,000
	1,401,450	1,368,500
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 10)	9,063,200	9,063,200
Reserves (Note 10)	8,496,329	8,495,739
Deficit	(18,867,268)	(18,789,676)
	(1,307,739)	(1,230,737)
	93,711	137,763

Nature of operations and going concern (Note 1)
Commitments (Note 13)
Subsequent events (Note 17)

Approved on behalf of the Board:

"Frank Vlastelic" *"Gillian Holcroft"*

Frank Vlastelic
Director

Gillian Holcroft
Director

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

Mag One Products Inc.
Condensed Interim Consolidated Statement of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the three months ended December 31	
	2019	**2018**
Administrative Expenses		
Amortization (Notes 4 and 5)	-	7,590
Office and administration	6,439	3,597
Professional and consulting fees	66,840	91,631
Investor communication	(20,477)	2,568
Research (Notes 9 and 15)	111,387	195,100
Travel	6,409	971
Trust and filing fees	3,768	7,207
	(174,366)	(308,664)
Other Items		
Interest expense	(7,839)	(157)
Other income	104,613	-
Net loss for the Period	(77,592)	(308,821)
Other Comprehensive Income (Loss)		
Foreign currency translation adjustment	590	(1,921)
Comprehensive loss for the period	(77,002)	(310,742)
Basic and diluted loss per share	(0.00)	(0.01)
Weighted average number of common shares outstanding	47,006,809	43,833,343

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

Mag One Products Inc.
Condensed Interim Consolidated Statement of Cash Flows
(Expressed in Canadian Dollars)

	Three months ended December 31 2019	Three months ended December 31 2018
Cash provided by (used in):		
Operating activities		
Net loss for the period	(77,592)	(308,821)
Add items not involving cash:		
Accrued interest on convertible debentures	2,750	-
Accrued interest on government grants	4,928	-
Amortization	-	7,590
Non-cash working capital items		
Accounts receivable	(11,140)	(30,771)
Prepayments	6,000	6,323
Accounts payable and accrued liabilities	(27,897)	178,694
Due to related parties	53,203	79,755
Net cash (used in) operating activities	(49,748)	(67,230)
Financing activities		
Proceeds from issuance of promissory notes	(34)	1,197
Share subscriptions received in advance	-	60,000
Proceeds from sale of Assets classified as held for sale	57,750	-
Net cash provided by (used in) financing activities	57,716	61,197
Effect of foreign currency on cash	590	(1,921)
Change in cash during the period	7,968	(7,954)
Cash, beginning of the period	42,747	30,916
Cash, end of the period	51,305	22,962

Supplemental disclosure with respect to cash flows (Note 14)

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

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Mag One Products Inc.
Condensed Interim Consolidated Statement of Changes in Shareholders' Deficiency
(Expressed in Canadian Dollars)

	Share Capital		Reserve						
	Number of Shares	Amount $	Warrant $	Loan $	Option $	Translation gain (loss) $	Subscriptions received in advance $	Deficit $	Total $
Balance at September 30, 2018	44,147,283	7,923,396	1,181,804	2,664,963	4,311,156	23,679	100,000	(17,511,588)	(1,306,590)
Foreign exchange adjustment	-	-	-	-	-	(1,921)		-	(1,921)
Subscriptions received (Note 10)	-	-	-	-	-	-	60,000	-	60,000
Cancellation of units (Note 10)	(704,450)	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	(308,821)	(308,821)
Balance at December 31, 2018	43,442,833	7,923,396	1,181,804	2,664,963	4,311,156	21,758	160,000	(17,820,409)	(1,557,332)
Balance at September 30, 2019	55,042,903	9,063,200	1,181,804	2,664,963	4,631,220	17,752	-	(18,789,676)	(1,230,737)
Foreign exchange adjustment	-	-	-	-	-	590	-	-	590
Net and comprehensive loss	-	-	-	-	-	-	-	(77,592)	(77,592)
Balance at December 31, 2019	55,042,903	9,063,200	1,181,804	2,664,963	4,631,220	18,342	-	(18,867,268)	(1,307,739)

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

1. Nature of Operations and Going Concern

Mag One Products Inc., ("Mag One" or the "Company") was incorporated on June 18, 2007 in British Columbia, Canada. The Company's head office is located at Suite 600 – 777 Hornby Street, Vancouver, V6Z 1S4. The Company's shares are traded on the Canadian Securities Exchange ("CSE") under the symbol "MDD" and are also listed on the Börse Frankfurt stock exchange ("Frankfurt") with the ticker symbol "304" and on the OTCBB symbol, "MGPRF".

