

Dundee Sustainable Technologies Inc.

Consolidated Financial Statements

December 31, 2018 and 2017

(Expressed in Canadian dollars)

1002 Sherbrooke Street West, Suite 2060, Montréal, QC, H3A 3L6
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Independent auditor's report

To the Shareholders of
Dundee Sustainable Technologies Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Dundee Sustainable Technologies Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in deficiency for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Other information

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

Our opinion on the consolidated financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

PricewaterhouseCoopers LLP¹

Montréal, Quebec
March 28, 2019

¹ CPA auditor, CA, public accountancy permit No. A119714

Dundee Sustainable Technologies Inc.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(Expressed in Canadian dollars)

	Note	2018	2017
		\$	\$
Assets			
Current assets			
Cash		116,185	494,799
Accounts receivable	4	1,247,700	866,975
Sales tax receivable		-	20,478
Other assets		65,568	72,812
Prepaid expenses		9,000	16,888
		<u>1,438,453</u>	<u>1,471,952</u>
Non-current assets			
Investment in a related company		59,250	7,900
Property, plant and equipment	5	-	9,400
Intangible assets	6	4,498,468	4,613,813
		<u>4,557,718</u>	<u>4,631,113</u>
Total assets		5,996,171	6,103,065
Liabilities and Deficiency			
Current liabilities			
Accounts payable and accrued liabilities		1,715,721	1,329,844
Sales tax payable		49,896	-
Contract liabilities		61,199	36,385
Deferred payment	8	-	564,778
Promissory notes from a related party	9	2,950,905	513,808
Short-term loans from a related party	9	12,760,865	11,707,157
		<u>17,538,586</u>	<u>14,151,972</u>
Non-current liabilities			
Long-term debt	10	232,430	207,114
Convertible debenture	10	4,582,124	4,052,043
Total liabilities		<u>22,353,140</u>	<u>18,411,129</u>
Deficiency			
Share capital	11	55,057,673	54,862,847
Contributed surplus		8,068,668	7,508,232
Deficit		(79,483,310)	(74,679,143)
Total deficiency		<u>(16,356,969)</u>	<u>(12,308,064)</u>
Total liabilities and deficiency		5,996,171	6,103,065
Going concern	1		
Commitments	17		
Subsequent events	22		

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

Dundee Sustainable Technologies Inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars, except number of shares)

	Note	2018	2017
		\$	\$
Sale of services	16	1,881,442	2,423,586
Expenses			
Operating expenses related to services		1,507,674	2,404,756
Research and development	14	1,292,324	1,039,428
Professional and consulting fees	21	157,633	239,955
Administrative		461,350	560,894
Wages and compensation	21	661,926	611,854
Shareholder communication	21	60,900	48,751
Share-based payments	13	613,250	460,000
Amortization of intangible assets		115,345	-
Total expenses		4,870,402	5,365,638
Operating loss		(2,988,960)	(2,942,052)
Other income		59,350	36,895
Finance cost	9,10	(1,881,195)	(1,541,419)
Gain (loss) on foreign currency exchange		6,638	(1,046)
Net loss and comprehensive loss		(4,804,167)	(4,447,622)
Basic and diluted net loss per share		(0.01)	(0.01)
Weighted average number of shares outstanding – basic and diluted		362,481,801	348,578,096

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

Dundee Sustainable Technologies Inc.

Consolidated Statements of Changes in Deficiency

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars, except number of shares)

	Note	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	\$	Number	\$	\$	\$	\$
Balance – December 31, 2017		50,000,000	3,963,875	311,376,530	50,898,972	7,508,232	(74,679,143)	(12,308,064)
Issuance of subordinate voting shares	11	-	-	2,015,991	64,512	-	-	64,512
Exercise of options	13	-	-	1,550,000	130,314	(52,814)	-	77,500
Share-based payments	13	-	-	-	-	613,250	-	613,250
Net loss for the year		-	-	-	-	-	(4,804,167)	(4,804,167)
Balance – December 31, 2018		50,000,000	3,963,875	314,942,521	51,093,798	8,068,668	(79,483,310)	(16,356,969)

	Note	Multiple voting shares		Subordinate voting shares		Contributed surplus	Deficit	Total deficiency
		Number	\$	Number	\$	\$	\$	\$
Balance – December 31, 2016		50,000,000	3,963,875	297,090,816	50,598,972	6,848,232	(70,231,521)	(8,820,442)
Issuance of subordinate voting shares	11	-	-	14,285,714	500,000	-	-	500,000
Fair value of warrants	11	-	-	-	(200,000)	200,000	-	-
Share-based payments	13	-	-	-	-	460,000	-	460,000
Net loss for the year		-	-	-	-	-	(4,447,622)	(4,447,622)
Balance – December 31, 2017		50,000,000	3,963,875	311,376,530	50,898,972	7,508,232	(74,679,143)	(12,308,064)

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

Dundee Sustainable Technologies Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

	Note	2018 \$	2017 \$
Operating activities			
Net loss for the year		(4,804,167)	(4,447,622)
Adjusted for:			
Share-based payments	13	613,250	460,000
Depreciation of property, plant and equipment included in research and development	5	9,400	9,400
Amortization of intangible assets	6	115,345	-
Other income		(59,350)	(36,895)
Long-term debt discount	10	-	(36,930)
Amortization of long-term debt discount	10	25,316	20,570
Amortization of convertible debenture discount	10	165,984	107,513
Finance cost accrued	9,10	1,679,902	1,397,603
		(2,254,320)	(2,526,361)
Changes in non-cash operating working capital items:			
Accounts receivable		(380,725)	(822,723)
Research and development tax credits and grant receivable		-	365,000
Sales taxes receivables		70,374	16,265
Other assets		7,244	338,877
Prepaid expenses		7,888	30,452
Accounts payable and accrued liabilities		450,389	322,803
Contract liabilities		24,814	(42,078)
Deferred payment		(564,778)	564,778
		(384,794)	773,374
Net cash used in operating activities		(2,639,114)	(1,752,987)
Investing activities			
Disposal of exploration and evaluation assets held for sale		-	400,000
Disposal of assets		8,000	28,995
Net cash provided by investing activities		8,000	428,995
Financing activities			
Net proceeds from issuance of subordinate voting shares	11	-	500,000
Exercise of options	13	77,500	-
Bridge loans	10	-	250,000
Repayment of bridge loans	10	-	(390,000)
Promissory note from a related party	9	2,175,000	500,000
Short-term loans from a related party	9	-	360,000
Long-term debt	10	-	72,425
Net cash provided by financing activities		2,252,500	1,292,425
Net change in cash during the year		(378,614)	(31,567)
Cash – beginning of year		494,799	526,366
Cash – end of year		116,185	494,799
Going concern	1		
Supplemental information	20		