The Company's principal business is the development and commercialization of technologies for the processing and production of magnesium metal, magnesium compounds, by-products and vertically integrated 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 December 31, 2019, 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. Basis of Presentation

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 approved and authorized by the Board of Directors on February 24, 2020.

b. Basis of Consolidation

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:

(Expressed in Canadian Dollars)

2. Basis of Presentation (Continued)

b. Basis of Consolidation (continued)

		Ownership Percentage	
Name	**Country of incorporation/ formation**	**December 31, 2019**	**December 31, 2018**
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%

3. Significant Accounting Policies

a. Significant accounting judgments, estimates and assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions are reviewed on an ongoing basis.

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.

The most significant judgements 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.

b. Recent accounting pronouncements

Adoption of IFRS 9
The Company adopted all of the requirements of IFRS 9 as of October 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward looking “expected loss” impairment model.

3. Significant Accounting Policies (Continued)

b. Recent accounting pronouncements (continued)

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by- instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The following table summarizes the classification and measurement changes under IFRS 9 for each financial instrument:

Financial Assets/Liabilities	IAS 39	IFRS 9
Cash	Loans and receivables (amortized cost)	Amortized cost
Other receivable	Loans and receivables (amortized cost)	Amortized cost
Accounts payable	Other financial liabilities (amortized cost)	Amortized cost
Dues to related parties	Other financial liabilities (amortized cost)	Amortized cost
Notes payable	Other financial liabilities (amortized cost)	Amortized cost
Advance from Investissement Quebec	Other financial liabilities (amortized cost)	Amortized cost
Proceeds from convertible debentures	Other financial liabilities (amortized cost)	Amortized cost
Subscriptions received in advance	Other financial liabilities (amortized cost)	Amortized cost

The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on October 1, 2018.

The Company determines the classification of financial assets at initial recognition. The classification of its instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as fair value through profit and loss ("FVTPL"). For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them at fair value through other comprehensive income ("FVTOCI"). Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

(ii) Measurement

<u>Financial assets and liabilities at amortized cost</u>
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

3. Significant Accounting Policies (Continued)

b. Recent accounting pronouncements (continued)

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of comprehensive loss in the period in which they arise.

Debt investments at FVTOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains or losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

(iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of comprehensive loss.

Financial liabilities
A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements and since the Company did not have any financial liabilities designated at fair value through profit or loss, the adoption of IFRS 9 did not impact our accounting policies for financial liabilities.

3. Significant Accounting Policies (Continued)

b. Recent accounting pronouncements (continued)

New accounting standards issued but not yet effective

In January 2016, the IASB published IFRS 16 – Leases, which will replace IAS 17 – Leases. This IFRS eliminates the classification as an operating lease and requires lessees to recognize a right-of-use asset and a lease liability for all leases with exemptions permitted for short-term leases and leases of low value assets. In addition, IFRS 16 changes the definition of a lease, sets requirements on how to account for the asset and liability, including complexities such as non-lease elements, variable lease payments and options periods, changes the accounting for sale and leaseback arrangements, largely retains IAS 17's approach to lessor accounting and introduces new disclosure requirements. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019 with early application permitted in certain circumstances. The Company has determined that the adoption of this standard will not have a material impact on its financial statements as it does not have any leases.

c. Research and development

The Company is in the research phase of an internal project and is of the opinion that the research activities have not yet yielded any asset that could generate probable future economic benefits. Consequently, the Company recognizes spending towards research as an expense when it is incurred.

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.

e. Loss per share

Basic loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of shares outstanding during the year. 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. 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 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.

3. Significant Accounting Policies (Continued)

f. Functional currency and foreign currency translation (continued)

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 (loss) 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 (loss) in the statement of comprehensive income (loss) 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.

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 (loss). 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 and intangible assets) 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 income.

The recoverable amount of assets is greater than 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.

3. Significant Accounting Policies (Continued)

i. Plant and equipment

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.

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.

Amortization on assets under construction does not commence until they are complete and available for use. Amortization 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.

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 units of the Company that are comprised 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.

k. Share-based payments

Where stock options are awarded to employees, the fair value of the options at the date of grant is charged to profit or loss over the vesting period. Non-market conditions are taken into account by adjusting the number of stock options expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of stock options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the stock options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied.

Where the terms and conditions of stock 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 profit or loss over the remaining vesting period.

l. Income taxes

<u>Current income tax:</u>
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.

3. Significant Accounting Policies (Continued)

l. Income taxes (continued)

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.

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 and subsequently amortized on a straight-line basis over their useful economic lives. The intangible recognized by the Company is amortized on a straight-line basis over the useful economic life (24 months).

4. Intangible Asset

On May 19, 2017, the Company entered into a purchase agreement (“SPA”) with Dundee Sustainable Technologies Inc. (“DST”) to purchase a Technical Report titled “Resource Estimation of the Nickel Content in Asbestos Mines Tailings, Thetford Mines, Quebec, Canada” prepared by Systémes Geostat International (the “Technical Report”). The terms of the agreement were:

- Payment of $5,000 in cash and 40,000 common shares of the Company upon signing;
- $20,000 in cash and $30,000 worth of common stock in the Company at the prevailing 20-day volume weighted average price upon the commencement of commercial production of product(s) by processing the Tailings if occurring within twenty-four months of signing; and
- 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.
- The Company renegotiated the SPA subsequent to year end (Note 18).

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.

4. Intangible Asset (Continued)

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

a. The Option to purchase up to 60 million tonnes of the Tailings as identified in the Technical Report for a term of six months from signing, for consideration of $5,000 cash and 50,000 shares of the Company as a non-refundable deposit; and
b. 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 year ended September 30, 2017, $5,000 in cash was paid to ACL and 50,000 common shares were issued with a fair value of $11,250.

The OA was extended until June 30, 2019.

On November 29, 2019, the Mag One Operations Inc. entered into a new agreement with DST, whereby, Mag One Operations Inc. purchased and was subsequently transferred the 43-101 Technical Report prepared by Systémes Geostat International Inc. on October 15, 2007 called: Resources Estimation of the Nickel Content in Asbestos Mines Tailings, Thetford Mines, Quebec, Canada (the "Technical Report"). The contract was published on SEDAR and involves an initial price upon signing with a subsequent payment due within 8 months from signing or alternatively following the award of a contract to DST for a minimum value.

On November 29, 2019, the Company re-negotiated its exclusive access to recover up to 25M tonnes of serpentine tailings from Mine Jeffrey site that includes an option to have exclusive access to recover an additional 25M tonnes of serpentine tailings. The key change in the agreement is that the condition to exercise this option has been extended to November 30, 2024. The other terms have remained the same an include $1.00/tonne of tailings to be paid, with inflationary rider based on the Consumer Price Index from Statistics Canada to be implemented on January 1st of each calendar year subsequent to achieving production. The new agreement acknowledged the pre-payment of $100,000 for the first 100,000 tonnes of tailings that was made in 2017.

On December 17, 2019, the Company entered into a new agreement with Asbestos Corp Limited ("ACL") whereby Mag One Operations Inc. would have access to recover and process up to 60M tonnes of tailings. The contract was published on SEDAR with specific financial details in terms of price to be paid per tonne of tailings redacted due to confidentiality considerations. The term of the agreement will automatically be extended until March 1, 2022 if, prior to March 1, 2020, Mag One Operations Inc. provides ACL with notice in writing that it has completed a Technical Report on the Normandie Tailings pile in the form required pursuant to National Instrument 43-101.

(Expressed in Canadian Dollars)

5. Equipment

	Laboratory	Equipment	Total
Cost:	**$**	**$**	**$**
September 30, 2017	173,547	220,980	394,527
Foreign Currency Translation	(1,998)	886	(1,112)
Impairment	(171,549)	(69,498)	(241,047)
September 30, 2018	-	152,368	152,368
Impairment	-	(75,368)	(75,368)
September 30, 2019	-	77,000	77,000
Disposal	-	(77,000)	(77,000)
December 31, 2019	-	-	-
Accumulated Amortization:			
September 30, 2017	70,113	22,551	92,664
Amortisation	35,910	22,187	58,097
Foreign Currency Translation	1,994	424	2,418
Impairment	(108,017)	(22,307)	(130,324)
September 30, 2018	-	22,855	153,179
Amortization	-	15,237	15,237
Impairment	-	(18,842)	(18,842)
September 30, 2019	-	19,250	19,250
Disposal	-	(19,250)	(19,250)
December 31, 2019	-	-	-
Net Book Value:			
September 30, 2019	-	57,750	57,750
December 31, 2019	**-**	**-**	**-**

As at September 30, 2019, the Company as part of the original contract signed with the Centre d'Innovation Minière de la MRC des Sources (CIMMS) agreed to sell the pilot plant equipment assets for up to $75,000. Therefore, equipment was classified as assets held for sale and the carrying value was written down by $56,526 to the selling price. The sale was completed in October 30, 2019 and upon negotiation with CIMMS, and in consideration of past efforts and the actual amount of equipment purchased the Company agreed to be sell the pilot plant equipment for $57,750 whereby $40,000 would be received as a cash payment and $17,750 would be credited towards future work at CIMMS for a minimum contract of $100,000.

(Expressed in Canadian Dollars)

6. Accounts Payable and Accrued Liabilities

	December 31, 2019	September 30, 2019
	$	$
Trade payables (Net)	330,607	358,486
Accrued liabilities	27,900	27,917
	358,506	386,403