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

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Dundee Sustainable Technologies Inc. (“DST” or the “Corporation”) was incorporated under the *Canada Business Corporations Act* on July 22, 1997. The Corporation’s head office is located at 1002 Sherbrooke Street West, Suite 2060, Montréal, Quebec, Canada, H3A 3L6.

The Corporation offers metallurgical processes for the treatment of complex and refractory material from mining operations. DST’s processes are applied for the extraction of precious metals and for the removal and stabilization of contaminants, such as arsenic, from ores and concentrates. The Corporation provides environmentally friendly, viable and efficient processes capable of handling ores which may not be processed with conventional approaches due to metallurgical issues or environmental considerations. The precious metal recovery process uses sodium hypochlorite with a catalytic amount of sodium hypobromite in acidic conditions to put the gold into solution. The efficiency of the process, coupled with its closed-loop operating conditions, plant size and construction material allow for competitive operating and capital costs. When dealing with arsenic bearing ores often associated with copper, gold, silver or polymetallic deposits, the Corporation has developed new processes to remove and incorporate arsenic into a highly stable glass matrix. The costs of sequestering the arsenic using DST’s vitrification technology are lower than those of conventional approaches, such as the formation of scorodite, and produce a stable, insoluble glass residue meeting environmental requirements.

These technologies are subject to all risks inherent in their development and may require significant additional development, testing and investment prior to any final commercialization. There can be no assurance that such technologies will be successfully developed, or that output from any use of the Corporation’s technologies could be produced at a commercial level at reasonable costs or be successfully marketed. To date, the Corporation has not earned significant revenues from its patented technologies and is considered to be in the development stage. However, since the Corporation is in advanced discussions with several gold companies about including the chlorination technology as part of new projects, management has made the decision to begin amortizing the intangible assets as at October 1, 2018. As at December 31, 2018, Dundee Corporation (“Dundee”) was the principal and majority shareholder of the Corporation.

For the year ended December 31, 2018, the Corporation incurred a loss of \$4,804,167 (2017 – \$4,447,622) and has negative working capital of \$16,100,133 (2017 – \$12,680,020). Deficit as at December 31, 2018 amounted to \$79,483,310 (2017 – \$74,679,143) and cash flows used in operating activities for year ended December 31, 2018 amounted to \$2,639,114 (2017 – \$1,752,987).

Management estimates that the Corporation will not have sufficient funds to meet its obligations and budgeted expenditures through to December 31, 2019. The Corporation will therefore periodically have to raise additional funds to continue operations. The Corporation is pursuing financing alternatives to fund its operations and to continue its activities as a going concern. Although there is no assurance that the Corporation will be successful in these actions, management believes, that the Corporation will be able to secure the necessary financing through the issuance of debt or new equity in public or privately negotiated equity offerings. While it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

Although these consolidated financial statements have been prepared using International Financial Reporting Standards (“IFRS”) applicable to a going concern, the above-noted facts and circumstances cast significant doubt on the Corporation’s ability to continue as a going concern.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, to the reported expenses and to the financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material.

On March 26, 2019, these consolidated financial statements were approved by the Board of Directors.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with IFRS. The accounting policies set out below have been applied consistently to both years except for new accounting standards adopted (note 2.18) and change in comparative figures (note 21).

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention except for financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2.3 Principles of consolidation

These consolidated financial statements include the accounts of the Corporation, its foreign subsidiary Dundee Sustainable Technologies (Africa) (Proprietary) Limited ("DST Africa") (formerly known as Guinea Fowl Investments Sixty One (PTY) Limited) (100%) and Creso Exploration Inc. ("Creso") (100%). DST Africa is incorporated in Namibia and Creso was incorporated under the *Canada Business Corporations Act*. All intercompany transactions have been eliminated in these consolidated financial statements. DST Africa, whose commercial operations have not started yet, has been fully consolidated since April 26, 2018, the date on which control was obtained by the Corporation. Creso was fully consolidated until September 6, 2017, the date of its dissolution.

2.4 Cash

Cash consists of cash on hand and bank balances.

2.5 Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or when it expires.

Financial assets and financial liabilities are initially measured and recognized at their fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in net loss.

Classification of financial instruments in the Corporation's consolidated financial statements depends on the purpose for which the financial instruments were acquired or incurred and the cash flow characteristic of each instrument. Management determines the classification of financial instruments at initial recognition.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 Financial instruments (Cont'd)

a) Financial assets

Financial assets are subsequently measured at amortized cost when the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and when the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are subsequently measured at fair value unless they are measured at amortized cost. Financial instruments subsequently measured at fair value can be carried at fair value with changes in fair value recorded in profit or loss, or in other comprehensive income if they are not held for trading and are held in a business model whose objective is to hold assets in order to collect contractual cash flows and sell the assets.

b) Financial liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except for:

- Financial liabilities at FVTPL. Such liabilities, including derivatives that are liabilities, shall be subsequently measured at fair value.
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognizing or when the continuing involvement approach applies.