7. Government Grants

The Company entered into an agreement with Investissement Quebec ("IQ") on November 11, 2016, whereby IQ had had agreed to provide a non-refundable contribution of $495,000 (the "Grant") to the Company (The "Agreement"). The conditions governing the Grant were as follows:

a) The Company would have to incur expenditures of $627,750 on the development of the Pilot Plant for processing of Magnesium (the "Project");
b) The Company was to complete the Project by March 31, 2017 (the "Project Completion Date");
c) The Company must establish itself within the MRC des Sources region for a minimum period of 2 years from the date of receipt of the last payment from IQ;
d) The Company was to carry out and maintain its operations related to the Project, including significant development or improvement work on the design, development activities of the product/process, and not move this work outside the municipality of the MRC des Sources, for a period of 36 months from the date of receipt of the last payment from IQ;
e) IQ reserved its rights to call back the entire grant up until the Project is completed in the event of the following:
    - The Project not being completed by the Project Completion Date;
    - The Company abandoning the Project;
    - The Company divests of the Project or commits any act that leads to insolvency or bankruptcy or creditor protection;
    - The Company defaults under any loans, if any;
    - The Company makes material changes to the disbursement plans for the Company without consent of IQ;
    - Commit a fraud or false statement; and
    - Default in any other provision of the Agreement.

As at December 31, 2019, the Company has met all the requirements noted above except for Point (c). The Company was granted an extension to February 28, 2018 to complete the Project and received the last installment of the Grant on February 14, 2018. IQ has therefore accepted that the Project has been completed including the compliance of points (a), (b) and (e) above. The date of payments from IQ were as follows:

- February 21, 2017: $148,500
- January 10, 2018: $256,467
- February 14, 2018: $ 90,033

7. Government Grants (Continued)

According to the agreement, as per Point (c) above, the Company was required to operate out of the municipality of MRC des Sources for a period of at least 2 years following the last installment from IQ. However, the Company has yet to set up an establishment in MRC des Sources. In this regard, the Company received a notice on October 5, 2018, from IQ informing the Company on its failure to establish a place of business in MRC des Sources. The Company is in discussions with IQ and intends to make steps towards curing the default by establishing a business address in this Municipality on or before February 28, 2020. During the quarter ending December 31, 2019, the Company accrued $4,928 in interest on the Grant. Total interest accrued from the date of notice of default is $24,213.

On January 31, 2019, the Company entered into a contribution agreement with the National Research Council Canada (the "NRC") whereby the NRC will pay the Company 50% of the eligible expenditures incurred by the Company for its feasibility project related to magnesium production up to a maximum of $98,400, with a maximum claim amount of $30,000 for the period from April 1, 2018 to March 31, 2019 and $68,400 for the period from April 1, 2019 – March 31, 2020. The funds received for this grant represent compensation for costs already incurred, and as such have been recognized in profit or loss on a systematic basis based on the related expenses. For the quarter ending December 31, 2019 the Company incurred a total of $90,237 of eligible expenditures related to the project. A total of $31,207 of a government grant was received or accrued during the same period. As of December 31, 2019, the Company incurred a total of $239,037of eligible expenditures related to the project. A total of $98,400 of IRAP grant has been recognized into profit or loss.

8. Notes Payable

During the year ended September 30, 2016, the Company entered into a promissory note with an arms-length party whereby the Company can borrow up to $100,000. The note was unsecured, due on demand, and bears interest at 10% per annum. As of September 30, 2017, the Company had a balance payable including principal and accrued interest of $120,000. $7,150 in finder's fees were charged on the note. During the year ended September 30, 2018, the balance payable including principal and accrued interest of $120,329 was repaid in full with the issuance of 600,000 units of the Company (Note 10). 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 following the issuance date. The fair value of the consideration was estimated at $392,231 and the Company recorded a loss on settlement of the debt of $271,902.

During the year ended September 30, 2018, the Company received loan proceeds of $576 from an arms-length party.

During the year ended September 30, 2019 the Company repaid $6,000.

These loans are unsecured, non-interest bearing and due on demand.

(Expressed in Canadian Dollars)

9. Related Party Transactions and Balances

Compensation paid to key management and directors

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

	December 31, 2019	December 31, 2018
Company of Chairperson, President, Chief Executive Officer ("CEO") and a Director	48,000	48,000
Company of a Director	5,000	-
	53,000	48,000

Amounts due to related parties

	December 31, 2019	September 30, 2019
Company of Chairperson, President, CEO and a Director	32,000	33,797
Director and former Chairman	131,599	131,599
Family member of a Director and the former Chairman	44,195	44,195
A person related to the Strategic Manager of Corporate Finance	55,000	-
	262,794	209,591
Subscription received in advance from a Director and former Chairman	100,000	100,000

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.

On April 4, 2018, the former CEO of the Company subscribed to 500,000 units at $0.20 per unit for total proceeds of $100,000. As of the date of these financial statements, these units have not been issued and are recorded as a current liability (Note 10).

On May 23, 2019 the Company issued 1,080,000 units of the Company in settlement of amounts payable to the Chairman and CEO of the Company in connection with technical and scientific services amounting to $108,000 (Notes 10 and 14). The fair value of the units issued was estimated at $108,000.