The Corporation's financial instruments are classified as follows:

	Category
Financial assets	
<i>Amortized cost and effective interest method</i>	
Cash	Amortized cost
Accounts receivable	Amortized cost
<i>Financial assets at FVTPL</i>	
Investment in a related company	FVTPL
Financial liabilities	
<i>Amortized cost and effective interest method</i>	
Accounts payable and accrued liabilities	Amortized cost
Promissory note from a related party	Amortized cost
Short-term loans from a related party	Amortized cost
Long-term debt	Amortized cost
Convertible debenture	Amortized cost

c) Impairment

At each reporting date, the Corporation assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Company applies the simplified approach permitted by IFRS 9, *Financial Instruments*, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The Corporation assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Research and development tax credits and government assistance

a) Research and development tax credits

The Corporation is entitled to scientific research and experimental development (“SR&ED”) tax credits granted by the Canadian federal government and the Government of Quebec. SR&ED tax credits are accounted for using the cost reduction method. Accordingly, tax credits are recorded as a reduction of the related expenses or capital expenditures in the period the expenses are incurred. The non-refundable portion of such credits is recorded in the period in which the related expenditures are incurred to the extent that realization of such credits is considered to be reasonably assured.

b) Government assistance

The Corporation periodically receives financial assistance under government incentive programs. Government assistance is recognized initially as deferred revenue at fair value when there is reasonable assurance that it will be received and the Corporation will comply with the conditions associated with the assistance. Assistance that compensates the Corporation for expenses incurred is recognized as an adjustment to research and development expense on a systematic basis in the same periods in which the expenses are incurred. Assistance that compensates the Corporation for the cost of an asset is recognized in the reduction of the associated capital expenditures. Forgivable loans from the government are treated as government assistance when there is reasonable assurance that the Corporation will meet the terms for forgiveness of the loans.

2.7 Other assets

Other assets are composed of other research and development supplies. Supplies used in the research and development activities are accounted for at cost.

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment consists of the purchase price, which may include construction or development of an item of property, plant and equipment, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling the item and restoring the site on which it is located. Repairs and maintenance costs are charged to the consolidated statement of loss and comprehensive loss in the period in which they are incurred.

The major categories of property, plant and equipment are depreciated as follows:

	Method	Period
Vehicles and equipment	Straight-line	5 years
Office furniture and computer equipment	Straight-line	3 years

The Corporation allocates the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amount of the asset and are included in the consolidated statement of loss and comprehensive loss.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Intangible assets

Intangible assets consist mainly of intellectual property, patent application fees, software, and development costs.

Intellectual property represents the acquisition cost of the non-cyanide technology ("NCT"). Using the straight-line method, amortization of intellectual property is calculated over its estimated useful life of 10 years. .

Patent application fees relate to direct costs incurred in securing the patent. Using the straight-line method, amortization of patent application fees is calculated over the estimated useful lives of the patents of 10 years.

Software represents fees paid for the implementation of the accounting software. Using the straight-line method, amortization of the software is calculated over a period of one year.

Development costs are stated at cost and include the expenditures incurred for the development of the NCT process and the equipment, material and services used or consumed for the development activities, including the design, construction and operation of a plant that is not at a scale economically feasible for commercial production. The capitalized costs meet the following generally accepted criteria: i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; ii) the Corporation's intention to complete the intangible asset; iii) the Corporation's ability to use or sell the intangible asset; iv) the probability of generating measurable future economic benefits from the intangible asset; v) the availability of adequate technical, financial and other resources to complete the development of the intangible asset; and vi) the Corporation's ability to measure reliably the expenditure attributable to the intangible asset during its development. The capitalized costs are amortized over the expected useful life of the NCT process using the straight-line method.

2.10 Impairment of non-financial assets

Non-financial assets are reviewed for impairment when there is an indication that the carrying amount may not be recoverable. If any such indication is present, the recoverable amount of the asset is estimated in order to determine whether impairment exists. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs.

An asset or CGU's recoverable amount is the higher of fair value less costs 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 current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately as additional depreciation or amortization. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined had no impairment previously been recognized. A reversal is recognized as a reduction in the depreciation or amortization charge for the year.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 Deferred payment

The Corporation enters into agreements with other companies to support the development of its technologies. Under these agreements, when the Corporation receives funds in advance these payments are recognized initially as deferred payments on the consolidated statement of financial position. Those are subsequently recognized in profit and loss when there is reasonable assurance that the Corporation will comply with the conditions established in the agreements. The funds received that compensate the Corporation for expenses incurred are recognized as a reduction to research and development expense.

2.12 Share-based payments

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in contributed surplus. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, the latter category including directors and officers of the Corporation.

The fair value is measured at the grant date and recognized over the period in which the options vest. The fair value of the options granted is measured using an option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

2.13 Share capital and warrants

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issuance of shares or warrants are recognized as a deduction from the proceeds in equity in the period the transaction occurs. Proceeds from unit placements are allocated between shares and warrants issued on a pro rata basis based on their respective fair value within the unit, with the Black-Scholes option-pricing model being used to determine the fair value of warrants issued.

2.14 Revenue recognition

The Corporation renders technical services to customers in the mining industry to evaluate processing alternatives using the Corporation's processing facility. Revenue is recognized over time in the accounting period in which the services are rendered, when control of a service transfers to a customer by reference to stage of completion of the specific transaction, which is assessed on the basis of the actual service provided as a proportion of the total services to be provided.

2.15 Income taxes

Income tax on profit or loss for the years ended December 31, 2018 and 2017 comprises current and deferred income tax. Income tax is recognized in the consolidated statement of loss and comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current income tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year-end, adjusted for amendments to income tax payable with regard to previous years. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.15 Income taxes (Cont'd)

Deferred income tax is provided using the liability method, providing for temporary differences between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. The temporary difference is not provided for if it arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. The amount of deferred income tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the financial position reporting date and whose implementation is expected over the period in which the deferred income tax is realized or recovered.

A deferred income tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Deferred income tax assets and liabilities are presented as non-current and are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when deferred income tax assets and liabilities relate to income tax levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Loss per share

The calculation of loss per share ("LPS") is based on the weighted average number of shares outstanding during each fiscal year. The basic LPS is calculated by dividing the loss attributable to the equity owners of the Corporation by the weighted average number of voting or common shares outstanding at year-end.