During the year ended September 30, 2019, the Company received $137,944 (2018: $88,286) and repaid $168,000 to the former Chairman and / or a company controlled by the former Chairman in the form of Units as follows:

a) On May 23, 2019 the Company issued 1,280,000 units of the Company in settlement of notes payable to the Director and former Chairman of the Company amounting to $128,000 (Notes 10 and 13). The fair value of the units issued estimated at $128,000.

b) On May 23, 2019 the Company issued 400,000 units of the Company in settlement of notes payable to a company owned by the Director and former Chairman of the Company amounting to $40,000 (Notes 10 and 13). The fair value of the units issued was estimated at $40,000, including the shares valued at $40,000. The warrants were assigned no value under the residual method.

9. Related Party Transactions and Balances (continued)

Amounts due to related parties (continued)

During the year ended September 30, 2019, the Company received $Nil (2018: $44,195) from a family member related to the former Chairman. These funds were advanced for short term working capital needs. The advances bear no interest, are unsecured and are payable on demand.

During the quarter ended December 31, 2019, the Company received $55,000 (2019: $Nil) from a person related to the Strategic Manager of Corporate Finance. These funds were advanced for short term working capital needs. The advance bears 8% interest is unsecured and is payable within 12 months.

Other transactions

On October 5, 2017 the Company issued 125,000 units of the Company to a family member of a director in relation to the $25,000 subscriptions received in advance during the year ended September 30, 2017 (Note 10). Each share purchase warrant can be exercised into one common share at $0.50 per share for two years following the issuance date.

On October 5, 2017 the Company issued 1,002,930 units to the former Chairman in relation to the $200,586 subscriptions received in advance during the year ended September 30, 2017 (Note 10). Each share purchase warrant can be exercised into one common share at $0.50 per share for two years following the issuance date.

During the year ended September 30, 2017, the Company issued 454,430 units to the former Chairman in error. On October 5, 2017 an additional 257,950 units of the Company were issued in error. Each unit consists of one common share and one share purchase warrant. In November 2018, these units were returned to treasury of the Company for cancellation (Note 10).

On October 10, 2017 the Company issued 20,060 units of the Company to a family member of the former Chairman in relation to the $4,012 subscriptions received in advance during the year ended September 30, 2017 (Note 10). Each share purchase warrant can be exercised into one common share at $0.50 per share for two years following the issuance date.

On October 27, 2017, a company controlled by the former CEO exercised 400,000 options with an exercise price of $0.30 for total proceeds of $120,000 (Note 10).

On October 27, 2017, the former CEO of the Company exercised 100,000 warrants with an exercise price of $0.50 for total proceeds of $50,000 (Note 10).

On November 23, 2017, a company controlled by the former CEO exercised 200,000 options with an exercise price of $0.30 for total proceeds of $60,000 (Note 10).

On November 23, 2017, a director of the Company exercised 80,000 options with an exercise price of $0.30 for total proceeds of $24,000 (Note 10).

On November 30, 2017, a company controlled by the former CEO exercised 100,000 options with an exercise price of $0.30 for total proceeds of $30,000 (Note 10).

On November 30, 2017, the former CEO of the Company exercised 40,000 options with an exercise price of $0.30 for total proceeds of $12,000 (Note 10).

On December 6, 2017, the former CEO of the Company exercised 100,000 options with an exercise price of $0.30 for total proceeds of $30,000 (Note 10).

On December 21, 2017, the former CEO of the Company exercised 70,000 options with an exercise price of $0.30 for total proceeds of $21,000 (Note 10).

10. Share Capital

(a) Authorized

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

(b) Common Shares – issued and outstanding

2018

On October 5, 2017, the Company issued 600,000 units of the Company in full settlement of a note payable of $120,000 (Notes 8 and 14). 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 following the issuance date. The fair value of the debt settlement was estimated at $392,231, including the shares valued at $246,000 and the warrants estimated at $146,231. The warrants were measured using the Black Scholes option pricing model with the following assumptions and inputs: expected life 2 years; volatility 131%; dividend yield 0%; and risk-free rate 1.55%.

On October 5, 2017 the Company issued 125,000 units of the Company to a family member of a director in relation to the subscriptions received in advance (Note 9). 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 following the issuance date.

On October 5, 2017 the Company issued 1,002,930 units to the former Chairman in relation to subscriptions received in advance (Note 9). 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 following the issuance date.

On October 5, 2017 the Company issued 20,060 units of the Company to a family member of the former Chairman in relation to the subscriptions received in advance (Note 9). 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 following the issuance date.

During the year ended September 30, 2017, the Company issued 454,430 units to the former Chairman in error. On October 5, 2017 an additional 257,950 units of the Company were issued in error. Each unit consists of one common share and one share purchase warrant. In November 2018, these units were returned to treasury of the Company for cancellation (Note 9).

On October 5, 2017 an additional 900,000 units were issued to non-related parties in relation to the subscriptions received in advance. 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 following the issuance date.

On October 27, 2017, a company controlled by the former CEO exercised 400,000 options with an exercise price of $0.30 for total proceeds of $120,000 (Note 9).