The computation of diluted LPS assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the LPS. The treasury stock method is used to determine the dilutive effect of the warrants and share options. When the Corporation reports a loss, the diluted net loss per voting or common share is equal to the basic net loss per voting or common share due to the anti-dilutive effect of the outstanding warrants and share options.

2.17 Foreign currency translation

These consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Corporation and its subsidiary.

Monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the financial position reporting date, whereas non-monetary assets and liabilities denominated in a foreign currency are translated at the exchange rate in effect at the transaction date. Expenses denominated in a foreign currency are translated at the average rate in effect during the year with the exception of depreciation and amortization, which are translated at the historical rate. Gains and losses on exchange arising from the translation of foreign operations are recorded in the consolidated statement of loss and comprehensive loss.

2.18 Changes in accounting policies

Effective January 1, 2018, the following new standards have been applied when preparing these consolidated financial statements. The Corporation adopted the remaining aspects of IFRS 9 that had not already been early adopted, and IFRS 15, *Revenue from Contracts with Customers*. The Corporation adopted these new standards retrospectively. The impact of applying the standards is described below.

Dundee Sustainable Technologies Inc.

Notes to Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Changes in accounting policies (Cont'd)

a) IFRS 9, *Financial Instruments*

In July 2014, the IASB issued final amendments to IFRS 9, replacing IAS 39, *Financial Instruments: Recognition and Measurement*, of which the Corporation had early adopted the first aspects of classification, measurement and derecognition of financial assets and the classification and measurement of financial liabilities. The remaining aspects of IFRS 9 introduce new requirements for impairment of financial assets and hedge accounting. The new model for the impairment of financial assets introduces a single, forward-looking "expected loss" impairment model for financial assets, which will require more timely recognition of expected credit losses. The new hedge accounting model requires an economic relationship between the hedged item and hedging instrument.

Adoption of the remaining aspects of IFRS 9 did not have a material impact on the Corporation's consolidated financial statements.

b) IFRS 15, *Revenue from Contracts with Customers*

On January 1, 2018, the Corporation adopted IFRS 15, which supersedes IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and other interpretive guidance associated with revenue recognition. IFRS 15 establishes the principles that an entity shall apply to report the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

IFRS 15 is based on the general principle that revenue is recognized when control of a good or service transfers to a customer rather than when the significant risks and rewards of ownership are transferred as is the case under IAS 18.

The implementation of IFRS 15 did not have a material impact on the Corporation's revenue recognition policy.

2.19 Accounting standards issued but not yet applied

The following new standard have not been applied when preparing these consolidated financial statements for the year ended December 31, 2018. The Corporation will adopt this new standard retrospectively as of January 1, 2019 without restating comparatives. The impact of applying the standard will be reflected in the opening balances as at January 1, 2019. The assessment of the impact of this new standard is set out below.

IFRS 16, *Leases*

IFRS 16, issued in January 2016, replaces IAS 17, *Leases*. IFRS 16 results in most leases being reported on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. The Corporation has reviewed all existing operating leases to determine and document expected changes in lease accounting. The Corporation has completed its evaluation of the accounting implications on its consolidated financial statements and disclosures and accounting policies. Upon adoption of IFRS 16, the Corporation expects to recognize right-of-use assets and the associated obligation of approximately \$1.3 million each as at January 1, 2019, with no impact on the total deficiency.

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3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Many of the amounts included in the consolidated financial statements require management to make judgments and/or estimates. These judgments and estimates are continually evaluated and are based on management's experience and knowledge of the relevant facts and circumstances. Actual results may differ from the amounts included in the consolidated financial statements.

Areas of significant judgment and estimates affecting the amounts recognized in the consolidated financial statements include the following.

3.1 Significant judgments

a) Impairment of non-financial assets

Impairment of intangible assets

Intangible assets are reviewed for an indication of impairment at each financial position reporting date and when there are indicators of impairment. This determination requires significant judgment. Factors which could trigger an impairment review include, but are not limited to, the expiration of the Corporation's intellectual rights or patents or if such rights and/or patents will expire in the near future and are not expected to be renewed; the Corporation's failure to raise the required funds to continue its development activity; if development activities have failed in demonstrating that the Corporation's technology is effective or if the Corporation has decided to discontinue such activities in the specific area; and if sufficient data exists to indicate that, although the Corporation is able to demonstrate that its technology is effective, the carrying amount of the assets is unlikely to be recovered in full from successful exploitation or by sale because of significant negative industry or economic trends and a significant drop in commodity prices.

b) Going concern

The assessment of the Corporation's ability to execute its strategy by funding future working capital requirements involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.2 Significant estimations

a) Impairment of non-financial assets

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the CGU to which the asset belongs must be determined. Identifying the CGUs requires considerable management judgment. In testing an individual asset or CGU for impairment and identifying a reversal of impairment losses, management estimates the recoverable amount of the asset or the CGU. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change if new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ in such a situation, and significant adjustments to the Corporation's assets and losses may occur during the next year.

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3. CRITICAL ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONT'D)

3.2 Significant estimations (Cont'd)

b) Convertible debenture

In accordance with the substance of a contractual arrangement, convertible debentures are compound financial instruments which are accounted for separately by their components: a financial liability and an equity instrument. The financial liability, which represents the obligation to pay coupon interest on the convertible debentures in the future, is initially measured at its fair value and subsequently measured at amortized cost. The residual amount is accounted for as an equity instrument at issuance.

The identification of convertible debenture components is based on interpretations of the substance of the contractual arrangement and therefore requires judgment from management. The separation of the components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest on the liability component. The determination of the fair value of the liability component is also based on a number of assumptions, including contractual future cash flows, discount factors, and the presence of any derivative financial instruments.

4. ACCOUNTS RECEIVABLE

The accounts receivable includes the technical services, unbilled services and other receivables. Technical services receivable is generated from customers to evaluate processing alternatives using the Corporation's processing facility. Other receivables are the reimbursements of project expenses generated under the collaboration agreement with a related party (note 8).

	As at December 31, 2018	As at December 31, 2017
	\$	\$
Technical services	768,857	354,580
Unbilled revenues	50,380	87,033
Other receivables	428,463	425,362
	1,247,700	866,975

As at December 31, 2018, accounts receivable from related parties amount to \$455,847 (2017 – \$425,362).

5. PROPERTY, PLANT AND EQUIPMENT

	Vehicles and equipment	Office furniture and computer equipment	Total
	\$	\$	\$
Gross carrying amount			
Balance – January 1, 2018	47,000	134,085	181,085
Disposal	-	(134,085)	(134,085)
Balance – December 31, 2018	47,000	-	47,000
Accumulated depreciation			
Balance – January 1, 2018	37,600	134,085	171,685
Disposal	-	(134,085)	(134,085)
Depreciation	9,400	-	9,400
Balance – December 31, 2018	47,000	-	47,000
Net carrying amount – December 31, 2018	-	-	-

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5. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Camp and infrastructure	Vehicles and equipment	Office furniture and computer equipment	Total
	\$	\$	\$	\$
Gross carrying amount				
Balance – January 1, 2017	90,807	47,000	134,085	271,892
Disposal	(90,807)	-	-	(90,807)
Balance – December 31, 2017	-	47,000	134,085	181,085
Accumulated depreciation				
Balance – January 1, 2017	90,807	28,200	134,085	253,092
Disposal	(90,807)	-	-	(90,807)
Depreciation	-	9,400	-	9,400
Balance – December 31, 2017	-	37,600	134,085	171,685
Net carrying amount – December 31, 2017	-	9,400	-	9,400

6. INTANGIBLE ASSETS

	Intangible assets
	\$
Gross carrying amount	
Balance – January 1 and December 31, 2018:	
Intellectual properties – Oxide	605,000
Patent application fees – Oxide	129,474
Development cost – Oxide	5,809,233
Less: SR&ED tax credit	(1,929,894)
	4,613,813
Accumulated amortization	
Balance – January 1, 2018	-
Amortization	115,345
Balance – December 31, 2018	115,345
Net carrying amount – December 31, 2018	4,498,468

7. GOVERNMENT ASSISTANCE

In January 2018, the Corporation was awarded funding by the Government of Canada through the Sustainable Development Technology Canada Foundation (“SDTC”) for continued development of its patented arsenic vitrification technology. This funding will assist the Corporation in constructing and operating a demonstration scale arsenic vitrification plant for metals processing facility. The construction of the plant was completed in the fourth quarter of 2018, and, after commissioning, it is expected to be operational in early 2019. Under the terms of the agreement, the SDTC will contribute up to the lesser of 20.7% of eligible project costs or \$1.25 million.

As part of the SDTC contribution agreement, the Corporation has received, during 2018, \$734,155 from the SDTC to assist with the construction and operation of the arsenic vitrification plant. The contribution was recognized through comprehensive loss.

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8. DEFERRED PAYMENT

In September 2017, the Corporation entered into a collaboration agreement with a related party for the construction and operation of an onsite demonstration plant using the Corporation's proprietary arsenic stabilization technology (the "Arsenic demo plant"). The Arsenic demo plant, to be funded by this related party, has an estimated capital cost of US\$3.1 million and will be constructed in Thetford Mines and was delivered to the related party's metal-processing facility in 2018.

In January 2018, the Government of Canada awarded funding in the amount of \$1.25 million through the SDTC (note 7). This funding will assist the Corporation in delivering the arsenic demonstration plant project to the related party.

As part of the collaboration agreement, the Corporation received a non-interest bearing advance payment of \$639,876 (US\$500,000) from the related party, which will be applied to reduce cost recoveries from the related party until repaid in full.

Deferred payment	Years ended December 31,	
	2018	2017
	\$	\$
Balance – beginning of year	564,778	-
Advance payment received	-	639,876
Recognition of contribution through comprehensive loss as per eligible expenditures incurred during the year	(579,912)	(64,905)
Gain (loss) on foreign exchange	15,134	(10,193)
Balance – end of year	-	564,778

9. PROMISSORY NOTES AND SHORT-TERM LOANS FROM A RELATED PARTY

9.1 Promissory notes

The Corporation signed five promissory notes payable on demand to a wholly owned subsidiary of Dundee along with interest at a rate of 18% per annum. As at December 31, 2018, the principal amount of the promissory note totals \$2,675,000 (2017 – \$500,000) and the finance cost accrued during the year amounted to \$262,097 (2017 – \$13,808) (note 22).

Promissory notes	Years ended December 31,	
	2018	2017
	\$	\$
Balance – beginning of year	513,808	-
Principal amount	2,175,000	500,000
Finance costs accrued	262,097	13,808
Balance – end of year	2,950,905	513,808

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9. PROMISSORY NOTES AND SHORT-TERM LOANS FROM A RELATED PARTY (CONT'D)

9.2 Short-term loans

The short-term loans, from a wholly owned subsidiary of Dundee, bear interest at the rate of 12.68% per annum and are secured by a hypothec, *pari passu* with Investissement Québec's ("IQ") convertible debenture and Canada Economic Development for Quebec Regions' (CED) contribution, over all of the Corporation's property other than its intellectual property. The interest is payable concurrently with the repayment of the loans. In 2018, the maturity date of the loans was extended to the earlier of November 30, 2019 and the date at which the Corporation raises the sum of \$10,000,000 or greater by way of issuing debt or equity. The Corporation has the option to repay the loans at any time.

As at December 31, 2018, the principal amount of the loans totaled \$8,310,000 (2017 – \$8,310,000).