On October 27, 2017, the former CEO of the Company exercised 100,000 warrants with an exercise price of $0.50 for total proceeds of $50,000 (Note 9).

On November 23, 2017, a company controlled by the former CEO exercised 200,000 options with an exercise price of $0.30 for total proceeds of $60,000 (Note 9).

10. Share Capital (continued)

(b) Common Shares – issued and outstanding (continued)

On November 23, 2017, a director of the Company exercised 80,000 options with an exercise price of $0.30 for total proceeds of $24,000 (Note 9).

On November 30, 2017, a company controlled by the former CEO exercised 100,000 options with an exercise price of $0.30 for total proceeds of $30,000 (Note 9).

On November 30, 2017, the former CEO of the Company exercised 40,000 options with an exercise price of $0.30 for total proceeds of $12,000 (Note 9).

On December 6, 2017, the former CEO of the Company exercised 100,000 options with an exercise price of $0.30 for total proceeds of $30,000 (Note 9).

On December 21, 2017, the former CEO of the Company exercised 70,000 options with an exercise price of $0.30 for total proceeds of $21,000 (Note 9).

2019

In November 2018, the Company cancelled a total of 712,380 common shares and 712,380 share purchase warrants that were issued in error (Note 9).

On May 23, 2019, the Company completed the private placement of 5,550,000 units at a price of $0.10 per unit for net proceeds of $554,200. Each unit consists of one common share of the Company and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of issuance. The Company incurred share issuance costs of $13,378 in relation to this private placement. The warrants were assigned no value under the residual method.

On May 23, 2019, the Company also issued:

a) 1,080,000 units of the Company in settlement of amounts payable to the Chairman and CEO of the Company in connection with technical and scientific services amounting to $108,000 (Notes 9 and 14). The units consist of one common share and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of issuance. The fair value of the units issued was estimated at $108,000.

b) 1,280,000 units of the Company in settlement notes payable to the Director and former Chairman of the Company amounting to $128,000 (Notes 9 and 14). The units consist of one common share and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of issuance. The fair value of units issued was estimated at $128,000.

c) 400,000 units of the Company in settlement notes payable to the company of the Director and former Chairman of the Company amounting to $40,000 (Notes 9 and 14). The units consist of one common share and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of issuance. The fair value of the units issued was estimated at $40,000.

(Expressed in Canadian Dollars)

10. Share Capital (continued)

(b) Common Shares – issued and outstanding (continued)

On August 7, 2019, the Company completed a private placement of 3,298,000 units at a price of $0.10 per unit for net proceeds of $329,800. Each unit consists of one common share of the Company and one transferrable common share purchase warrant. Each warrant is exercisable to acquire one additional common share of the Company at a price of $0.25 per share for a period of one year from the date of issuance. The Company incurred share issuance costs $7,618 in relation to this private placement. The warrants were assigned no value under the residual method.

(c) Warrants

Details of common share purchase warrants outstanding at December 31, 2019 are as follows:

	Three months ended December 31, 2019			**Year ended September 30, 2019**		
	Warrants		Weighted Average Exercise Price	Warrants		Weighted Average Exercise Price
Opening	**14,660,560**	**$**	**0.32**	8,087,500	$	0.53
Granted	**-**		**-**	11,608,000	$	0.25
Expired	**(2,640,060)**	**$**	**0.50**	(4,322,560)	$	0.50
Cancelled				(712,380)		0.50
Ending	**12,020,500**	**$**	**0.28**	14,660,560	$	0.32

As at December 31, 2019, the following share purchase warrants were outstanding:

Number	**Exercise price**	**Expiry date**
412,500	$1.00	August 26, 2020
8,310,000	$0.25	May 22, 2020
3,298,000	$0.25	August 8, 2020
12,020,500		

As at December 31, 2019, warrants outstanding have an average life of 0.48 years and average exercise price of $0.28

(Expressed in Canadian Dollars)

10. Share Capital (continued)

(d) Stock Options

Stock options issued and outstanding at December 31, 2019 are as follows:

	Three months ended December 31, 2019			**Year ended September 30, 2019**		
	Options		Weighted Average Exercise Price	Options		Weighted Average Exercise Price
Opening	**4,200,000**	**$**	**0.10**	3,010,000	$	0.30
Granted	**-**		**-**	4,200,000	$	0.10
Exercised				-		-
Expired	**-**		**-**	(3,010,000)	$	0.30
Cancelled				-		-
Ending	**4,200,000**	**$**	**0.10**	4,200,000	$	0.10

Details of the share options outstanding and exercisable as at December 31, 2019 are as follows:

Expiry Date	**Number of Options Outstanding**	**Number of Options Vested**	**Number of Options Unvested**	**Exercise Price**	**Weighted Average Remaining Life**
July 21, 2021	4,200,000	4,200,000	-	$ 0.10	1.58

On July 21, 2019, the Company granted a total of 4,200,000 stock options to certain officers, directors and/or consultants of the Company exercisable at $0.10 for a period of 2 years. The fair value of the stock options was determined to be $320,064 calculated using the Black-Scholes Option Pricing Model with the following assumptions: expected life of options – 2 years; expected volatility – 166%; expected dividend yield – 0%; and risk-free rate – 1.43%.