Short-term loans	Years ended December 31,	
	2018	2017
	\$	\$
Balance – beginning of year	11,707,157	10,299,685
Principal amount	-	360,000
Finance costs accrued	1,053,708	1,047,472
Balance – end of year	12,760,865	11,707,157

10 CONVERTIBLE DEBENTURE AND LOANS

10.1 Convertible debenture

In 2015, the Corporation completed a \$5,000,000 financing with IQ consisting of a private placement of subordinated voting shares of \$1,000,000 and a secured convertible loan in an amount of up to \$4,000,000 (the "IQ Loan"). IQ advanced \$1,900,000 in 2015 and \$2,100,000 in 2016.

The IQ Loan, which is evidenced by a secured convertible debenture, will mature in five years, bears interest at a rate of 8% per annum, is payable quarterly, and can be converted after one year at the holder's option into subordinate voting shares of the Corporation at a conversion price equal to the closing market price of the shares on the day prior to conversion. The Corporation has the right to redeem the IQ Loan subject to a 10% premium. Starting October 1, 2016, interest has been capitalized. During 2018, the Corporation capitalized \$364,097 in interest (2017 – \$336,323).

The IQ Loan is secured by a hypothec, *pari passu* with Dundee's loan and CED's contribution, over all of the Corporation's property other than its intellectual property and is guaranteed by Dundee in an amount of up to \$1,500,000.

The fair value of the debt components advanced in 2016 and 2015 was estimated at \$1,857,543 and \$1,642,950, respectively, using an effective rate of 11.7% corresponding to a rate that the Corporation would have obtained for a similar non-subsidized financing. No value has been assigned to the equity conversion option, as the conversion price is equal to the closing market price of the shares on the day prior to conversion.

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10 CONVERTIBLE DEBENTURE AND LOANS (CONT'D)

10.1 Convertible debenture (Cont'd)

	Years ended December 31,	
	2018	2017
	\$	\$
Carrying amount of the liability component – beginning of year	4,052,043	3,608,207
Capitalized interest expense	364,097	336,323
Amortization of convertible debenture discount	165,984	107,513
Carrying amount of the liability component – end of year	4,582,124	4,052,043

10.2 CED contribution agreement

Under an amended agreement dated October 12, 2016, the Corporation received from Canada Economic Development for Quebec Regions (“CED”) a \$397,000 repayable contribution (the “CED Contribution”). The CED Contribution was used by the Corporation for the acquisition of equipment for its demonstration plant (the “Project”) in Thetford Mines. The CED Contribution is non-interest bearing, secured, and repayable in equal monthly installments over seven years starting three years after the end of the Project. CED advanced \$324,575 in December 2016 and the remaining balance of \$72,425 in May 2017.

The fair value of the debt components advanced in December 2016 and May 2017 were respectively estimated at \$149,944 and \$35,495 using an effective rate of 11.7%. Such rate corresponds to a rate that the Corporation would have obtained for a similar non-subsidized financing.

The CED Contribution is secured by a hypothec, *pari passu* with Dundee’s and IQ’s loans, over all of the Corporation’s property other than its intellectual property.

	Years ended December 31,	
	2018	2017
	\$	\$
Balance – beginning of year	207,114	151,049
Contribution received	-	72,425
Long-term debt discount, at fair value	-	(36,930)
Amortization of long-term debt discount	25,316	20,570
Balance – end of year	232,430	207,114

10.3 Bridge loans

In August 2017, an unsecured bridge loan, payable on demand, of \$250,000 was advanced to the Corporation. The loan was reimbursed in October 2017 for a total amount of \$250,000 plus interest of \$7,500.

In October 2016, an unsecured bridge loan, payable on demand, of \$300,000 was advanced to the Corporation. The loan was partially reimbursed in December 2016 for a total amount of \$160,000 including interest of \$3,360. The outstanding bridge loan of \$140,000 and accrued interest of \$6,580 was reimbursed in January 2017.

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11. SHARE CAPITAL

11.1 Authorized

On December 31, 2018 and 2017, the authorized capital of the Corporation consisted of an unlimited number of subordinate voting shares and multiple voting shares, without nominal or par value. The holders of subordinate voting shares are entitled to one vote for each subordinate voting share, and the holders of multiple voting shares are entitled to 10 votes for each multiple voting share. The holders of subordinate voting shares and multiple voting shares shall be entitled to receive and to participate equally as to dividends, share for share, in an equal amount on all the subordinate voting shares and multiple voting shares outstanding at year-end. The holders of multiple voting shares shall be entitled at any time and from time to time to have any or all of the multiple voting shares converted into subordinate voting shares on the basis of one subordinate voting share for each multiple voting share. In all other respects, the holders of subordinate voting shares and multiple voting shares shall rank equally and have the same rights and restrictions.

11.2 Issued and outstanding

Year ended December 31, 2018

In December 2018, the Corporation issued 2,015,991 shares at \$0.032 per share for total consideration of \$64,512 pursuant to a non-brokered private placement.

Year ended December 31, 2017

In November 2017, the Corporation issued 14,285,714 units at \$0.035 per unit for total consideration of \$500,000 pursuant to a non-brokered private placement. A unit consists of one common share and one common share purchase warrant, with each warrant entitling its holder to purchase a common share at \$0.06 until November 23, 2022. The fair value of the 14,285,714 warrants was estimated using the Black-Scholes option-pricing model based on the following weighted average assumptions: risk-free interest rate of 1.62%, average expected volatility of 114.3%, expected dividend per share of nil and expected life of warrants of five years. The fair value of the warrants issued estimated at \$200,000 was deducted from share capital and recorded as an increase in contributed surplus.

12. WARRANTS

The changes in the Corporation's outstanding common share purchase warrants are as follows:

	Years ended December 31,			
	2018		2017	
	Number of warrants	Carrying amount	Number of warrants	Carrying amount
		\$		\$
Balance – Beginning and end of year	14,285,714	200,000	14,285,714	200,000

13. STOCK OPTION PLAN

The Corporation maintains a stock option plan (the "Plan"), which provides that the Board of Directors of the Corporation may, from time to time, at its discretion and in accordance with the Canadian Securities Exchange ("CSE") requirements, grant to directors, officers, employees and consultants of the Corporation, non-transferable options to purchase in cash subordinate voting shares of the Corporation, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding subordinate voting shares of the Corporation.

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13. STOCK OPTION PLAN (CONT'D)

Under the Plan, such options will be exercisable for a period of up to five years from the grant date. Options granted are exercisable on the grant date, unless otherwise stated by the Board of Directors. Options issued to consultants performing investor relations activities must vest in stages over 12 months, with no more than one-fourth of the options vesting in any three-month period. The exercise price shall not be less than that permitted under the rules of any stock exchange on which the subordinate voting shares are listed.

On February 3, 2017, the Corporation granted a total of 13,500,000 stock options to its directors, officers, employees and a consultant. These options are exercisable at \$0.05 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is \$0.035 per share for a total share-based payment expense of \$460,000.

In April 2018, the Corporation granted a total of 7,250,000 stock options to its directors, officers, employees and a consultant. These options are exercisable at \$0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is \$0.077 per share for a total share-based payment expense of \$558,250.

In April 2018, the Corporation granted a total of 500,000 stock options to a director. These options are exercisable at \$0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is \$0.064 per share for a total share-based payment expense of \$32,000.

In June 2018, the Corporation granted a total of 500,000 stock options to an employee. These options are exercisable at \$0.10 per share, vested at the grant date and expire on the fifth anniversary of their date of issuance. The fair value of options awarded is \$0.046 per share for a total share-based payment expense of \$23,000.

The fair value of options at the grant date was calculated based on the Black-Scholes option-pricing model, using the following weighted average assumptions:

	2018	2017
Expected life	5 years	5 years
Risk-free interest rate	2.13%	1.11%
Expected volatility	117%	105%
Expected dividend yield	0%	0%
Share price	\$0.092	\$0.045

The changes in the Corporation's outstanding and exercisable options are as follows:

	Years ended December 31,			
	2018		2017	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance – beginning of year	23,802,500	0.08	10,877,500	0.13
Granted	8,250,000	0.10	13,500,000	0.05
Exercised ⁽¹⁾	(1,550,000)	0.05	-	-
Forfeited	(9,150,000)	0.10	(575,000)	0.20
Balance – end of year	21,352,500	0.08	23,802,500	0.08

⁽¹⁾ The weighted average market price of the shares was \$0.08 at the time of exercise.

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13. STOCK OPTION PLAN (CONT'D)

As at December 31, 2018, outstanding and exercisable options are as follows:

Number of options	Weighted average exercise price	Expiry date
	\$	
400,000	0.05	March 16, 2019
400,000	0.09	June 7, 2019
302,500	0.20	October 2, 2019
10,450,000	0.05	February 3, 2022
1,700,000	0.20	November 27, 2022
7,100,000	0.10	April 18, 2023
500,000	0.10	April 26, 2023
500,000	0.10	June 18, 2023
21,352,500		

The residual weighted average contractual term of outstanding options was 3.48 years as at December 31, 2018.

14. RESEARCH AND DEVELOPMENT

	Year ended December 31,	
	2018	2017
	\$	\$
Research and development	4,707,602	1,776,875
Recognition of a related party contribution through comprehensive loss as per eligible Arsenic demo plant expenditures incurred during the period	(2,668,237)	(480,517)
SDTC contribution (note 7)	(734,155)	(220,000)
Other government subsidy	(12,886)	(36,930)
	1,292,324	1,039,428

15. INCOME TAXES

The income tax expense on the Corporation's loss before income taxes differs from the income tax expense that would arise using the combined Canadian federal and provincial statutory tax rate of 26.7% (2017 – 26.8%) as a result of the following items:

	2018	2017
	\$	\$
Loss before tax at statutory rate of 26.7% (2017 – 26.8%)	(1,282,713)	(1,191,963)
Effect on taxes of		
Non-deductible expenses	165,256	119,961
Unrecognized tax benefit	1,117,457	1,072,002
Income tax expense	-	-

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15. INCOME TAXES (CONT'D)

Recognized deferred income tax assets and liabilities

The Corporation recognized deferred income tax assets related to tax loss carryforwards to the extent of deferred income tax liabilities.

	2018	2017
	\$	\$
Deferred income tax assets		
Tax loss carryforwards	97,413	160,229
Deferred income tax liabilities		
Convertible debenture	(53,308)	(109,500)
Long-term debt	(44,105)	(50,729)
	-	-

Unrecognized deductible temporary differences

The benefit of the following tax loss carryforwards and deductible temporary differences has not been recognized in the consolidated financial statements:

	2018	2017
	\$	\$
Tax loss carryforwards	42,527,000	39,022,000
Capital loss	801,000	792,000
Unclaimed SR&ED expenditures	8,248,000	8,248,000
Exploration and evaluation assets	13,872,000	13,872,000
Capital assets	4,909,646	4,609,000
Share and warrant issue expenses	13,000	44,000
Other	139,000	128,000
	70,509,646	66,715,000

The loss carryforwards expire between 2024 and 2038 and the unclaimed SR&ED expenditures as well as the capital loss do not expire. In addition, the Corporation has unused tax credits of \$1,281,576 (2017 – \$1,281,576) which expire between 2023 and 2038.

16. RELATED PARTY TRANSACTIONS

Details of related party transactions carried out with the directors and officers of the Corporation and companies controlled by directors and officers not otherwise disclosed in these consolidated financial statements are as follows:

	2018	2017
	\$	\$
Directors or companies held by directors		
Wages and compensation	217,038	214,225
Officers or companies held by officers		
Professional fees	14,578	75,769
	231,616	289,994

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16. RELATED PARTY TRANSACTIONS (CONT'D)

Compensation of key management

Key management includes directors and officers. The compensation paid or payable to key management is presented below:

	2018	2017
	\$	\$
Officers' and directors' professional and consulting fees	14,578	63,798
Wages and compensation	625,088	554,725
Share-based payments	497,850	375,000
	1,137,516	993,523

Also, the Corporation recognized revenues for technical services provided to related parties for a total amount of \$374,130 (2017 – nil).