As at December 31, 2019, 4,200,000 stock options remain outstanding and exercisable. The weighted average life was 1.58 years.

(e) Subscriptions Received in Advance

On April 4, 2018, the former Chairman and Director of the Company subscribed to 500,000 units at $0.20 per unit for total proceeds of $100,000. At September 30, 2018, the balance was recorded in equity as the former CEO was expected to use the funds for future subscriptions. As of the date of these financial statements, these units have not been issued. Since substantial time has lapsed between the time of receiving the share subscription in advance, the Company has engaged in a negotiating with the former Chairman and Director on the price of issuance. Should the negotiation not be successful the Company may need to refund the amount to the former Chairman and Director, therefore the balance was recorded in current liabilities.

11. Financial Instruments

Fair values

The Company's financial instruments consist of cash, accounts payable, due to related parties, notes payable, and proceeds from convertible debentures.

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 market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The fair value of the Company's cash is classified as a Level 1 fair value measurement. The Company does not have any Level 2 or 3 fair value measurements.

As at December 31, 2019, the fair values of the Company's financial instruments approximate their carrying values due to the relatively short-term maturity of these instruments.

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.

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.

Currency 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.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company monitors its ability to meet its short-term research and administrative expenditures by raising additional funds through share issuance when required. All the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset-backed commercial papers.

12. 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 period.

13. Commitments

a) 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 pro rata 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 December 31, 2019, the acquisition has not been finalized, no consideration has been paid, and ownership had not been transferred. The Company is in the process of negotiating an extension of the option period of 24 months.

b) On January 3, 2019, the Company entered into a Technology IP Acquisition Agreement (the "Agreement") with 8200475 Canada Inc. ("Tech Magnesium"), granting the Company an exclusive license to use and option to acquire a 100% ownership of the aluminothermic and silicothermic technology (the "Tech Mag Technology") owned by Tech Magnesium exercisable at any time within sixty months of the date of the Agreement (the "Term"), and agreeing to collaborate to finalize the development and commercialization of the Tech Mag Technology (the "Collaboration").

The significant terms of the agreement are as follows:

- The Company is required to pay, Dr. Doug Zuliani, President of Tech Magnesium a daily rate of $1,000. In return Dr. Zuliani will work with Mag One to further de-risk his Mg metal processing technology.

- Mag One must finance Phase 1 (Lab-scale proof-of concept testing with thermodynamic modelling" of the Tech Magnesium technology) on or before February 3, 2020 in order to retain the exclusive license option for this technology. Mag One expects to receive confirmation from Tech Magnesium before the deadline that the Phase 1 requirements have been met.

- Mag One must finance Phase 2 (Design, construction and operation of a small-scale pilot test facility of the Tech Magnesium technology) on or before January 2022 in order to retain the exclusive license option for this technology.

- Mag One must finance Phase 3 (Design, construction and operation of the first Mg metal commercial module (minimum of 5,000 tpa production capacity) using Tech Mag Technology) within 5 years of signature in order to retain the exclusive license option for this technology.

13. Commitments (Continued)

On March 25, 2019 the Company, in recognition of the substantial engagement required by Tech Magnesium in the development of the Tech Mag Technology, amended the agreement to include specific payments for services in connection with the development of the Tech Mag Technology that would increase as the phases of the project evolved. The contract has been posted on SEDAR with the specific financial details redacted due to confidentiality concerns. In addition, the agreement includes specific acquisition payments that would be triggered upon exercise of the Option. The specific amounts have been redacted due to confidentiality concerns.

The Company has been working with Dr. Zuliani and Glencore XPS as part of an NRC IRAP grant to complete Phase 1. The Company and Tech Magnesium signed a letter on January 29, 2020 to confirm that the Company's obligations under the agreement have been met for Phase 1 prior to the February 3, 2020 deadline. The Company is presently pursuing the development of a technology through Tech Magnesium which constitutes expenses towards research and development. While it is the intention of the Company to develop an intangible asset, the intangible asset shall be created only after the completion of the technical pre-feasibility study. At this point in time it is not known how the intended intangible asset shall be in a position to generate probable future economic benefits. The development of the intangible asset shall depend upon the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. The Company is yet to exercise the Option.

On October 23, 2019, the Company was repaid $50,000 USD plus interest for a total of $71,100 USD pursuant to an agreement signed with Mag Board LLC in July 2016 whereby the Company entered into a Convertible Debenture ("CD") and loaned Mag Board LLC $150,000 USD. The Company is considering converting the balance of the CD into shares of GDR Global, the firm who recently acquired controlling interest in MagBoard LLC. The paperwork for this transaction is currently under review by management.

On November 25, 2019, the Company has signed a non-binding letter of intent with Blue Lagoon Resources Inc. ("BLR") pursuant to which BLR may acquire up to 70% equity joint venture ownership interest in Mag One's wholly owned Canadian subsidiary, Mag One Operations Inc. ("Mag One Ops") by purchasing up to $5.25 million of shares of Mag One Ops (the "Transaction"). The proceeds would also be used to upgrade the historical resource to a current NI 43-101 compliant resource. BLR have engaged MRB & Associés of Val d'Or Quebec to conduct the technical work and to prepare an NI 43-101 technical report for a portion of the Thetford Mines tailings piles. On January 6, 2020 the Company signed a definitive earn-in and operating agreement (the "Agreement") with BLR. Pursuant to the Agreement, BLR may acquire up to a 70% equity interest in Mag One Ops by purchasing up to $5.25 million of shares of Mag One Ops. Pursuant to the Agreement, BLR may purchase a 50% interest in Mag One Ops by making cash investments as follows:

- $100,000 upon the initial closing (the "Closing Date");
- $300,000 within 3 months of the Closing Date;
- $750,000 within 8 months of the Closing Date;
- $1.1 million within 12 months of the Closing Date; and
- $1.5 million within 18 months of the Closing Date.

BLR may acquire an additional 20% interest in Mag One Ops, subject to the Company obtaining shareholder approval, by making an additional payment of $1.5 million within 24 months of the Closing Date. Closing of the Transaction is subject to various conditions, including completion of due diligence investigations, receipt of all necessary corporate and regulatory approvals, and compliance with stock exchange requirements.

14. Supplemental Disclosure with Respect to Cash Flows

The Company did not have any significant non-cash transactions for the three months ended December 31, 2019.

15. Research Expenses

During the quarter December 31, 2019, the Company incurred $111,387 (2018: $195,100) towards various research activities. During the same period, the Company recognized grant income from the NRC’s Industrial Research Assistance Program amounting to $32,401 (2018: $ Nil), which has been credited to the account (Note 7).

16. Convertible Debentures

During April 2018, the Company issued 100 units of convertible debenture amounting to $50,000. The term of each Convertible Debenture matures three (3) years from the date of issuance, carries an interest rate of six percent (6%) per annum, (interest paid upfront in advance) and is convertible to common shares of the Company at a conversion price of $0.50 per common share, (or at 10% below the market price, whichever is less, subject to exchange approval).

On May 14, 2018, the Company announced a non-brokered private placement offering of up to $5,000,000 (the “Offering”), by the issuance of convertible debentures of the Company (each a “Convertible Debenture”).

There are 100 units available in the Offering, with a minimum tranche of $50,000. The term of each Convertible Debenture matures three (3) years from the date of issuance, carries an interest rate of eight percent (8%) per annum, (interest paid upfront in advance) and is convertible to common shares of the Company at a conversion price of $0.50 per common share, (or at market price, whichever is less, subject to exchange approval). Maturity is subject to an accelerated maturity of 30 days in the event the Company’s common shares trade at $1.00 or more for ten consecutive trading days.

During the year ended September 30, 2018, the Company received $100,000 related to the Offering. The issuance of Convertible Debentures will be subject to regulatory approval.

During the three months ended December 31, 2019, the Company accrued $2,750 of interest related to the convertible debentures. No new Debentures were issued or repaid during the three months ended December 31, 2019.

17. Subsequent Events

a. On January 6, 2020, the Company and its wholly owned subsidiary, Mag One Operations Inc. signed a definitive earn-in and operating agreement with Blue Lagoon Resources ("BLR") whereby BLR may acquire up to a 70% equity interest in Mag One Operations Inc. by purchasing up to $5.25 million of shares of Mag One Operations Inc. Funds received from BLR will finance the development of the Company's projects.

b. On January 23, 2020, the Company announced that its subsidiary, Mag One Operations Inc., received an initial purchase order from India-based Tata Steel, one of the largest steel manufacturers in the world with a presence on 5 continents, to evaluate the feasibility of using the Tech Mag Technology, from a non-serpentinite-based feed source to produce low cost, low carbon-footprint primary magnesium metal.

c. On January 29, 2020 the Company and Tech Magnesium signed a letter to confirm that the Company's obligations under the agreement have been met for Phase 1 prior to the February 3, 2020 deadline.

d. On February 6, 2020, the Company announced that Blue Lagoon Resources Inc. commissioned and is funding a National Instrument 43-101 Technical Report on behalf of Mag One's subsidiary, Mag One Operations.

e. On February 19, 2020 the Company announced that Tony Louie joined its Board of Directors. Mr. Louie will replace Gillian Holcroft on the Audit Committee such that the Company has reconstituted the Audit Committee as follows:

   - Frank Vlastelic – (Chairman) – Independent
   - Rod Burylo – (Member) – Independent
   - Tony Louie– (Member) – Independent