17. COMMITMENTS

Lease payments

On July 1, 2013, the Corporation entered into a 10-year lease for the Thetford Mines facility at an annual rent of \$204,380 that is subject to a yearly increase of 1.5%.

On March 9, 2018, the Corporation entered into a lease extension for its head office until August 31, 2019. The annual rent is \$51,000.

The aggregate annual payments due over the following periods are as follows:

	2018
	\$
Less than 1 year	254,998
Between 1 and 5 years	799,490

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation is exposed to various financial risks resulting from both its operations and its investment activities. The Corporation's management handles the financial risks. The Corporation does not enter into financial instrument agreements, including derivative financial instruments, for speculative purposes.

The main financial risks to which the Corporation is exposed are detailed below.

18.1 Liquidity risk

The Corporation manages its liquidity risk by using budgets that enable it to determine the amounts required to fund its development programs. The Corporation also ensures that it has sufficient working capital available to meet its day-to-day commitments.

Dundee Sustainable Technologies Inc.

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18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

18.1 Liquidity risk (Cont'd)

As at December 31, 2018, the Corporation has cash of \$116,185 (2017 – \$494,799) and accounts receivable of \$1,247,700 (2017 – \$866,975) to settle accounts payable and accrued liabilities of \$1,715,721 (2017 – \$1,329,844).

As at December 31, 2018, management estimates that funds available will not be sufficient to meet the Corporation's obligations and budgeted expenditures through December 31, 2019 (note 1).

Any funding shortfall may be met in the future in a number of ways including, but not limited to, the issuance of new debt or equity instruments, expenditures reductions and/or the introduction of joint venture partners and/or business combinations. While management has been successful in securing financing in the past, there can be no assurance it will be able to do so in the future or that these sources of funding or initiatives will be available to the Corporation or that they will be available on terms which are acceptable to the Corporation. If management is unable to obtain new funding, the Corporation may be unable to continue its operations, and amounts realized for assets might be less than amounts reflected in these consolidated financial statements. All of the Corporation's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms, except for the convertible debenture, the CED contribution agreement, the short-term loans from a related party and for an amount of \$400,000 without interest payable on demand to Dundee that is recorded in accounts payable and accrual liabilities. The Corporation regularly evaluates its cash position to ensure the preservation and the security of its capital as well as the maintenance of its liquidity.

18.2 Currency risk

The Corporation does not use derivative instruments or hedges to manage risks because its exposure to currency risk is not significant given that its operations are carried out predominantly in Canada. As at December 31, 2018, cash amounted to \$116,185 of which \$115,666 is denominated in Canadian dollars and \$519 in US dollars. The Corporation holds accounts receivable of \$1,247,700 of which \$415,577 is denominated in US dollars. Other financial instruments are all denominated in Canadian dollars.

18.3 Credit risk

Credit risk is the risk that a loss will occur from the failure of another party to perform according to the terms of the contract. The Corporation's credit risk is primarily attributable to cash, accounts receivable and sales tax receivable. The Corporation's cash is held mainly with Canadian chartered banks, which reduces credit risk.

18.4 Interest rate risk

The Corporation has cash balances, and its current policy is to invest excess cash in certificates of deposit or high-interest savings accounts with Canadian chartered banks. As at December 31, 2018, \$12,951 was invested by the Corporation in this manner (2017 – \$12,951). The debt instruments bear interest at fixed rates and are not exposed to interest rate risk.

18.5 Fair value hierarchy

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by management using available market information or other valuation methodologies.

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18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONT'D)

18.5 Fair value hierarchy (Cont'd)

The following provides information about financial assets and financial liabilities measured at market value in the Corporation's consolidated statement of financial position and categorized by level according to the significance of the inputs used in making the measurements:

- Level 1 fair value measurements are those derived from quoted prices in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are not observable for the asset or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

As at the transaction dates, the fair values of the issued convertible debentures were determined based on estimated discounted cash flows associated with the effective interest rates and the principal payments, using Level 2 fair value measurements. The significant inputs used in the determination of fair value have been disclosed in note 10.

19. POLICIES AND PROCESS TO MANAGE CAPITAL

As at December 31, 2018, the capital of the Corporation consists of deficiency amounting to \$16,356,969. The Corporation's objective when managing capital is to safeguard its ability to continue its operations and advance the development of its technologies. As needed, it raises funds through private placements or through short-term advances from the parent company, Dundee. It has no dividend policy.

The Corporation is not subject to any externally imposed capital requirements from regulators or contractual requirements to which it is subject. Changes in capital for the years ended December 31, 2018 and 2017 are described in the consolidated statement of changes in deficiency.

20. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended December 31,	
	2018	2017
	\$	\$
Interest income received	-	124
Finance cost paid	9,993	14,080

21. COMPARATIVE FIGURES

Certain reclassifications have been made to the prior year's consolidated financial statements to enhance comparability with the current year's consolidated financial statements to better present the compensation to employees and officers and the expenses related to shareholder communications.

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21. COMPARATIVE FIGURES (CONT'D)

As a result, certain line items have been amended in the consolidated statement of loss and comprehensive loss. Comparative figures have been adjusted to conform to the current year's presentation.

	Year ended December 31,	
	2017	2017
	Previously reported	After reclassification
	\$	\$
Professional and consulting fees	419,660	239,955
Wages and compensation	432,149	611,854
Shareholder communications	-	48,751
Investor relations and promotion	11,471	-
Trustee and registration fees	37,280	-

22. SUBSEQUENT EVENTS

Promissory note

On February 13, 2019, the Corporation signed a promissory note in the principal amount of \$764,000 payable on demand to a wholly owned subsidiary of Dundee along with interest at a rate of 18% per annum.

Stock options

On March 16, 2019, 400,000 employee stock options with an exercise price of \$0.05 expired.